connexxion holding

Annual Report 2007

Corporate Social Responsibility

At Connexxion, corporate social responsibility is embedded in our everyday business practice. Each day, our 14,600 staff members work on fulfilling our ambitions in the fields of safety, the environment, the accessibility of our services and the Company's continuity. In this annual report, we will describe their indispensable role in the success of Connexxion by presenting actual examples from practice. Because that's what corporate social responsibility is all about: Doing good; day in, day out.

“62% of our buses are environmentally friendly. That’s more like it!”

Aad van Moorsel, driver of our Leiden branch

Connexxion is aware of its responsibility for our environment, as well as for the environment of our (grand) children. Of the vehicles used by Connexxion Public Transport, 62% are now fitted with CRT filters or have engines that comply with the Euro 4- or 5- or EEV standard.

“This is contemporary archaeology in its purest due form!”

Toine Klaassen (a.k.a. the Cutlery Knight)

On 31 October, Connexxion devoted attention to the Day of the Art Library. In various cities, artists surprised our passengers with an original performance.

Corporate profile

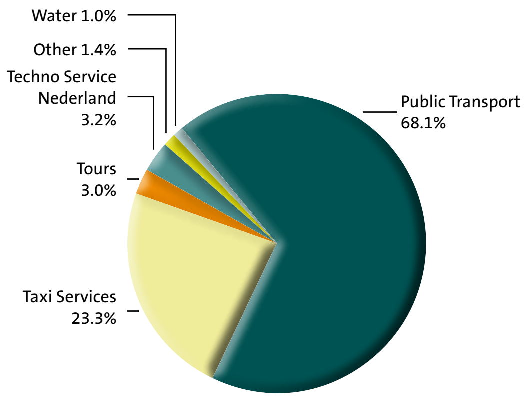
Connexxion is the market leader in regional passenger transport in the Netherlands. Each day, our 14,600 staff members arrange the transport of over one million passengers by road, rail and water. Connexxion is active in city transit and regional public transport (by bus, tram or train), private passenger transport (taxi services, collective demand-driven transport, tours), as well as public transport by water. Its subsidiary TSN arranges the maintenance, management and repairs of fleets of vehicles for companies and organisations. Services are provided to both concession-granting authorities and private clients. As at 31 December 2007, Connexxion served 130 principals in private transport (taxi and tours) and 16 in public transport, all under long-term contracts. Through strategic partnerships with these principals, Connexxion achieves optimum mobility for its passengers.

In the year 2007, Connexxion was privatised. Two-thirds of the shares are now owned by the consortium of the French public transport company Transdev and Bank Nederlandse Gemeenten. The other shares will remain in the hands of the State of the Netherlands for a period of five years maximum. The Transdev+Connexxion alliance ranks fourth under the privately held European passenger transport operators.

Connexxion's strategy within the alliance focuses on a reinforcement of its leading position in the Netherlands and an expansion of its activities in Northwest Europe. We apply a strategy of operational excellence, aiming for multimodality (i.e. offering several modes of transport within one transport system), regional rail transport and transport in the major cities. We invest both in our role as a contractor and in our role as a 'designer' of group passenger transport. Our market knowledge allows us to achieve an ideal match between supply and demand. With passengers keen to see a fully integrated public transport chain, we need to achieve growth in other modes of transport. In addition, expansion of the current transport activities will provide opportunities for Connexxion to realise economies of scale and thus efficiency improvements. Expansion plans are subjected to critical scrutiny of their potential for creating lasting value for the Company.

We have a number of core competences that allow us to successfully pursue our strategy. These are an ability to offer high-quality, safe (multi-modal) transport services at a competitive price, vast knowledge of, and experience in, planning and managing passenger transport and knowledge of restructuring a company in a competitive environment. Connexxion realises its goals while demonstrating corporate social responsibility. Connexxion operates at the heart of the society and accepts its responsibility relative to the environment, quality of life and good employment standards.

Figure 1: **Revenue by operating company**



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2007 was the year in which Connexxion was privatised. On 12 October, two thirds of our shares were transferred to a consortium comprising Transdev and Bank Nederlandse Gemeenten. The State of the Netherlands will be selling the remainder of its shareholding within the next five years to the consortium. Privatisation is a logical step in the Company's development and in the light of our aim of evolving into a leading European passenger transport operator. The alliance with Transdev opens up excellent prospects in this respect. Transdev is a globally operating company that is hugely experienced in both light-rail systems and public-private arrangements. For our part, we can offer the alliance our experience in providing demand-driven group transport services, operating in a highly competitive market, process optimisation, and environmental and quality management.

We would like to thank all those members of staff who went the extra mile in ensuring that the privatisation operation passed off smoothly. The Finance & Control and Legal Departments, for example, handled over 3,000 queries during the bid process. We also wish to commend the members of the Central Works Council for all their hard work. It was in part thanks to the Council's expertise and the constructive attitude taken by its members that has taken place at a balanced assessment of the various interests involved in the privatisation process.

The process of integrating GVU and Novio (operating urban transit services in Utrecht and Nijmegen) into our organisation began in 2007. We have already derived a number of synergies from close cooperation between the various business units. The integration will continue early in 2008.

In 2007, Connexxion again succeeded in realising a substantial increase in the number of passengers. No less than 4.5% more passengers used our services in the past year. In particular the mid-Zeeland and northeast-Overijssel regions and the Zuidtangent experienced a spectacular growth in passenger numbers. With this growth, Connexxion continues the trend it started four years ago.

The regional transport market was liberalised in 2001. This has had a profound impact on public transport services during the past six years. A benchmarking study commissioned by the Ministry of Transport, Public Works and Water Management (hereinafter: the Ministry of Transport) has shown that, in a free market, commercial operators are able to operate transport services at prices that are 20 to 35% lower. For our part, we have succeeded in dramatically lowering our costs by taking a series of efficiency measures and by continuously improving our internal processes. Passenger transport companies have also made quality improvements that are highly valued by passengers: indeed, the Public Transport Customer Barometer shows that passenger satisfaction is higher in those areas in which concessions have been put out to public tender. This satisfaction has been translated into long-term annual growth in passenger numbers, with peaks of up to 50% in a single concession period.

Against this background, the amendment of the law at the end of 2006 so as to allow bus services in Amsterdam to be put out to public tender as of 1 January 2012, and for the same to apply to services in Rotterdam and The Hague as of 1 January 2009, represented a sensible final step in the process of improving public transport so as to comply with the concept of the 2000 Passenger Transport Act. Unfortunately, the State Secretary decided in October 2007 to reverse this amendment. As a result, it is now up to the local authorities in the three big cities to decide whether they wish to put their local public transport concessions out to public tender. For the time being, there is little reason for us to feel optimistic about the prospects. In Rotterdam and The Hague the municipal executive have already announced their intention of privately awarding the bus transport concession to RET respectively HTM, the existing municipal transport operators. The executive in Rotterdam also announced its intention of halting the liberalisation of other public transport concessions in the Greater Rotterdam area. This is a startling decision in the light of the 2000 Passenger Transport Act.

It is up to us to convince local councils in the big cities that the liberalisation of the public transport market provides genuine guarantee that citizens will be offered the best possible service at the lowest possible cost.
The suggestion that chaos will ensue if buses and trams are not operated by one and the same company is false. This suggestion is less than fair on our drivers and staff, who have performed well in difficult circumstances. Thanks in part to the fact that Transdev+Connexxion operates on foreign markets, it can produce a large body of evidence in support of our case. We enjoy the support of the Association of Dutch Public Transport Users (ROVER), as well as other privately held operators in the public transport market. Because we disagree fundamentally with the possibility to award concessions privately, in 2008 we intend to make our case by referring to both the Netherlands Competition Authority and the European Commission in Brussels to upheld this possibility.

Events led to the formation of a new industry association. During the debate on the liberalisation of the public transport market in the three major cities of the Netherlands, such a wide gap emerged between the interests of the privately held operators and those of the municipal transport operators that the former, i.e. Arriva, Connexxion and Veolia Transport, decide to found a new industry association. The object of the new organisation will be to raise the standard of public transport in the Netherlands and to draw attention to aspects such as environmental protection and the future of the public transport market. One of its main priorities will be to try and convince central government to reverse its decision to cut government spending on public transport. The new association will also bring all the available legal resources to bear in promoting a fair, efficient and open market in the Netherlands. It will not hesitate to lodge complaints about unfair state aid. Its underlying philosophy is that Dutch public transport users are entitled to a professional and efficient public transport service.

The above has a direct bearing on the issue of the funding of public transport. There can be no innovation in public transport if operators are unable to invest in quality. The problem here is that the spending cuts announced by central government have a very marked impact on the volume of services. As contracts with local authorities cannot generally be altered, transport operators are obliged to offset any cuts in government contributions by reducing their staffing levels. If no additional funds are made available, the effect will be a lowering of the standard of service.

The quality of both our staff and the service they provide remained high during the year under review. Our vehicles are gradually being fitted with the equipment required for handling the new public transport smartcard. Apart from offering more convenience for passengers, the new smartcard has the added advantage of raising the transparency of the system by which revenue is distributed among transport operators. The Minister of Transport is planning to abandon the current system on 1 January 2009.

There was a further increase in services at the Connexxion Academy, our in-company training institute. All our staff courses are developed in-house, in many cases in collaboration with reputable training establishments, such as De Baak and Nyenrode University. In 2007, 5,727 employees took courses via Connexxion Academy. The Academy began development work on a new HR Investment Programme at the end of last year. This is a traineeship scheme for talented young graduates just embarking on their professional careers. The HR Investment Programme consists of a two-year traineeship period, during which trainees alternate courses of study at the Academy with postings to different parts of the Company. The first batch of trainees are due to start in September 2008.

Connexxion operates at the heart of society. We transport over one million passengers every day. Given the nature of our social function, as well as our high profile and our desire to offer our workforce of more than 14,600 people an income, personal development and job satisfaction, we are obliged to be serious about our corporate social responsibility. We are fully aware of our responsibility in this respect and do everything in our power to maximise our net contribution to society. First of all, this means offering our passengers a service of the highest possible standard. By consistently seeking to attain operational excellence, we can offer passengers and contracting authorities alike the best possible service, day in, day out. Secondly, we do our best to minimise the social cost of our operations. Among the examples of our efforts in this respect are experiments with alternative fuels, fuel-saving courses for staff, and investments in an environment-friendly fleet of vehicles. Finally, we believe in transparency, which is why, for a number of years now, our annual reports have contained detailed reviews of our environmental policy. These reviews were extended last year to include our health and safety policy.

We stepped up our links with Surinamese transport operators and the Surinamese government last year. We were closely involved in the organisation of a successful conference on 8 August, on the importance of passenger transport for the Surinamese economy. The land-based passenger transport action plan, that was compiled in the wake of the conference, should be a big help in raising the quality of public transport in Surinam.

Operating profits increased compared with 2006 and were in line with expectations for all major business units. Net profit however fell short of 2006. Incidental charges impacted the bottom-line with a total of € 16.6 million. Privatisation expenses amounted to € 6 million (after tax) for the year. The acquisition of GVU and Novio led to an amortization of concession rights, totalling € 6 million for the year. Finally, we received a retrospective tax assessment of € 4.3 million in 2007 in relation to financial year 1995.

As expected, turnover rose in 2007 in the wake of the takeover of GVU and Novio and the contracts awarded to the Taxi Services division. Turnover therefore exceeded the € 1 billion mark for the first time in the Company's history. Income in 2007 was also boosted by our contract management activities. At the other end of the scale, the rate of absence due to illness was almost one per cent higher in 2007, and a shortage of qualified staff forced us to make greater use of temporary staff.

The alliance with Transdev affected the composition of the Supervisory Board. Messrs Westdijk, Pieterse and Vermeend all retired on 12 October 2007, following Mr Den Hoed's departure earlier in the year. We are immensely grateful to all four of them for all the time and energy they have devoted to the Company. This is especially true of Klaas Westdijk, who temporarily exchanged his post as a supervisory director for the chairmanship of the Executive Board in 2002, when the Company found itself in stormy waters. It was during this period that Mr Westdijk laid the foundations for the more prosperous years that followed. We would like to thank all the departing members of the Supervisory Board for their hard work, and wish the new members of the Board, Messrs Van Eykelenburg, Gagey and Walrafen, every success in performing their supervisory and advisory roles.

In a further change, Rob van Holten decided to leave Connexxion after spending six good years with us. As the Vice-chairman of the Executive Board, Mr Van Holten made a major contribution to the strong development the Company has enjoyed. Under his leadership, we have brought the spotlight to bear on our passengers and contracting authorities. As a result, we have been able to retain our status as the leading player in the public transport market, and to expand our share of the taxi services market. We would like to thank Rob van Holten for his commitment.

We would like to close by thanking our staff. Although critical issues such as privatisation and the future development of the public transport market have taken up a great deal of our time and energy in the past year, we are fully aware that our primary aim in life is to meet the needs of our customers. We are proud of the efforts made by our staff, day in, day out, to supply our passengers with a service of the highest possible quality.

Hilversum, The Netherlands, 21 January 2008

Executive Board Connexxion Holding NV

Peter Kortenhorst	Frank Janssen
Chairman	COO

“Our experience is also valued as far as 8,000 kms away”

Willem Lely, directeur Public Affairs

Connexxion closely collaborates, at the request of the government of Surinam, with passenger transport companies in Paramaribo. In 2007, this resulted for instance in the formulation of an Action Plan for the improvement of public transport in Paramaribo and its surroundings. This Plan was presented to the Cabinet and National Assemblee in November 2007.

Together with seven other mentally challenged staff members, Cindy arranges the catering in the restaurant of the divisional office of Connexxion Taxi Services.

“Cindy is part of the team. She’s always cheerful; a great colleague!”

Dave Nijhoff, staff member of our National Customer Contact Centre in IJsselmuiden

Chapter 2

2.1 Key figures

Amounts in millions of euros, unless stated otherwise.

	2007	2006	2005	2004	2004 [1)] [2)]	2003 [2)]
Balance sheet						
Total assets	788	661	674	587	578	643
Average capital employed	484	443	408	423	385	437
Equity	198	228	222	211	242	242
Income statement						
Revenue	1,050	884	881	918	918	948
Operating expenses	(1,031)	(854)	(853)	(881)	(878)	(915)
As a % of revenue	98.2%	96.6%	96.8%	95.9%	95.6%	96.6%
Wages, salaries and social charges	(499)	(442)	(453)	(480)	(482)	(491)
As a % of revenue	47.5%	50.0%	51.4%	52.3%	52.5%	51.8%
Results from operating activities	19	30	28	38	40	33
As a % of revenue	1.8%	3.4%	3.2%	4.1%	4.4%	3.4%
Profit for the period	3	16	19	24	26	22
As a % of revenue	0.3%	1.8%	2.2%	2.6%	2.9%	2.4%
Financial position						
EBITDA	89	89	85	92	91	87
Net cash from operating activities	61	35	66	84	87	117
Net cash used in investing activities	(74)	(41)	(114)	(32)	(35)	(97)
Financing deficit/surplus	(13)	(6)	(48)	52	52	20
Ratios						
Equity	198	228	222	211	242	242
Interest coverage ratio [3)]	1.8	3.1	[4)]	[4)]	[4)]	[4)]
Net Debt to EBITDA [3)]	2.4	1.7	[4)]	[4)]	[4)]	[4)]
Solvency (based on equity)	25.2%	34.5%	33.0%	35.9%	41.9%	37.6%
Operating profit/ average capital employed	3.8%	6.9%	6.9%	8.9%	10.4%	7.5%
Workforce						
Number of employees (at year-end/ nominal)	14,634	13,009	13,302	14,160	14,160	15,383
Number of employees (average FTEs)	11,571	10,525	11,000	11,898	11,898	12,451
Number of indirect employees (average FTEs)	1,297	1,131	1,264	1,336	1,336	1,469
% indirect of total number of employees	11.2%	10.7%	11.5%	11.2%	11.2%	11.8%

[1)] The figures were adjusted for a change in the accounting policies.
[2)] These figures were prepared on the basis of Dutch GAAP.
[3)] These figures were adjusted to comply with bank covenants.
[4)] Relevant data not available

2.2 Major events in 2007

Privatisation

Connexxion was privatised in the year under review. On 12 October 2007, a consortium consisting of Transdev, a French firm, and Bank Nederlandse Gemeenten acquired two thirds of the shares from the State of the Netherlands. The State intends to sell the remainder of its Connexxion shares during the next five years to the consortium. Transdev is an international transport operator. It operates in eight countries, and earned a total revenue of € 1.0 billion in 2006. The alliance with Transdev will enable us to fulfil our ambitions as a member of the Transdev group, and to position ourselves on the Dutch market as an all-round passenger transport company.

Tendering procedures

Connexxion Public Transport/Hermes Group competed in four public tendering procedures for bus service contracts in 2007. We succeeded in retaining the Amstelland-Meerlanden concession, and were awarded the concession for urban transport services in the northern town of Leeuwarden in preference to the existing operator. We were not awarded the Hoeksche Waard-Goeree Overflakkee concession. Hermes competed for the transport concession for the Eindhoven metropolitan region. The result of the latter procedure will be announced at the beginning of 2008.

Of the 87 concessions for which Connexxion Taxi Services competed and which have now been awarded, 29 were awarded to Connexxion. Connexxion Water won three public tendering procedures, including that for the scheduled service between Amsterdam and IJmuiden (i.e. Fast Flying Ferries).

Innovations

In 2007, five new trains were taken into service on the line between Amersfoort and Ede-Wageningen. The trains were built specially for us by FTD (Fahrzeugtechnik Dessau); their interior is based on a novel design that seeks to meet the needs of various types of passengers, mainly commuters and young people in our case.

The nationwide roll-out of the public transport smartcard continued in 2007. The idea is that the new smartcard will replace the current ticketing systems as from 2009. Connexxion vehicles in a large number of areas have now been fitted with the equipment that they need in order to accept the new smartcard. We are the first operator in the world to fit a system combining real-time travel information (based on the Infoxx system) with the features of the new smartcard. This new system will replace the system currently used for providing dynamic travel information in vehicles and at bus stops.
A total of 1,700 buses had been fitted with Infoxx systems by the end of 2007. Of these, 1,370 were fitted with combined Infoxx and smartcard equipment.

Staff

It goes without saying that the privatisation process was rather drastic for all Connexxion staff as well. However, the matters agreed upon between the parties involved about the preservation of jobs and the terms and conditions of employment have eased concerns among them. For the new Novio and GVU colleagues, the integration of their companies into the Connexxion organisation highlighted the year.

Other important events during the year were the set-up of the new Hermes organisation after the loss of the concessions in the province of Limburg at the end of 2006, the further expansion of the Connexxion Academy and the MD programmes, the stepped up recruitment efforts in order to overcome the shortage of driving staff, the constructive discussions between the Executive Board and the Works Council of the Public Transport division about improving productivity, another restructuring of the head office of the Public Transport division and finally the continued professionalization of the total HRM chain, resulting in a two-day work conference in order to define the future strategy.

Quality
Our quality management system was assessed by external auditors in 2007, in accordance with the ISO 9001 criteria. The audit resulted in all the business units inspected by the auditors receiving their ISO 9001 certification. We are hoping that the other business units, i.e. GVU, Novio and Hermes, will follow suit in 2008.

Safety, health and environmental protection
During the year under review, Connexxion Taxi Services retained its OHSAS 18001 (Occupational Health and Safety Assessment Series) certificate for incorporating occupational health and safety policies into its business processes. Connexxion Public Transport took further steps in 2007 to incorporate safety management into its operations. We signed the European Road Safety Charter with EU Transport Commissioner Jacques Barrot in 2006. The Charter commits us to do our utmost to reduce the number of traffic casualties.

The absenteeism rate rose in 2007, to 7,0% (2006: 6.3%). We have adopted an ISO 14001-certified environmental management system. All our business units either obtained or retained ISO 14001 certification in 2007.

In conjunction with Shell, we conducted a trial with Gas to Liquids (GtL), a clean diesel fuel manufactured from natural gas. The results of the trial should be available in the first quarter of 2008.

Corporate development
In January 2008, the acquisition of Gebr. Zoet from Elburg was completed. The takeover should enable Connexxion Taxi Services to strengthen its position, particularly in the ambulance market, in accordance with its strategic objectives.

We expanded our shareholding in our subsidiary, Hermes, of which we are now 100% shareholders. We acquired the outstanding 23.33% of Hermes's share capital from the Provincial Council of Limburg and the 26 municipal authorities in the province of Limburg (represented by a company called Gebaltram). We also expanded our interest in Waterbus BV during the year under review, from 34.5 to 65.5%.

The Executive Board no longer regards the shareholdings in Syntus BV and Arke/TAD BV as having any strategic importance. The Syntus shares have been sold during the year under review. Connexxion Holding NV also decided to dispose of its joint venture Arke/TAD BV. The joint venture has been reclassified to assets held for sale and is expected to be sold in the first quarter of 2008.

International collaboration
Close collaboration between Connexxion and transport operators in Surinam resulted in the organisation of a successful conference in August 2007 on the importance of passenger transport for the Surinamese economy. The conference led to the formulation of an action plan for public transport improvement, which was presented to a number of ministers, as well as President Venetiaan, in November 2007. Connexxion assists the Surinamese transport operators by advising them and inviting their managers to attend courses at the Connexxion Academy.

On 21 January 2008, the Supervisory Board discussed the 2007 financial statements, as drawn up by the Executive Board, with the Executive Board, with the external auditor attending this discussion as well. The auditor issued an auditor's report on the financial statements, which is included in Section 8.1 of this Annual Report.
The Supervisory Board recommends that the General Meeting of Shareholders adopt the 2007 financial statements as prepared by the Executive Board.

The Executive Board proposes to add the profit for 2007 attributable to equity holders of the company, in an amount of € 2,361,000, to the other reserves. The Supervisory Board considers this proposal to be in line with the defined reserve and dividend policy, for which reason the Supervisory Board would recommend that the General Meeting of Shareholders accept the dividend proposal.

The Supervisory Board would request that the General Meeting of Shareholders approve the policies pursued by the Executive Board in 2007 and discharge the directors from liability for same. Similarly, the Supervisory Board would ask the General Meeting of Shareholders for approval of, and discharge from, liability for its supervisory efforts undertaken in 2007.

The Supervisory Board met with the Executive Board eight times during the year. In addition, there were frequent consultations and communications between the Executive Board and the Chairman and Vice-chairman of the Supervisory Board.

The Supervisory Board focused a great deal of its attention on the privatisation of the Company, in addition to the normal operations. The Company played a contributory role in the privatisation process, which involved intensive deliberations about the bids and the selection of candidates in the first and second bidding rounds of the bidding process, which had been organised by the Dutch Ministry of Finance on behalf of the State of the Netherlands. Other topics were the position and role of the employee participation bodies and the trade unions involved. Finally, the Chairman of the Supervisory Board, in a joint effort with the Chairman of the Executive Board, discussed with the Transdev/BNG combination, as the prospective buyer of the Connexxion shares, the Company's role and position in a future Transdev+Connexxion alliance, and in particular about which corporate governance agreements would govern the collaboration. Based on the results achieved in the negotiations, the Supervisory Board believed that the Company's requirements for a new shareholder relative to its future role and position (which requirements had already been formulated in an agreement between the Ministry of Finance and the Company itself in 2006), were sufficiently met.

Within the scope of the share transfer of two-thirds of the Connexxion shares held by the Ministry of Finance to the Transdev/BNG combination, three Supervisory Directors decided to step down with immediate effect (i.e. prior to the share transfer). As a result, Messrs N.J. Westdijk, R. Pieterse and W.A.F.G. Vermeend resigned on 12 October 2007. The two remaining Supervisory Directors, Mr M.J.L. Jonkhart and Ms M.E. van Lier Lels, nominated three candidates. Subsequently, the General Meeting of Shareholders, in its new composition, appointed these three persons, i.e. Messrs C. van Eykelenburg, Th. Walrafen and F. Gagey.

In the meeting of the Supervisory Board held on 20 November, Mr M.J.L. Jonkhart (the Chairman since 12 October 2007) handed the chairmanship to Mr C. van Eykelenburg. In addition, during said meeting, the new composition of the Audit Committee, the Selection & Nomination Committee and the Remuneration Committee was determined.

On 31 December 2007, the Executive Board also took leave of its Vice-chairman R. van Holten. His contribution to Connexxion's development in the past six years was significant. The Supervisory Board expresses its gratitude to Mr Van Holten for his role in the Company's success.

On four occasions, the Supervisory Board convened without the Executive Board attending. At these meetings, the Supervisory Board looked at various aspects of the privatisation process and furthermore at its own performance and that of the Executive Board. Furthermore, the Supervisory Board maintained frequent individual and informal contacts at all levels of the organisation.

The Supervisory Board sets great store by its contacts with the Central Works Council. The members of the Supervisory Board in principle take it in turns to attend every consultative meeting

The Audit Committee convened five times during the reporting year. The Audit Committee discussed the Company's performance and the procedures governing capital expenditure. Extensive attention was continuously devoted to the reconciliation of the work plans of the Internal Audit Department with those of the external auditor. The Committee met with the manager of the Internal Audit Department and with the external auditor without the members of the Executive Board being in attendance.

On 15 March 2007, the chairmanship of the Audit Committee transferred from Mr J. den Hoed, who resigned from the Supervisory Board on this same date, to Mr M.J.L. Jonkhart. Mr Den Hoed resigned because he had completed the maximum term of office, as stipulated by the Articles of Association, of three times four years.

The Selection & Nomination Committee did not meet behind closed doors in the reporting period.
The Remuneration Committee held two meetings about the remuneration and bonus criteria for the members of the Executive Board.

In closing, the Supervisory Board would like to thank Messrs Den Hoed, Pieterse, Vermeend and Westdijk for the commitment and the time and energy which they devoted to the Company to bring the privatisation process to a good result. A special word of thanks is directed to Mr N.J. Westdijk who in 2002 temporarily left the Supervisory Board and acted as President of the Executive Board at a time in which the Company found itself in troubled water. When the Company was back on course Mr Westdijk took up the Chairman's position in the Supervisory Board until the moment that the privatisation process was rounded off. We further would like to thank the members of the Executive Board and all Connexxion employees for their commitment and dedication and the efforts put forth by many of them during the privatisation process.

Hilversum, the Netherlands, 21 January 2008

4.1 Financial performance

Introduction

2007 was the year in which Connexxion was privatised. Two-thirds of the shares were transferred to the consortium of the French transport company Transdev and Bank Nederlandse Gemeenten (bank of and for local authorities and public-sector institutions in the Netherlands) on 12 October 2007. The State of the Netherlands will be selling the remainder of its shareholding within the next five years to the consortium. Privatisation is a logical step in the Company's development and in the light of our aim of evolving into a leading European passenger transport operator. The alliance with Transdev opens up excellent prospects in this respect. The Company's existing financing arrangements were continued, even though the shareholdership changed.

Turnover for 2007 exceeded the € 1 billion mark for the first time in the Company's history. The operating profits of the most important divisions of the Company were as expected and higher than in 2006. Net profit was however lower than in the previous year. Non-recurring charges totalling € 16.6 million caused this decrease.

Revenue and profit

In 2007, revenue was € 1,050 million, which is significantly higher than in 2006 (€ 884 million). The rise in revenue was largely the result of the acquisitions of GVU, the urban transit operator in Utrecht, and Novio, the urban transit operator in Nijmegen. GVU's revenue for 2007 was € 61 million and the revenue of the Novio entities totalled € 67.4 million. GVU and Novio NV both provide public transport services. In addition, the entities of the Novio group provide small-scale transport services and perform maintenance work. This resulted in a major increase in Connexxion's revenue from public transport services, despite the loss of the Limburg concession at year-end 2006. In 2007, € 130 million worth of public transport revenue came on the market. Of this amount, € 41 million has not yet been awarded under the tendering procedures. The outcome of the contract award procedure for the Eindhoven metropolitan region will not be announced until the end of January of 2008.

Of the awarded public transport concessions, Connexxion (being the market leader) was able to retain 80% of its revenue (2006: 69%). The most important concession in the area around Amsterdam and Schiphol airport, including the successful Zuidtangent and Schiphol Sternet services, stayed with Connexxion. Unfortunately, the Hoeksche Waard-Goeree Overflakkee concession was not awarded to us. Thanks to our winning the concession for urban transport services in the northern city of Leeuwarden, which was the only tendered concession not yet being operated by Connexxion, the percentage of concessions won in the environs reached 100% (2006: 12%). Revenue from small-scale taxi and other transport services climbed to € 244 million (2006: € 172 million). The increase in revenue was on the one hand caused by the acquisition of the small-scale activities of Novio and on the other hand by the contracts awarded by the Ministry of Health, Welfare and Sport (the Valys interregional transport contract for people with a disability) and care insurer AGIS. In 2007, Connexxion Taxi Services secured 33% (2006: 41%) of the revenue that was put out to tender in 2007. Connexxion Taxi Services also managed to land substantial contracts for demand-driven group transport in the Oosterschelde region and the Nieuwe Waterweg Regional Taxi Services. Revenue from coach services was also on the rise. In particular group transport revenue moved up, thanks to the new contract awarded by the Ministry of Defence for the transport of personnel. Revenue of Connexxion Water rose thanks to the acquisition of part of the shares in Waterbus, which arranges the water-based transport between Rotterdam and Dordrecht. Revenue from repair and maintenance services practically stabilised. Revenue from trading by Techno Service Nederland again decreased as a result of the termination of the dealership activities. Other revenue, including book profits from property sales, decreased substantially compared with 2006.

The operating profits of the most important divisions of the Company were as expected and higher than in 2006. In 2007, a further growth in passenger numbers was realised (2007: 4.5%, 2006: 2.8%). Passenger transport revenue was therefore substantially higher than expected. In addition, we performed adequate contract management, i.e. we further specified the matters agreed upon with our principals.

Unfortunately, we again had to give up a part of our margins on important contracts, in the face of market pressure. In 2007, the price of public transport tickets sold did not rise enough and government contributions were not indexed sufficiently to offset the increase in wage costs and diesel prices. A higher rate of absenteeism (2007: 7.0% 2006: 6.3%) and staff scarcity led to the Company hiring in more subcontractors and temporary staff. This involved higher costs. We still succeeded however in further increasing the efficiency of staff and vehicles in 2007. As a result of the takeover of GVU and Novio, the average number of staff rose to 11,571 full-time equivalents in 2007 (2006: 10,525 FTEs).

Privatisation costs (strategic, legal and financial consultancy services) led to a non-recurring cost item of € 8.0 million (before tax) for the reporting year. The acquisitions of GVU and Novio also involved depreciation charges of € 6.0 million for concession rights. As a result of this, operating profit fell to € 18.6 million (2006: € 30.5 million), despite higher operating revenues.

Net finance charges dropped to € 6.1 million (2006: € 6.3 million). The share of profits of associates in 2007 was € 3.2 million negative (2006: € 1.2 million). This was caused by the planned start-up losses of TransLink Systems, the associate operating the back office of the public transport smartcard.

Despite a substantially lower profit before tax, profit taxes remained nearly the same as in 2006 (2007: € 6.5 million; 2006: € 7.3 million). 2006 was characterised by a tax windfall from prior years, while the Company faced an additional tax assessment for 1995 of € 4.3 million in 2007. On balance, the Company's net profit of € 2.8 million was much lower than in 2006 (€ 15.7 million).

Cash flow

In 2007, Connexxion generated EBITDA of € 89 million (2006: € 89 million). The cash flow from operating activities was substantially higher (€ 61 million inflow) than in 2006 (€ 35 million inflow). Acquisitions of property, plant and equipment totalled € 111 million (2006: € 81 million). A major part of these acquisitions resulted from Connexxion winning public transport concessions and small-scale transport contracts. Cash flow from investing activities on balance landed at € 74 million outflow (2006: € 41 million outflow). The cash flow from financing activities contains a distribution from the general reserve to the Ministry of Finance. Drawn financing facilities were on balance higher than in 2006. The financing cash flow thus totals € 37 million inflow for 2007 (2006: € 10 million outflow). Cash and cash equivalents rose from € 61 million in 2006 to € 85 million in 2007.

Rolling stock purchased and sold and innovation

In 2007, Connexxion made further investments in the quality of its services by improving the passenger information through Infoxx and the access to public transport through the public transport smartcard, and by purchasing new vehicles. In 2007, we purchased a total of 1,378 new vehicles (2006: 991): 692 public transport buses (2006: 430), 678 taxi buses (2006: 496), 5 coaches (2006: 65), 1 vessel (2006: none) and 3 ambulances (2006: none). In many cases, the vehicles specifically meet the requirements set by the concession awarder. The average age of the fleet of public transport buses is 5.0 years (2006: 4.9 years). The average age of taxi buses is 3.6 years (2006: 3.6 years).

Within the scope of rejuvenation of the fleet, the Company disposed of aged rolling stock (involving € 4.0 million in 2007, 2006: € 2.2 million). In 2007, in total 670 vehicles were disposed of (2006: 747). This concerned 291 public transport buses (2006: 474), 358 vehicles of Connexxion Taxi Services (2006: 216) and 21 vehicles of Connexxion Tours (2006: 57). In view of the low average age of the public transport buses, a further inflow of new vehicles leads to an outflow of vehicles whose useful and technical lives have not yet expired. The outflow of vehicles in 2007 resulted in a slight book profit. One of the most important task fields of Connexxion Fleet is developing a market where these vehicles can be put to use again.

In its strive for operational excellence and increasing the return on capital invested, Connexxion aims to make more efficient use of the available housing of all divisions and departments and to sell any superfluous office and/or storage space. Within this scope, 2007 saw the disposal of property with a carrying amount of € 3 million (2006: € 63 million).

Acquisitions

Thanks to the Transdev+Connexxion alliance, Connexxion can continue to shape one of its strategic pillars, i.e. further expansion of its activities in Europe. Furthermore, the Company has identified opportunities for expansion in the Netherlands, for instance in public transport in the three major cities, ambulance transport and water-based transport. The acquisition of Gebr. Zoet from Elburg, specialized in passenger transport and ambulance transport, which was completed in January 2008, is consistent with this intention. Water-based transport will be further promoted by the expansion of the Company's interest in Waterbus BV from 34.5 to 65.5%. On 29 June 2007 Connexxion has acquired the remaining 23,33% of the shares in Hermes from the Province of Limburg and 26 municipalities, united in Gebaltram.

Balance sheet

At year-end 2007, the average capital invested increased to € 484 million (2006: € 443 million). The acquisitions of GVU and Novio and the investments in the quality of public transport services impacted the average capital invested. At year-end 2004 this still totalled € 423 million. The non-recurring charges in 2007 and the resulting lower operating profit led to a return on average capital invested in 2007 of 3.8%, which is considerably lower than in 2006 (6.9%). Owing to the method used for funding public transport, Connexxion has a negative working capital.

A distribution from the general reserves to the Ministry of Finance made equity drop below the € 200 million mark. This means that the Company fell short of a balance sheet requirement, as defined by the financial institutions within the scope of the Company's financing. The banks accepted this through a so-called waiver. Solvency of the Company fell to 25.2% (2006: 34.5%). As a result of the lower operating profit, the interest coverage ratio dropped to 1.8 (2006: 3.1). With an unused credit available to us of € 61 million, the Company's credit standing may be described as 'good'.

Associates

Connexxion has minority shareholdings in a number of companies in the field of passenger transport and related activities (refer to Section 7.5.15 for a list of non-consolidated investments). REISinformatiegroep BV (in which we hold a 32.8% interest) provides up-to-the-minute, travel advice to public transport users, both by telephone and on the Internet. In 2007, REISinformatiegroep distributed a dividend of € 0.2 million (2006: € 0.2 million). Translink Systems BV provides back-office services for the public transport smartcard, the electronic payment system that is due to be adopted by all public transport operators on 1 January 2009. The shareholdings in Syntus BV and Arke/TAD BV are no longer regarded as having any strategic importance. The Syntus shares have been sold during the year under review. Connexxion Holding NV also decided to dispose of its joint venture Arke/TAD BV. The joint venture has been reclassified to assets held for sale and is expected to be sold in the first quarter of 2008.

4.2 Prospects

For Connexxion, 2008 will be a year of integration with its new shareholder, Transdev. The exchange of know-how and experience between the two partners will produce a strong alliance and lay solid foundations for further growth both inside and outside Europe.

Public transport services in the Netherlands worth a total of € 285 million in future revenue are likely to be put out to tender in 2008. They include important concessions around Utrecht, Eindhoven and (possibly) Rotterdam and The Hague. The future success of Connexxion Taxi Services also hinges on its performance in next year's contract award procedures.

We expect to see an improvement in our profits in 2008 in comparison with 2007. We will no longer be affected by the cost of privatisation, but cost reductions or service level reductions will probably not be able to make up in full for the low indexation of revenue.

4.3 Public transport

Connexxion's public transport operations are carried out by Connexxion Openbaar Vervoer NV (Connexxion Public Transport, Hilversum), Hermes Groep NV (Weert), GVU NV (Utrecht) and Novio NV (Nijmegen). GVU and Novio have been part of the Connexxion Group since 1 January 2007. Connexxion provides public transport services by road and by rail in the Netherlands, focusing on regional passenger transport and urban transit services in several large and medium-sized towns and cities. It operates on behalf of local authorities: provinces, municipalities and so-called Framework Act areas. Connexxion Public Transport pursues a three-track strategy, focusing on passengers and concession granters, cost efficiency, and the improvement and simplification of its processes.

Market trends

Competition in public transport is fierce. On the supply side, three companies are competing for transport concessions. The contract term for various concessions has now ended and contracts are being awarded for a second term. Despite the experience gained in recent years, the tendering market is still not entirely mature. Some of the requirements in the tender documents, for example, are not in the interests of mobility. This is illustrated by the demand made in many tender documents for new vehicles. Connexxion believes quality rather than age should be the appropriate criterion for vehicles. Writing off buses long before the end of their useful lives is a waste of capital. These funds could be put to other use for passengers, for example by improving passenger information or increasing the frequency of our services.

Despite these criticisms, we can conclude from the past six years that the liberalisation of public transport has been a success for concession granters as well as passengers. It has raised quality standards and significantly reduced costs. Year after year, the Public Transport Customer Barometer has shown that passenger satisfaction is highest in areas in which public transport has been outsourced. It is therefore disappointing that the State Secretary decided in October 2007 to reverse the law and not to introduce obligatory tendering for public transport in the three largest cities in the Netherlands.

Organisation

We began to integrate the urban transit companies, GVU and Novio, into the Connexxion organisation in 2007. Close cooperation between the divisions has already produced synergy gains. The integration will continue in early 2008. Measures were taken to reduce costs in Connexxion Public Transport's commercial organisation in late 2007.

Developments in revenue

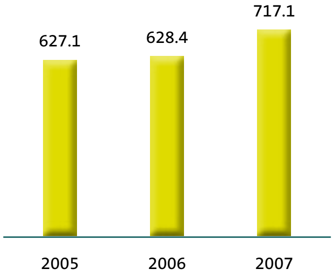
Connexxion's public transport revenue (Connexxion Public Transport, Hermes Group, GVU and Novio) before intercompany adjustments totalled € 717.1 million in 2007. Revenue excluding the new organisational units GVU and Novio amounted to € 629.2 million. In 2006 revenue had totalled € 628.4 million.

Revenue was substantially reduced by the loss of concessions in Limburg and the Zeeuws-Vlaanderen concession in 2006. This loss could not be offset by additional revenue from the North and Southwest Fryslân concession won last year.

Figure 2: **Key figures for Connexxion Public Transport, GVU, Hermes Group and Novio**

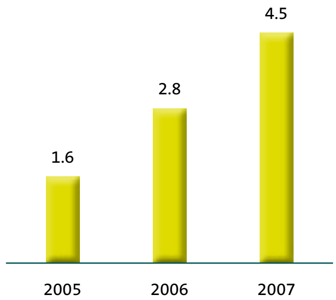
Revenue before intercompany adjustments

(in millions of euros)



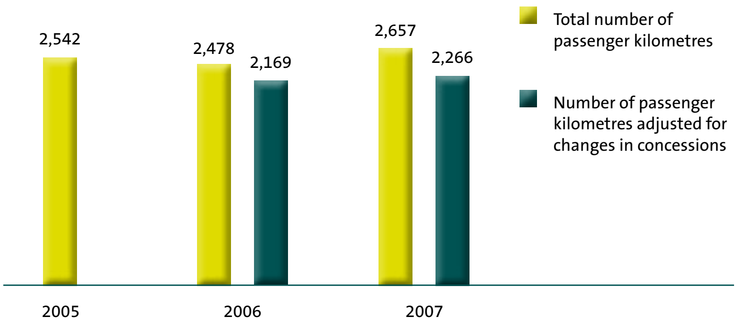
Growth in number of passengers of Connexxion Public Transport

(as a %, adjusted for changes in concessions)



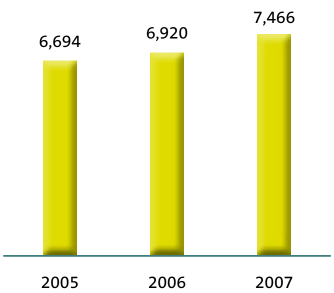
Passenger kilometres Connexxion Public Transport and Hermes Group

(in millions)

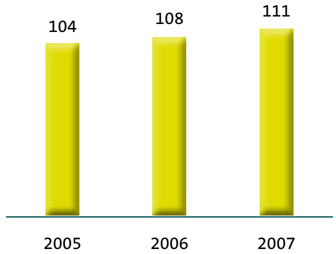


Timetable hours

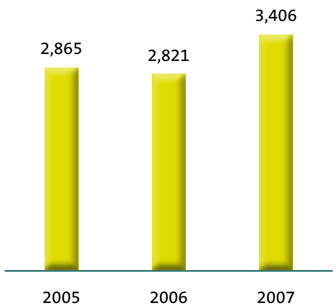
(in millions)



Number of locations



Number of buses



Diesel prices and indexation

The price of diesel remained stubbornly high in 2007. Increases in the price paid for our transport services were inadequate to compensate for the higher fuel prices and a further increase in excise taxes (as from 2008). The increase in excise taxes by three euro cents per litre will add some € 3 million to Connexxion's annual fuel bill. We cannot pass on these costs to passengers because public transport fares are set by the Minister. Last year, the Minister unilaterally adjusted the indexation of public transport fares from the 3.1% agreed between the contracting authorities and the industry to 2.5%. This is completely inadequate to cover the increase in costs. Furthermore, the Minister of Finance has decided to make virtually no allowance for inflation in the government contributions to finance public transport in their regions or provinces. On balance, the combination of higher costs and inadequate compensation in the indexation and the general purpose grants represents a financial handicap to Connexxion of € 12 million for 2008.

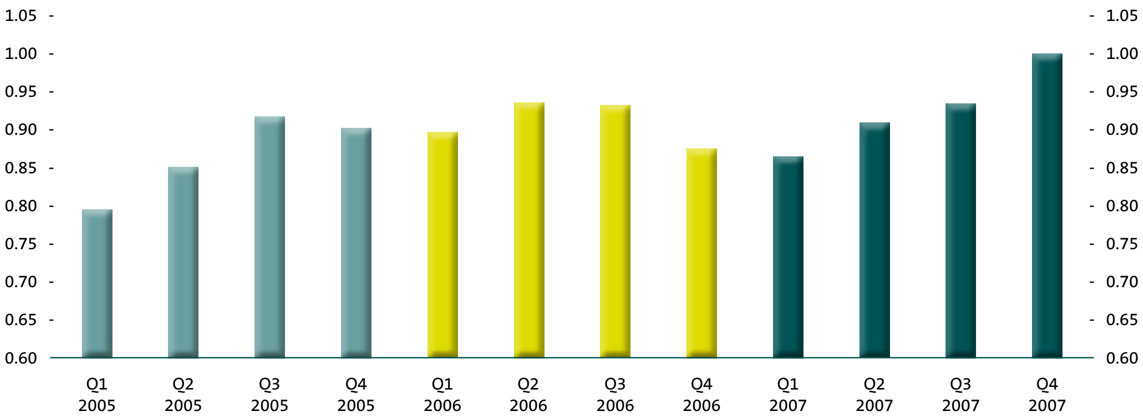
Growth in passenger numbers

The number of people using public transport increased once again during the year thanks to improved services and carefully targeted marketing campaigns. The biggest increases were recorded in the centre of Zeeland, North East Overijssel and the Zuidtangent area (all about 15%). After adjustment for changes in concessions, average passenger numbers increased by 4.5% in comparison with 2006. This comfortably exceeds our target of annual average growth of 2%.

Passengers gave Connexxion Public Transport's services a score of 7.3 in 2006, which is higher than the national average (source: Public Transport Customer Barometer 2006). The division has set itself a target of 7.5. GVU scored also 7.3 by its passengers, climbing to the number one ranking amongst public transport companies in the four largest cities in the Netherlands. Concession granters gave Connexxion Public Transport an average score of 6.5 in 2006 (source: survey commissioned by Connexxion). Customers satisfaction rates over the year 2007 will be available in February 2008.

Figure 3: **Diesel price development, 2005-2007**

Price in € per litre



Tendering procedures

The Amstelland-Meerlanden public transport concession was granted to Connexxion during the year. It comprises transport around Amsterdam and Schiphol airport, including the successful Zuidtangent and Schiphol Sternet services. Given the size of this contract, retaining this concession is of key importance to Connexxion.
It represents total revenue of € 500 million over eight years. Connexxion also successfully won the urban transit concession in Leeuwarden from another operator.
The Hoeksche Waard-Goeree Overflakkee concession was not awarded to Connexxion. Hermes has bid for the concession for the Eindhoven metropolitan region but the outcome will not be announced until the beginning of 2008.

Vehicles

We took 692 new buses into operation during the year and took 291 out of service. The criteria set for new buses give priority to operating expenses, environmental performance, passenger comfort and good working conditions for the staff. For the North and Southwest Fryslân concession, we took 69 specially designed 34-passenger buses into operation. 225 new buses were bought for the Amstelland-Meerlanden concession. These extremely environmentally-friendly buses meet all the Euro 5- and even EEV environmental standards.

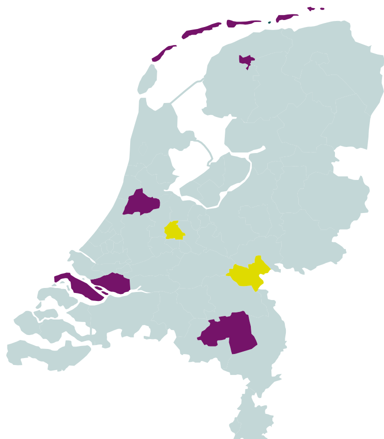
Some of the vehicles taken out of service in this region underwent a major overhaul so that they could be used in other regions. GVU took delivery of 32 articulated buses from the Zuidtangent service. Novio received 14 vehicles from GVU and 33 from the Amstelland-Meerlanden concession. These changes reduced the average age of the Novio fleet from 12.4 to 7.2 years.

For the Ede/Wageningen-Amersfoort (Valleilijn) rail concession, five new Protos trains were taken into service. Despite start-up problems to have the trains ready for our passengers on time, the period between the trains' design and their becoming fully operational was exceptionally short.

Figure 4: **Distribution of awarded public transport concessions at year-end 2006**

◆ Connexxion ◆ Hermes
◆ Novio ◆ GVU

Figure 5: **Concessions put out to tender in 2007**



◆ concessions put out to tender
◆ concessions prolonged

Figure 6: **Distribution of awarded public transport concessions at year-end 2007**

◆ Connexxion ◆ Hermes
◆ Novio ◆ GVU

Innovation, service and quality

Connexxion constantly seeks to improve access to public transport. Passenger wishes come first. Thanks to our frequent passenger surveys and close relations with a wide range of interest groups, such as the Association of Dutch Public Transport Users (ROVER), the Association for Safe Traffic (Veilig Verkeer Nederland) and the Council for the Disabled and Chronically Ill People, we are in a position to introduce innovations for passengers. They include special tickets, wireless Internet access on buses, higher frequencies on certain routes and (in cooperation with concession granters and road managers) a dedicated infrastructure for public transport. These innovations have generated a spectacular increase in passenger numbers in various parts of the country.

Connexxion Public Transport had its quality management system audited in 2007 and subsequently received ISO 9001 certification. It already held the ISO 14001 certificate for its environmental management system.

A major innovation in public transport is the introduction of the public transport smartcard. As one of the initiators of this electronic ticketing system, we believe it will greatly benefit our passengers. It also opens up all sorts of new marketing opportunities. Thanks to its ability to produce accurate passenger data, fares and services can be aligned even more accurately with demand. Moreover, the nationwide roll-out of the new ticketing system for the card (which records journey length and charges passengers for every kilometre they travel) will end the current problems regarding the distribution of passenger revenue. Development work on the new electronic ticket continued in 2007 and the fleet in the greater part of Connexxion's area has been fitted with card readers. The card will be further rolled out across the Netherlands in 2008.

Connexxion is the world's first public transport operator to offer the combined functionality of a smartcard and Infoxx, an innovative system to supply real-time travel information both on board buses and at bus stops. Infoxx also enables communication between vehicle drivers and the traffic control centre in Nieuwegein. We have now installed Infoxx systems in 1,700 buses (in 1,370 buses, in combination with smartcard readers) and at 274 bus stops. 2007 also saw the wide-scale introduction of Infotin, another system to supply real-time travel information, at 185 bus stops in Almere. Infotin is also being trialled in Deventer and at Amsterdam Airport Schiphol. Bus stops in Leeuwarden will be fitted with Infotin in early 2008.

Connexxion wants its vehicles to be accessible to all passengers. All our buses are now fitted with low floors or kneeling suspension technology to help the disabled. Some 56% of the buses are also accessible to wheelchairs and wheelchair use can now be guaranteed on all buses on a growing number of routes. These accessible routes are shown in timetables and on the Internet by means of a pictogram.

Development of the Superbus is making good progress. Connexxion is backing this initiative of Delft University of Technology and Dutch astronaut and scientist Wubbo Okkels with a financial injection. Being suitable for both short and long journeys, the Superbus is a viable alternative to (relatively expensive) rail connections. What makes the Superbus concept so special is that it rides on demand. The Superbus's maiden journey is planned for March 2008, when it will make a test drive between Heereveen and Leeuwarden. It will then make an appearance at the Beijing Olympic Games.

Connexxion's Internet site was visited 5.6 million times in 2007, up 24% on 2006. A series of new applications during the year further enhanced the site's quality and user friendliness. They included personalised journey information (including the option of downloading a personal bus timetable) and interactive route maps to accompany the timetables. Visitors say the changes are significant improvements. The Connexxion extranet, a closed website with information for contract granters, was completely redesigned at the end of 2007.

Growth opportunities

Apart from securing public transport contracts in a highly competitive market, we believe opportunities for further revenue growth will depend on our ability to increase revenues from existing contracts. Decentralised rail concessions also offer growth opportunities. We believe the best opportunities lie in multimodal concessions that combine bus and rail services – and often demand-driven group transport – in a single tender. Multimodal tenders require operators to be highly creative in drafting the best possible bid for all public transport services in a region. We have expertise in both the bus and the rail markets and in demand-driven group transport.

4.4 Taxi Services

Connexxion Taxi Services BV provides many forms of small-scale passenger transport. Many of this division's activities comprise group transport systems, such as school bus services, transport for healthcare and other institutions, transport for the disabled, demand-driven group transport, and ambulance and patient transport. These services are usually put out to EU tender as part of larger transport packages. The contracting parties are municipal authorities, metropolitan regions, provinces and care insurers.

Connexxion Taxi Services also provides chauffeured cars for executives, private group transport (e.g. for ministries), ambulance transport and transport for Amsterdam Airport Schiphol. The division also provides transport services for Connexxion Public Transport and other clients. Connexxion Taxi Services' distinguishing features are quality (top-class service), professionalism and innovation.

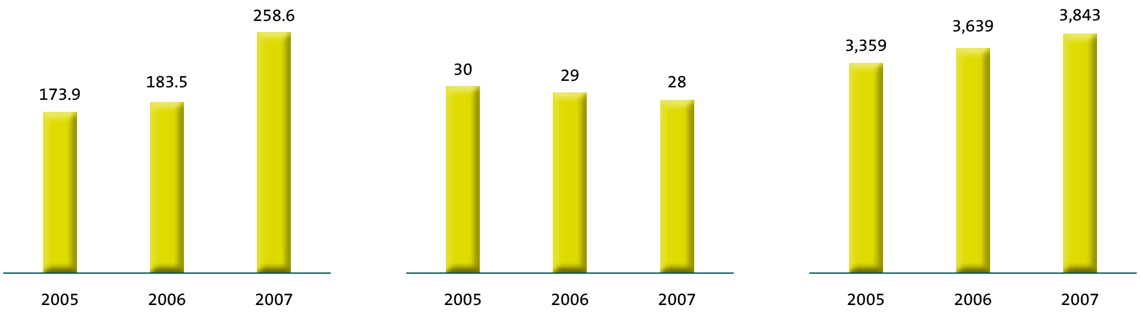
Figure 7: **Key figures for Taxi Services division**

Revenue before intercompany adjustments

(in millions of euros)

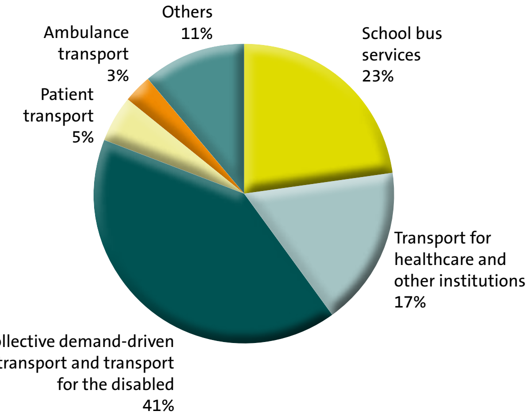
Number of locations

Number of taxis and taxi buses



Product segments

(as a % of revenue)



Market trends

The trend towards larger contracts continued during the year. More pilot projects were carried out in 2007 to combine various forms of group transport into larger packages. This is increasing opportunities for further efficiency gains.

Prices in the taxi market have been under severe pressure for several years. Many companies have responded by adopting a survival tactic based on quoting below the cost price. The result has been an increase in the number of bankruptcies but the influx of new operators has prevented any widening in margins. The market is further complicated by the demand side no longer always appreciating what a realistic price/quality ratio is. As a result, contracts are sometimes awarded to parties that cannot fulfil their undertakings.

Another development in demand-driven group transport is that incoming requests for taxi services and the implementation of these services are granted by several contractors to different operators. A disadvantage of this system is that it significantly reduces opportunities to overcome delays or other irregularities during a journey. Another disadvantage is that if something goes wrong during a journey it is often uncertain who is responsible. This creates accountability problems, which further limit opportunities to improve service standards.

The tightness in the labour market is particularly pressing on the taxi industry. Taxi Services will probably need about 2,000 new employees to carry out new transport contracts and make up for natural attrition in 2008. Connexxion has a large number of recruitment channels, including alliances with other companies, authorities, temporary employment agencies and reintegration offices, but we will have to pull out all the stops to keep staff numbers at the required level. Furthermore, since 2006 the compulsory Drivers Pass has created a further obstacle to many potential colleagues.

Significant progress has been made in the transparency of contract transport. Under the Social Support Act, contracting authorities are making high demands on the reliability of management information. Connexxion Taxi Services foresaw this development at an early stage and has actively supported it. For many years it has been a pioneer in this area. Its advanced RBS Route Management System is the only system in the Netherlands to have been externally audited. Connexxion's reporting model now counts as the industry standard.

Organisation

Connexxion Taxi Services provides its services from 28 locations. Incoming requests for taxi journeys are coordinated centrally by the National Customer Contact Centre (NCC) in IJsselmuiden. Vehicles that provide demand-driven services are coordinated by five control centres throughout the country. Following Connexxion's acquisition of Novio, Nijmegen, as of 1 January 2007, its Novio Net subsidiary has been integrated into Connexxion Taxi Services. In January 2008, the acquisition of Gebr. Zoet from Elburg was completed. The takeover should enable Connexxion Taxi Services to strengthen its position, particularly in the ambulance market, in accordance with its strategic objectives.

Developments in revenue

Connexxion Taxi Services' revenue increased sharply in 2007, totalling € 258.6 million before intercompany adjustments, up from € 183.5 million in 2006.
A significant part of the increase was due to the Valys contract and the acquisition of Novio. The first is an interregional transport contract for people with a disability that took effect on 1 April 2007. The contracting authority for this service is the Ministry of Health, Welfare and Sport. The contracts for seated patient transport with care insurer AGIS, disabled transport in Amsterdam and school bus services in Amsterdam and The Hague also contributed to the increase in revenue.

Tendering procedures

In 2007 Connexxion Taxi Services tendered for 94 EU contracts. Of the 87 contracts awarded, Connexxion won 29 (33%). It did not bid for some contracts because the criteria made them financially irresponsible. Major transport contracts we secured in 2007 include a school bus service, demand-driven group transport and special transport in Southwest Drenthe, demand-driven group transport in Maassluis, a minibus service in Apeldoorn and school bus services in Utrecht and Eindhoven.

Vehicles

Connexxion Taxi Services has a standardised fleet that can be operated for all concessions and contracts. This is a telling advantage in a market that puts a large number of relatively short-term transport contracts (i.e. between three and five years) out to tender every year. We took 678 new vehicles (taxis and minibuses) into operation and disposed of 358 vehicles during the year.

Innovation, service and quality

Connexxion Taxi Services is known as one of the most innovative and service-driven operators in the industry. Underpinning the high service standards is the National Customer Contact Centre (NCC) in IJsselmuiden. At the NCC, customers can enquire about all Connexxion Taxi Services' products and services by telephone, email, fax or post. The professionalism of the staff and the sophisticated databases guarantee the best possible service to our customers. The NCC also deals with all requests for taxi journeys. In total, it handled 4.1 million incoming and 472,000 outgoing telephone calls in 2007.

The Connexxion Taxipoints form a unique service for both passengers and contracting parties. A Taxipoint is a stand-alone electronic communication system, often placed in a hospital, that is in direct contact with the central database for booking journeys. Apart from increasing convenience to passengers and reducing the workload at receptions, Taxipoints help maximise the effective use of the vehicles. Connexxion installed five Taxipoints as part of the Amsterdam Trefpunt project in 2007. There are now a total of ten Taxipoints in operation and their number is expected to double in 2008.

As required of all holders of the taxi quality mark, Connexxion Taxi Services must carry out risk assessments of its quality assurance, health and safety, and environmental management systems twice a year. Since 2006, the division has also been OHSAS (Occupational Health and Safety Assessment Series) 18001 certified for the incorporation of health and safety management systems into its business processes. Connexxion Taxi Services is the only Dutch taxi operator to have been awarded this certificate. At the end of 2007, Connexxion Taxi Services was awarded the ISO 9001 certificate for its quality management system. The division is also ISO 14001 certified for its environmental management system.

Recently, two customer surveys were carried out. For the Valys contract and the contract Noord-Holland Noord. The customer satisfaction averaged respectively 7.7 and 7.0 on a 10-point scale.

New steps were taken in 2007 to develop an innovative helicopter service. Through Helinet, Connexxion Taxi Services is planning a scheduled service between Amsterdam, The Hague, Rotterdam, Antwerp and Brussels. Market research indicates that there is demand for such a service. Procedures to obtain landing rights in Rotterdam and The Hague have started. Plans to be formulated in 2008 will depend on the progress of these procedures.

Growth opportunities

In addition to the growth in interregional contracts, Connexxion Taxi Services has identified openings in ambulance services and is working on setting up Regional Ambulance Transport. The ambulance market will be liberalised in due course.

For three years now, Connexxion Taxi Services has been sponsoring the DaimlerChrysler Open wheelchair tennis tournament. We do this because of a firm belief that the participants' ambition and passion provides a stimulus for our staff in the performance of their daily work.

"Ambition is inspiring"

Bert Veldmeijer, driver in our Hilversum branch

Connexxion has professional teams for safety, information supply and control (so-called VIC teams) in public transport. Thanks to continuous training, these colleagues are fully equipped to serve our passengers.

"I do not see myself as an attendant"

Jos Ratering, VIC officer in the Arnhem area

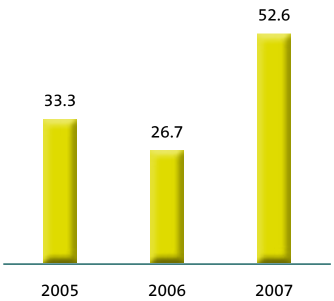
4.5 Tours

Connexxion Tours provides the Group's private transport services. They include coach services, day trips and coach-and-driver rentals. The division is increasingly coordinating the provision of services and subcontracting part or all of the actual transport. Connexxion Projexx, part of Connexxion Tours, specialises in transport for congresses and special events. Speedwell, a tour operator specialising in coach trips for a niche market, is also part of Connexxion Tours. Connexxion Tours meets approximately 10% of the Public Transport division's need for additional vehicles during peak periods. In doing so, it improves the use of its coaches and so strengthens its market position.

Figure 8: **Key figures for Tours division**

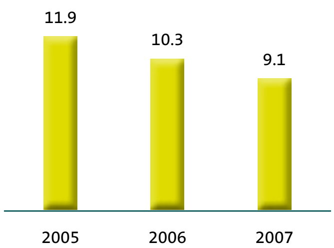
Revenue before intercompany adjustments

(in millions of euros)

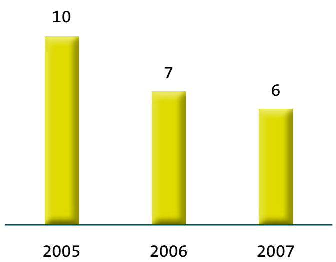


Number of kilometres travelled

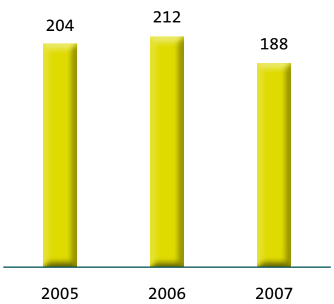
(in millions)



Number of locations

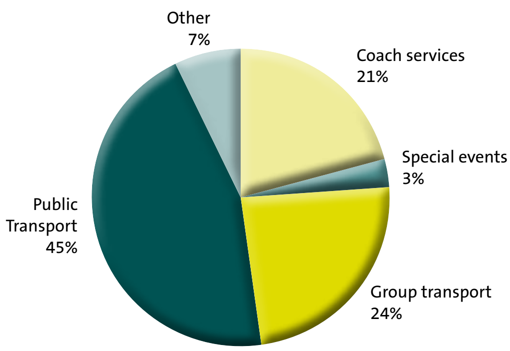


Number of buses



Product segments

(as a % of revenue)



Market trends

The coach market continues to be the scene of intense price competition. Despite the fierce competition, which has led to a relatively large number of bankruptcies, the coach market still attracts newcomers owing to its low entry threshold.

Organisation

The Taxi Services and Tours divisions have been operating under the same management since 2006. The opportunities this has presented to increase efficiency and combine activities were further exploited in 2007. Connexxion Tours has a central sales team in IJsselmuiden and its six locations guarantee it a national presence.

In mid-2007, a team was set up within Connexxion Tours to coordinate journeys and decide whether they should be performed by the division itself or subcontracted in whole or in part. Services are performed internally only if they generate added value. This is the case, for instance, if journeys can be combined so that drivers and vehicles are "on the road" for most of the day. The coordination team is also responsible for planning the provision of vehicles to meet Connexxion Public Transport's peak demand. In 2008 it will provide a similar service for Connexxion Taxi Services.

Developments in revenue

Connexxion Tours' revenue before intercompany adjustments totalled € 52.6 million in 2007 (2006: € 26.7 million). There was a strong increase in demand for vehicles from the Public Transport division. Further increase in revenue was earned from the provision of transport to Dutch Railways and the tour operator Peter Langhout and from new contracts with, amongst others, the Ministry of Defence (transport of personnel and suppliers in Europe) and DAF Trucks (staff transport).

Transport contracts and market share

Connexxion Tours kept its market shares stable in 2007. In keeping with its objectives, the division is expanding its contractual services for corporate clients. Connexxion Projexx's expertise in providing transport for congresses and special events again won it many interesting contracts in 2007, including large staff events for Essent, Ballast Nedam, Etos, TNO, C&A and Technische Unie. It also provided transport for the Ministry of Foreign Affairs to mark the Treaty of Schokland, the open days organised by the air force base in Volkel, the shuttle service for 15,000 visitors from and to the Olympic Stadium for the flower parade in Aalsmeer and transport for the World Rowing Championships in Amstelveen.

Vehicles

With 188 vehicles, Connexxion Tours' fleet has the critical mass necessary to carry out engagements independently in whole or in part.

Service and quality

Connexxion Tours offers product information and booking facilities on a round-the-clock basis. Customers can also book services on the Internet.

Connexxion Tours holds the quality mark for coach companies and all drivers have been trained to meet the applicable standards. At the end of 2007, the division was also ISO 9001 certified. Connexxion Tours leads the field in terms of safety. All coaches are fitted with communication equipment to display safety instructions and many of our vehicles are fitted with seat belts.

Growth opportunities

The strategy of focusing on coordination and outsourcing transport in whole or in part is reducing fixed costs and creating openings to grow the market share. Closer cooperation with Connexxion Taxi Services in 2007 increased management efficiency and effectiveness in winning contracts and created opportunities for further growth. Connexxion Tours will again seek growth chiefly from contractual services for organisations in 2008.

4.6 Water

Connexxion Water operates river and canal ferry services in various parts of the Netherlands. It also operates a rapid public ferry service between Amsterdam and IJmuiden (Fast Flying Ferries), between the towns of the Drechtsteden conurbation and between Dordrecht and Rotterdam (both under the name Waterbus). Most of the ferry services are performed for national, provincial and municipal authorities.

Market trends

There are around 100 ferry services in the Netherlands that operate throughout the year; many are run by local and provincial authorities. A growing number of these authorities are outsourcing the services to commercial organisations and several transport contracts were put out to public tender again in 2007. This trend is expected to gain momentum in the years ahead.

Organisation

Connexxion Water is an independent division of the Connexxion Group. Connexxion increased its interest in Waterbus BV from 34.5% to 65.5% on 27 July. Waterbus has since been integrated into Connexxion Water. It forms a separate organisational unit alongside Fast Flying Ferries & Veren. The new organisational structure has already produced synergy gains in the fields of maintenance, staff planning and management. A production planning office was set up to consolidate these gains and continuously improve business processes.

Developments in revenue

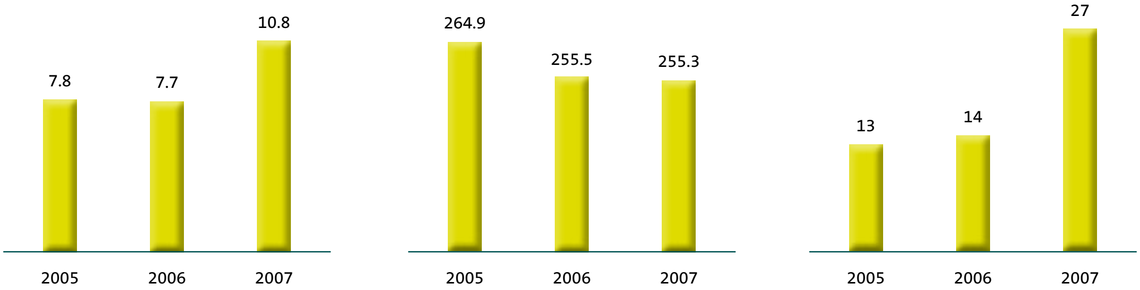
Connexxion Water's revenue before intercompany adjustments totalled € 10.8 million in 2007 (2006: € 7.7 million). This sharp improvement was attributable to the increased interest in Waterbus BV.

Figure 9: **Key figures for Connexxion Water**

Revenue before intercompany adjustments
(in millions of euros)

Number of passengers using Fast Flying Ferries operated by Connexxion Water
(in thousands)

Number of vessels



Tendering procedures and transport contracts

Connexxion commands a strong position in the ferry market. Connexxion Water, for example, successfully won the public tender to operate the scheduled service between Amsterdam and IJmuiden (Fast Flying Ferries). Connexxion has been operating this service since its start in 1998. Connexxion won the contract in 2007 after the province's original decision on the concession was overruled in court in 2006 on account of an error in the tendering procedure. The contract takes effect on 1 January 2008 and runs until 2015.

For the hydraulic engineering Company Van Oord, Connexxion Water provided staff transport during work in IJsselmeer from April until October, using the vessel in Fast Flying Ferries' technical reserve. In January 2008 Connexxion will begin to operate a cyclist and pedestrian ferry service between Zaandijk and Zaanse Schans for a period of about one year while the Juliana Bridge is replaced. The contract was awarded to Connexxion Water following a public tender. Connexxion also won a ten-year contract to operate the ferry between Maassluis and Rozenburg as from 1 January 2008.

Fleet

Connexxion Water operates a fleet of 27 vessels, 20 of which are owned by contracting authorities. The fleet increased by 13 in 2007: one ferry was commissioned for the service on the Zaan, two ferries were added to Connexxion's fleet for the Maassluis-Rozenburg service, as well as Waterbus BV's ten vessels.

Service and quality

Connexxion Water is ISO 9001 certified. Thanks in part to the process descriptions drawn up for its ISO certification, Connexxion Water has an active policy of continuously improving its operating procedures. As well as an ISO 9001 certificate, Connexxion Water has an ISO 14001 certificate for its environmental management system.

A study was started in cooperation with TNO (the Dutch organisation for applied science) at the end of 2007 on how to reduce Fast Flying Ferries' fuel consumption. The study will be completed in mid-2008.

Several of Fast Flying Ferries' passengers on the "Rosanna" were injured during a collision with another vessel on 8 October 2007. The ferry itself was seriously damaged and is not expected to return to service until the beginning of 2008. The consequences for the service were alleviated through the use of another ferry. The cause of the incident is being investigated by the national police force and other authorities.

Growth opportunities

The growing tendency for local authorities to either privatise or sell off their ferry services and subsequently invite private operators to tender for them is an opportunity for future growth. The same applies to various plans for new public ferry services. Connexxion is often consulted on these initiatives and offers its expertise for the further development of this form of transport in the Netherlands. In the summer of 2007, Connexxion Water organised a series of pilot crossings in Fryslân, a province with huge potential for public transport by water.

Opportunities to extend Waterbus's services are discussed with the contracting authority. The options considered included extending operating hours until late in the evening and lengthening the route to Rotterdam.

4.7 Techno Service Nederland

Techno Service Nederland NV (TSN) maintains, repairs and manages commercial vehicle fleets. It focuses on maintaining vehicles in passenger transport (buses, taxis, trams and coaches) and vehicles used for environmental services. Since 2007, TSN has also maintained the Valleilijn trains.

Roline, a TSN subsidiary based in Lopik, specialises in remoulding tyre treads and also sells and fits new tyres. Roline counts many of the country's urban and regional bus operators among its customers.

TSN's goal is to be a profitable maintenance company for the Connexxion Group. It will achieve this through balanced growth in the third-party market (the non-passenger transport market) and with the support of a national network of repair companies. To this end, TSN continuously improves its customer focus by maximising the deployability of vehicles and reducing maintenance and repair costs.

Market trends

Passenger transport margins are being squeezed. In these circumstances, maintenance companies are fighting hard for market share. The third-party market is also depressed by the fact that many vehicle manufacturers also offer their own maintenance packages, either directly or through allied dealers. Although EU legislation prohibits manufacturers from preventing other parties carrying out maintenance, for example by denying them information, it is difficult in practice for independent operators such as TSN to become an authorised repair services provider. Many legal disputes have been referred to the courts by manufacturers/ suppliers and maintenance and repair services providers in order to get the required exchange of information started.

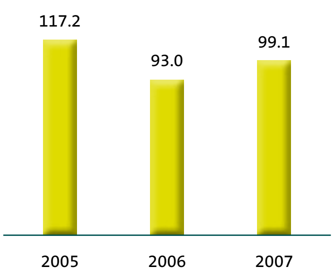
Organisation

TSN has a nationwide network of 45 workshops, including five repair shops. Its central parts warehouse in Culemborg supplies all the workshops on a daily basis, thus ensuring the best possible stock turnover ratio. Two workshops in West Brabant were closed in 2007 following the loss of a maintenance contract. TSN moved into new premises in Doetinchem in 2007. A new workshop was built in Amersfoort to maintain the trains on the Valleilijn.

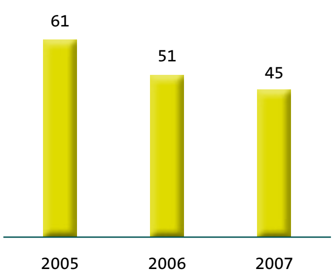
Following Connexxion's acquisition of Novio, a programme was launched in November 2007 to integrate Novio Techniek into TSN. Connexxion's acquisition of GVU led to close cooperation and hierarchical harmonisation between TSN and GVU's technical department during the year.

Figure 10: **Key figures for Techno Service Nederland**

Revenue before intercompany adjustments
(in millions of euros)



Number of locations



As from 1 January 2008 a repair manager will be appointed to take charge of all activities in this area.

Developments in revenue

Revenue before intercompany adjustments totalled € 99.1 million in 2007, slightly higher than the € 93.0 million reported in 2006. The loss of some of the maintenance contracts in North Brabant was counterbalanced by new contracts and the acquisition of Novio Techniek. Trade revenue fell by € 3.5 million following the termination of the Iveco and Renault dealerships.

Contracts

TSN has a strong position in the personal transport market. It is the clear market leader in the management and maintenance of public transport fleets. In 2007, TSN concluded a new contract with Connexxion to maintain the Valleilijn trains. A fleet management and maintenance contract was concluded with Arriva in East Brabant and Hoeksche Waard. TSN did not succeed, however, in retaining its contract with Veolia Transport in West Brabant.

Service and quality

TSN is fully customer-driven and is not tied to any specific car make. It can therefore effortlessly handle its customers' highly heterogeneous commercial vehicle fleets. Thanks to its many workshops, TSN can service vehicles close to its customers in keeping with the one-stop-shopping model. TSN is also ideally placed to perform specialist maintenance work, such as on air-conditioners in trucks, refuse collection vehicles, tankers and road sweepers, and also to fit vehicles with soot filters. TSN is ISO 9001 and ISO 14001 certified.

TSN seeks continuous improvements in its service standards. To this end, the Team TSN project was continued in 2007. Specific targets have been set to reduce interruptions to scheduled services, the number of breakdowns and the number of vehicles taken out of service, and to increase productivity. Flexibility is key. Several workshops, for example, also work in the evening and in the weekend when fewer buses are in operation. This ensures the highest possible deployment of vehicles for the benefit of the public. A project was launched during the year to enhance the processes at the central parts warehouse in Culemborg.

TSN's nationwide network of repair shops concentrates the capacity for major repair work at five locations. TSN has also formed a partnership with a repair firm, ABS Schadeherstel, thus guaranteeing nationwide coverage. The repair network was fully operational and working satisfactorily in 2007.

Good fleet maintenance and management stands or falls on the interplay between the customer and the maintenance company. In 2007, TSN worked with its customers to improve the notification of breakdowns and the availability of vehicles for maintenance and minor repairs. Further improvements are programmed for 2008.

The Connexxion Group piloted the Cosware vehicle management system in 2007. This software package replaces the four systems currently in use for vehicle management, workshop management and logistics. Cosware provides better process support, simplifies administrative processes and enhances the quality and depth of management information. From 1 January 2008, Cosware is fully operational.

Growth opportunities

TSN optimised its repair network in 2007. The network's nationwide coverage and its specialisation in several vehicle types make TSN an attractive partner for companies and organisations with medium-sized and large vehicle fleets. This provides TSN with opportunities for growth in the years ahead. In the medium to long term, there are also growth opportunities in maintaining trains. The maintenance contracts for the Valleilijn trains might be the first step towards a position in the regional train market. TSN will explore the opportunities further in 2008.

4.8 Corporate social responsibility

With more than one million customer contacts per day, Connexxion operates at the heart of society. We offer creative solutions to contemporary problems such as road congestion and the isolation of rural areas. We have sought to translate our social responsibility into a number of objectives in relation to our passengers, the contracting authorities and our staff. However, we have also formulated targets in relation to safety, health and environmental protection. Alongside these various objectives that are directly linked to our role as a passenger transport operator, Connexxion is are also keen to accept its corporate social responsibility in a more general sense.

The passenger

At Connexxion, it's all about the passenger. We are constantly seeking to further improve our day-to-day services, for example by pioneering the use of the public transport smartcard, by offering our passengers real-time travel information, both on board vehicles and at bus stops, and by improving the accessibility of our vehicles for passengers with an impairment. In order to sound out our plans and gain inspiration for new ideas, we maintain close contacts with a large number of lobby groups, such as the regional consultative platforms (ROCOV), the General Dutch Association for the Elderly (ANBO), the Expertise Centre for Consumer Participation in Regional Public Transport (OPC), the Consumers' Association, the Association of Dutch Public Transport Users (ROVER), the Protestant Old People's Association (PCOB), the Council for the Disabled and Chronically Ill People, and the Royal Dutch Touring Club (ANWB).

Our aim is to achieve a passenger satisfaction score of at least 7.5. Passengers rated their satisfaction level as 7.3 in 2006 (in public transport, source: Public Transport User Satisfaction Barometer). Customers satisfaction rates over the year 2007 will be available in February 2008. As a further target, we wish to attain annual average growth of 2% in passenger numbers. This is a target we easily met in 2007, when we recorded 4.5 passenger growth (2006: 2.8%).

Transport Authorities

We want the contracting authorities and concession granters to be just as satisfied with our services as our passengers, i.e. we would like them to give us a score of at least 7.5. The average score for Connexxion in 2006 was 6.5. Our excellent relations with concession granters and other transport authorities are built on continuous information sharing. For our part, we seek to bring this about by for instance further refining our Connexxion Extranet, a secure website that only concession granters are authorised to use.

Staff

At Connexxion, we treasure our human capital. With our workforce of more than 14,600 employees, we qualify as one of the largest employers in the Netherlands. Our HRM policy revolves around our desire to provide our staff with high-quality work. This means looking both at working conditions in a physical sense and at the nature of the jobs they have to perform. Priorities of our HRM policy are achieving a reduction in the rate of absenteeism, staff recruitment and training. Apart from running the various obligatory courses for staff, such as the course leading to the certificate of proficiency for taxi drivers, Connexxion also launched a management development programme that is designed to ensure that our staff maximise their potential. Our focus on quality of work is motivated by our belief that better working conditions result in a higher level of employee satisfaction. We aim to achieve an average job satisfaction rating of 7.5 across all divisions. For further information on the HRM policy for 2007, reference is made to Section 4.9 and the Annual Review of Safety, Health and Environmental Policy on page 138.

Safety

At Connexxion, we undertake to protect the safety of our employees, customers and passengers whom we transport, and that of all others who make use of our services. We accept our corporate social responsibility in this respect and seek to continuously improve our safety performance. At a corporate level, we have set down our commitment to safety in writing, in the form of a Safety Policy Memorandum. We have distributed copies of this Memorandum to both our staff and external stakeholders. Connexxion also set up a Safety Board, whose main purpose is to investigate any major safety-related incidents (or have these investigated), to draw lessons from these incidents and to further sensitise staff to safety issues. The Safety Board meets at least once a quarter. We have also formed a Crisis Management Team to deal with any major disasters.

Connexxion pursues a pro-active safety policy, aiming to continually improve performance in this field and prevent risks. Connexxion Taxi Services was awarded the OHSAS 18001 certificate at the end of 2006. In 2007, Connexxion's safety management system was also structured in the other divisions as per the requirements of OHSAS (Occupational Health and Safety Assessment Series) 18001. This in view of any further certification.

We signed the European Road Safety Charter with EU Commissioner for Transport Barrot in 2006. By signing this Charter, we at Connexxion undertake to put forth our best efforts to reduce the number of traffic casualties in Europe. Connexxion is the only Dutch public transport operator to commit to this Charter.

In the recently published Employees' and Passengers' Safety Monitor 2006 by the Ministry of Transport our drivers have awarded safety with a rate of 6.3 (2005: 6.4). At the same time our passengers value safety in the bus with 8.1 (2005: 8.0) and at bus stops with 7.7 (2005: 7.6).

Any Connexxion staff who are victims of aggressive behaviour at work receive professional support and counselling from their direct superiors; we have put victim-support procedures in place to this end.

Environmental protection

Our aim in connection with the quality of life and environmental protection is to minimise the environmental impact caused by our activities. We have defined our ambitions in relation to quality of life and environmental protection in our Environmental Policy Plan 2006-2009. This Plan commits us to pursuing a proactive environmental protection policy that assumes we comply with all our statutory obligations under environmental law as a minimum requirement, and also to improving our environmental performance and avoiding environmental risks. Our concrete objectives include a reduction in hydrocarbon (HC), carbon monoxide (CO), nitrogen oxide (NO_x) and particle mass emissions by 60% relative to 2002. In addition, it is our ambition to emit yearly 1% less carbon dioxides per kilometre (CO_2) through fuel conservation. More information on our environmental performance is given in the Annual Review of Safety, Health and Environmental Policy on page 138.

Connexxion is the sole Dutch passenger transport company to have been awarded the ISO-14001 certificate for its environmental management system, which system was adopted in order to incorporate our environmental policy into our operating processes. In 2007, the new units GVU and Novio were also certified as meeting the ISO-14001 standards. In the past year, we again invested in technologies for making our vehicles cleaner and more fuel-efficient. 62 per cent of our buses either are now fitted with CRT filters or have engines that comply with the Euro 4- or 5- or EEV standard. New buses are no longer fitted with separate CRT filters, given that these already form part of the new engines. We asked a bus manufacturer called VDL Berkhof to design a midibus especially for use on the North and Southwest Fryslân concession. This is a bus that emits fewer pollutants and consumes less fuel than a conventional bus.
In the reporting year, 69 of these new vehicles were put into use.

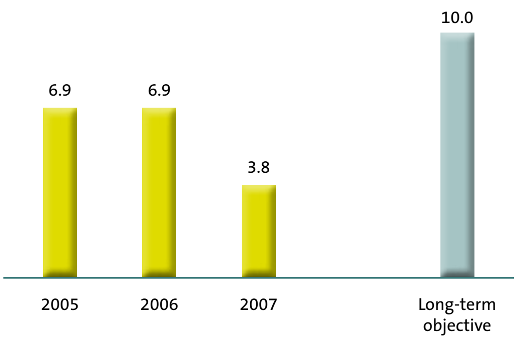
In 2007, in conjunction with Shell, we conducted an experiment with Gas to Liquids (GtL), a clean diesel fuel manufactured from natural gas. The results of the experiment are expected to be presented in the first quarter of 2008. At the end of 2007, in collaboration with TNO (the Dutch organisation for applied science), an investigation was started into the possibilities of reducing fuel consumption of the Fast Flying Ferries. This investigation will be finalised by mid 2008.

Profitability and continuity

Connexxion is a strategic long-term alliance of a wide range of parties all of whom have an interest in our activities. Our stakeholders are groups and individuals that, either directly or indirectly, affect, or are affected by, the achievement of the corporate objectives, and they include passengers, principals, employees, shareholders and other financiers, and suppliers, as well as government agencies and social interest groups. The Executive Board and the Supervisory Board share the full responsibility for weighing these parties' interests with a view to securing the continuity of the Company, whilst it strives to create shareholder value over the long term. Our return on capital employed has come under pressure as a result of the recent wave of contract award procedures. However, as all the local authorities (with the exception of those in the major cities of the Netherlands) have now put their transport concessions out to public tender, we expect to be able to move forward towards our long-term target.

Figure 11: **Return on average capital employed**

(as a %)



Corporate social responsibility projects

We are also pleased to put our knowledge, experience and resources to use in discharging our social responsibility in a broader sense.

At the request of the governments of Aruba and Surinam Connexxion contributes knowledge to the development of public transport services in these areas. A number of managers working for the Arubus transport company in Aruba and Surinam's National Transport Company took several internships at Connexxion Academy. In 2007, our collaboration with Surinamese transport companies and its government was further fleshed out during the successful conference on passenger transport and its economic significance for Surinam on 8 August 2007. This conference resulted in the formulation of an Action Plan for land-based passenger transport, which will provide an important stimulus for public transport in Surinam. Furthermore, in the past year, Connexxion staff members were seconded to Ghana to offer advice for the optimisation of public transport.

Connexxion's sponsorship policy targets young people, the arts and sports for the disabled. The contract with the CJP organisation (that issues special passes for young people entitling them to discounted admission tickets to arts-related events) was extended in 2007 with the aim of making the arts more accessible to young people. In 2007 Connexxion started 'Connexxion to Talent'. This office talents in the fields of arts and culture the bus as platform for their activities. In this respect we supported the project 'Connexxion to Fashion' , a joint effort with the Willem de Kooning Academy, which offered young potentials in fashion a stage for their examination assignments. This resulted in a spectacular fashion show centred around the theme of 'the Bus' in the city centre of Rotterdam on 17 May 2007.

The project 'Art on the Bus', a collaborative effort with Stichting Artes, aimed to acquaint passengers with various artists and art forms in several places around the country on 31 October, within the scope of the Day of the Art Library. On 6 December, the 'Poetry Slam on the Bus' event was organised. On this day, various poets introduced bus passengers to contemporary poetry art. This project was realised together with the Poetry Circus within the scope of the Dutch Poetry Slam Championship.

Connexxion Taxi Services again sponsored the DaimlerChrysler Open international wheelchair tennis tournament in 2007. Jointly with Achmea and World Vision, Connexxion set up an aids and devices line to Romania in 2007. Wheelchairs, rollators and other aids and devices, which have been written off in the Netherlands, can be put to use in Romania, where they are provided to those in need. Connexxion also offered a taxibus for transport for disabled people to be used in Morocco. For the patient transport in Surinam Connexxion gave an ambulance to Saint. Vincentius hospital and to the foundation Jetty Maturin for the Diaconessenhuis at Paramaribo.

4.9 Human Resources Management

This year again saw increased activity at the HRM department in order to help improve Connexxion's competitive strength. Jointly with management and in constructive dialogue with employee participation bodies and the trade unions, important organisational changes were initiated and realised. A number of them were already mentioned, such as the integration of Novio and GVU respectively, the restructuring of the Public Transport division and the new set-up of the Hermes organisation.

In the run-up to the privatisation, the Central Works Council, the trade unions and group management invested much time and effort in a proper progress of the process. An essential step in this process was the early identification of the prevailing preconditions for each party, based on each party's own responsibility. The extent of agreement among these preconditions held a great deal of promise for a successful completion of the privatisation process. This expectation was fulfilled. Within four weeks after the start of the binding opinion proceedings, the Central Works Council issued a positive advice for the intended share transaction between the State of the Netherlands on the one part and the Transdev/BNG consortium on the other. Subsequently, it took several weeks to finalise the covenants between the parties involved, for instance within the scope of the SER merger code.

The underlying assumptions of these covenants were job guarantees and guaranteed terms and conditions of employment, all in all a process illustrating the good relations between Connexxion and the employee representatives.

The increasing shortage of driving staff constitutes a major challenge for Connexxion in general, and for HRM in particular. The causes are multiple and interact with each other. The economic expansion leads to increased labour demand, the concessions put out to tender within the scope of the introduction of market forces often lead to an increase in jobs, and last but not least both the sector and Connexxion face an increasing average age of staff.

These developments are the main reason why we decided to pool all staff recruitment & selection activities of executive staff within Connexxion across all divisions. This allows us to combine all requisite knowledge, resourcefulness, energy and creativity in order to meet the challenge of the increasing staff scarcity head on. Age awareness shall start playing a larger role in HR policy. We will have to make it possible for aging employees to the continue to work for the Company in good health.

Finally, we have focused on management development and management continuity. In 2007, we further rolled out the current MD programmes. At the end of the year, the MD Committee, in which the Executive Board members participate, became operational. Current programmes will be evaluated in 2008, leadership and coaching programmes will be added and strategic policies will be developed, focussing on inflow, mobility and outflow of management staff. In this respect, we will aim for a further professionalization, increased quality and management continuity.

The Management Committee again presented a 'Manager of the Year' Award in 2007. The title is intended to act as an incentive for the group's middle managers and is awarded to a manager who has achieved outstanding results with a combination of exceptional leadership skills and resourcefulness. Last year's winner was Ronald van der Geer, the manager of TSN's Schiphol and Uithoorn locations.

Figure 12: **Breakdown of staff employed by operating company**

(at year-end, nominal)

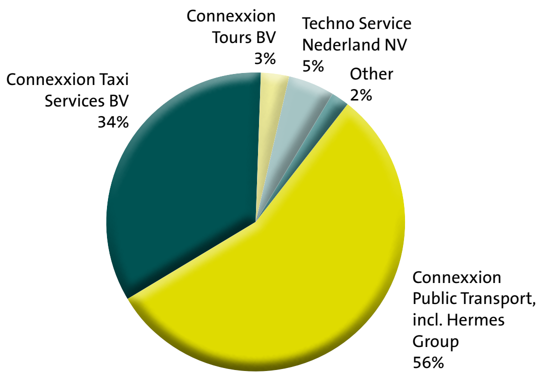


Figure 13: **Length of service**

The average length of service with Connexxion was 12.9 years in 2007 (2006: 13.3 years).

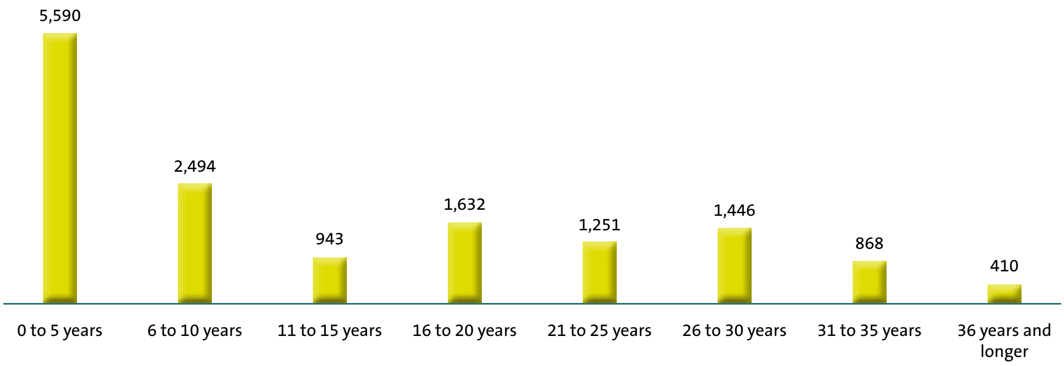
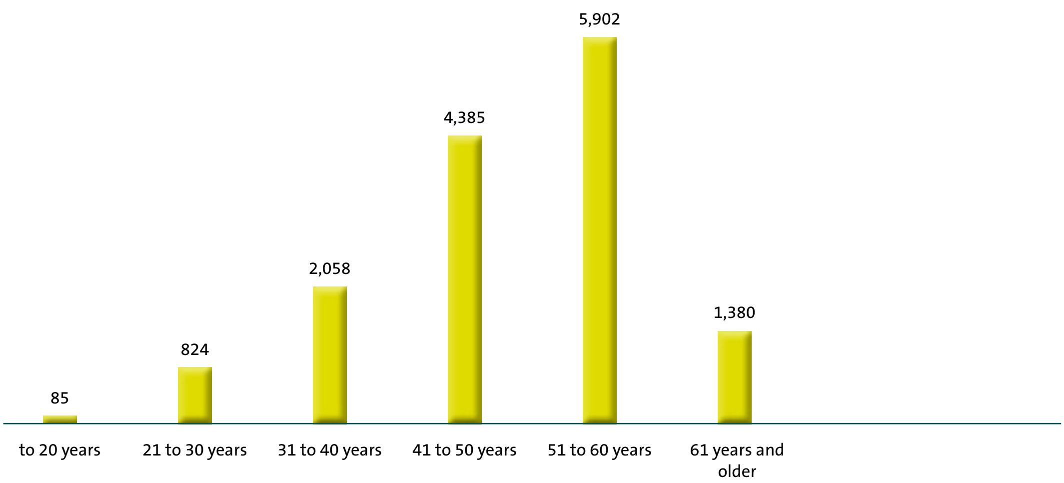


Figure 14: **Age breakdown of staff**

The average age of Connexxion staff is 48.9 years (2006: 48.6 years).

The following graph shows the age breakdown.



4.10 Corporate Governance

Introduction

Connexxion subscribes to the principle of the Dutch Corporate Governance Code, i.e. that a company is a long-term alliance of a number of different parties. These parties are the entities and groups which and the individuals who, either directly or indirectly, help the Company to achieve its objectives or are affected by the way in which the Company achieves its objectives. They include in any event the passengers, principals, customers and staff of the Company, its shareholders and other providers of capital, its suppliers, local government authorities and social groups. The Executive Board and the Supervisory Board share the full responsibility for weighing these parties' interests with a view to securing the continuity of the Company as a whole. The Company's aim in doing so is to create shareholder value in the long term and to forge an intensive collaboration with Transdev in the form of an Alliance.

Connexxion Holding NV is a statutory two-tier company incorporated under Dutch law, albeit that the two-tier regime only partially apply, due to the previous policy of the former sole shareholder, the State of the Netherlands, relative to its wholly-owned investments.

In addition, the provisions from Chapters III and IV of the Code are not applied insofar as they specifically relate to the one-tier regime and listed companies respectively.

Each year, Connexxion outlines the corporate governance structure in its annual report and puts any substantial changes to it to the General Meeting of Shareholders for discussion.

Annual General Meeting of Shareholders

An Annual General Meeting of Shareholders is held every year. Other shareholders' meetings may be held at the request of the Executive Board, the Chairman of the Supervisory Board or Connexxion's shareholders.

The agenda is compiled by the person or body convening the meeting. The shareholders are entitled to propose motions up to 30 days before the date of the meeting. Resolutions are passed by an absolute majority of votes, unless either statutory regulations or the Company's Articles of Association call for a qualified majority.

The declaration and payment of a dividend and the retention of earnings are separate items on the agenda of the General Meeting of Shareholders. The granting of discharge to the Supervisory Board and the Executive Board from liability for the management conducted and the supervision of the Executive Board respectively, are also separate agenda items. The Company's policy is to inform the Annual General Meeting of Shareholders about all facts and circumstances that have a bearing on the granting of approval to or the delegation of powers or authority to the Supervisory Board or the Executive Board. The Executive Board and the Supervisory Board are required to provide the General Meeting of Shareholders with all the information it requests such as may be necessary to allow it properly to perform its role as a shareholder, unless and insofar as there are compelling reasons in the Company's interests for not doing so. The Company consults with representatives of the shareholder about the corporate performance once every quarter.

Supervisory Board

Duties

The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at the Company and its business units, and advises the Executive Board. The Supervisory Board evaluates the organisational structure and the control mechanisms put in place by the Executive Board. The Supervisory Board as a whole is responsible for ensuring that it discharges its responsibilities properly. The members of the Supervisory Board are entitled to take divergent views from those held by the Executive Board. The Supervisory Board performs its duties in the interests of Connexxion and takes all relevant interests into account in reaching its decisions. The members of the Supervisory Board have no mandate and do not hold any interests in the Company. They should not support the interests of any one party without taking account of the interests of all other parties. The Supervisory Board is given all the information it needs in good time. The Supervisory Board is responsible for its own effectiveness.

Appointment

The General Meeting of Shareholders appoints Board Members on the nomination of the Supervisory Board. The Shareholders Agreement between Transdev-BNG and the Dutch State contains the provision that Transdev-BNG may propose for nomination three out of five Supervisory Board Members, two by Transdev – one close to Caisse des Dépôts stakeholders, one close to Franco-Dutch transport stakeholders – and one by BNG. One candidate may be proposed by the State and one by the Central Works Council. The Supervisory Board is aware of this provision and will take it into account. By absolute majority of votes, representing at least one third of the issued capital, the General Meeting may pass a motion of no confidence in the entire Supervisory Board. Such a resolution results in the immediate discharge of the members of the Supervisory Board.

Supervisory directors are appointed for a maximum period of four years, after which they are eligible for reappointment, on the understanding that no single Supervisory Director may sit on the Supervisory Board for more than three terms or, where applicable, twelve years. Supervisory Directors retire in the year in which they reach the age of 70. The Supervisory Board consists at least of three and at most seven members. At the end of the year under review, the Supervisory Board consisted of five members.

The Supervisory Board appoints one of its members as its Chairman. The Chairman is responsible for the effective operation of the Supervisory Board and its committees. The Chairman is also responsible for ensuring that the members follow an introduction course and for initiating performance appraisals for the Supervisory Board and the Executive Board.

Profile, committees and retirement schedule

The Supervisory Board draws up a retirement schedule for its members (see table on page 60).

The profile for the Supervisory Board consists of a number of characteristics, based on the nature of the activities performed by the Company, the degree to which it operates in foreign markets, the size of the Company and the risks associated with its operations. The members should operate independently of each other, should be critical of each other and should have confidence in each other's integrity. The members should have experience in managing a company of at least the same size and complexity as Connexxion and should have sufficient time in which to fulfil their duties as Supervisory Directors.

Notwithstanding the Supervisory Board's joint responsibility, the Company's Supervisory Board needs to possess knowledge and experience in the following fields (partly in combination with each other) in order to be adequately composed:

- experience in managing one or more companies operating in the logistic services market;
- experience in managing one or more companies supplying consumer services;
- experience in managing one or more international companies;
- experience with management and organisational development in commercial organisations;
- financial and IT expertise;
- senior-level public managerial or policy-making experience in the field of government policy as is relevant to the Company;
- expertise in industrial relations.

The members should preferably possess expertise in company law and/or European law, IT and any other field that has a bearing on the Company's successful development in a competitive market.

In accordance with the Dutch Corporate Governance Code, the current members of the Supervisory Board do not hold more than five Supervisory Directorships with listed Dutch companies. The Chairmanship of a Supervisory Board counts double in this respect. No new members of the Supervisory Board will be appointed who hold more than five supervisory directorships.

The Supervisory Board has a Selection & Nomination committee, a Remuneration Committee and an Audit Committee.

The Selection & Nomination Committee selects candidates and nominates them for appointment as members of the Supervisory Board and the Executive Board.

The Remuneration Committee advises the Supervisory Board on the remuneration policy for the Executive Board and on the remuneration of individual members of the Executive Board.

The Audit Committee supervises all activities relating to financial reporting, risk management and internal control systems, the work of external auditors, compliance with statutory regulations and the role and findings of the Internal Audit Department. The Audit Committee discusses the activity plan for the Internal Audit Department, on which the external auditors are also consulted. As a rule, the responsible financial executives, the head of the Internal Audit Department and the external auditors are invited to attend the Audit Committee's meetings. The Audit Committee advises the Supervisory Board on the appointment of the external auditors and discusses their fees and independence. It meets at least once a year with the external auditors at a meeting at which the members of the Executive Board are not present.

Executive Board

The Executive Board manages the Company under the supervision of the Supervisory Board. In principle, the Executive Board meets regularly to discuss strategy and operational issues, to approve proposals and to take decisions. The Company consists of a number of divisions and operating companies that are supported by corporate support departments. The Executive Board discusses all major developments with the managing directors of the divisions, operating companies and corporate support departments. Our reporting structure is in keeping with the management structure for the various business units, and the legal structure has been brought largely into line with the reporting structure.

The Executive Board regularly reports to the Supervisory Board, and discusses corporate policy with the latter. At least once a year, the Executive Board presents the Supervisory Board with a document setting out the strategy, the parameters for the strategy and the operational and financial objectives that the strategy is intended to achieve. The main points of the strategy are set out in the corporate profile on page 5.

Part of the so-called Shareholders Agreement is a document named Note on Corporate Governance dated April 2007 and a document named Strategic Vision and Corporate Governance of Transdev+Connexxion dated June 2007. The second document is the result of an exchange between the Executive Boards of Transdev and Connexxion, which was finalised on 19 June 2007 prior to acceptance by the main shareholders of the binding offer dated 27 April 2007. It substitutes the aforementioned Note. However, all principles expressed in the Note remain valid, unless modified by the second document. These two documents partly relate to matters of vision concerning the long-term strategy and the concept of the alliance and partly to governance matters of the enlarged group created by the alliance. With respect to the Supervisory Board of Connexxion, among others the following was noted: "The language of the Supervisory Board meetings and of the reporting to the Supervisory Board will generally be English".

The management continues to be subject to the supervision of the Supervisory Board, fully consistent with the current governance rules and in accordance with the partially applicable two-tier regime.

With respect to the management of the enlarged group created by the alliance, among others the following was stipulated: "The enlarged group will be led by the Comex (Executive Committee), which will have responsibility at the corporate level and be in charge of:

- defining the strategy;
- monitoring the commitments of the group, mainly for the development;
- controlling operational performance;
- managing the risks;
- deciding the budget and business plan of the group.

At the beginning of the alliance, the Comex will be composed of:

- the group President;
- the group CEO;
- the CEO of Connexxion, group vice-CEO, in charge of international strategy, business development and procurement;
- the COO of Transdev, in charge of product innovation and development;
- the COO of Connexxion;
- the group CFO.

The Public Affairs Director, Secretary of the Comex, attends the Comex meetings. The Comex will review major projects and operations as well as the performance of Connexxion and Transdev and their respective strategic business plans and budgets. In this new structure, the Comex will pay special attention to cross-fertilization and synergies. Comex meetings will also periodically focus on business reviews and group affairs.

A decision resulting from Comex meetings will by definition need to be subject to Connexxion governance rules. As such, the decision is fully under the reach of its Supervisory Board and other internal approval and consultation rights for that matter (e.g. Works Council) like any other management board decision. Other bodies will be needed to ensure that all views are taken into consideration and that all members of Transdev+Connexxion have their say in the future of their group. This could include for instance joint meetings of the present management boards of both companies and other bodies to be further defined.

With respect to future acquisitions, it is stipulated as follows: “Connexxion’s company acquisitions are submitted to governance rules, which imply collegial decisions, arbitraged at the highest level and, very often, full reviews of the proposed projects by several shareholders, through “investment committees”. These processes are strictly imposed by Transdev’s current shareholders, but are also justified by Transdev experience; international growth (through tenders or acquisitions) is risky. This is why all acquisition projects, whether at Transdev or at Connexxion will need to be submitted to the Comex and, often, to investment committees.”

By virtue of the mitigated applicability of the two-tier regime, the General Meeting of Shareholders appoints (and discharges) the members of the Executive Board. The Supervisory Board appoints the Chairman of the Executive Board and defines the responsibilities of the individual members of the Executive Board in consultation with the Executive Board itself. Irrespective of their individual responsibilities, the members of the Executive Board together constitute a single body that has a shared responsibility. The Supervisory Board has decided that, in addition to decisions that must be submitted to it for approval in accordance with statutory regulations or the Company’s Articles of Association, certain other decisions should also be submitted for approval to the Supervisory Board. The Supervisory Board has devised procedures and compiled an authorisation table for this purpose.

All conflicts of interest, whether actual or potential, between the Company and members of the Executive Board should be avoided. Members of the Executive Board are required to report without delay any material or potential conflicts of interest to the Chairman of the Supervisory Board and to the other members of the Executive Board. Where a conflict of interests arises, the Chairman may decide that the member or members in question should refrain from voting or should not attend all or part of the relevant meeting or should not receive any documents relating to the issue at hand.

Policy on the remuneration of members of the Executive Board of Connexxion Holding NV

The Company’s remuneration policy is designed to enable the Company to recruit qualified and skilled officers, to motivate them and to retain them by paying them a salary that is in line with current practices in the industry. Although Connexxion mainly operates as a service provider to the public sector, the Company should be regarded as a commercial and market-oriented company and not as a classic utility company whose top management is remunerated as per standards of the government or the public domain. Their remuneration should be competitive relative to the market for top management in the comparable business community. This principle also applies to the members of the Executive Board. A review is conducted every year to see whether the remuneration of the members of the Executive Board is in line with this principle. This review is performed by the Supervisory Board’s Remuneration Committee, as a preparatory task, and they are assisted where necessary by external consultants. In the end, the Supervisory Board itself is responsible for setting the remuneration of Executive Board members, based on the remuneration policy and the actual recommendations made by the Remuneration Committee.

The General Meeting of Shareholders adopts the remuneration policy. The remuneration policy of Connexxion Holding NV has been in effect since 1 January 2005. The Supervisory Board has decided to honour the contracts and remuneration agreed with the members of the Executive Board appointed prior to this date. The remuneration policy shall only apply insofar as it is not in contravention of contractual provisions agreed upon earlier.

Fixed annual salary

The members of the Executive Board receive a fixed annual salary that is commensurate with their individual responsibilities. The General Meeting of Shareholders defined a peer group, which took place for the first time in the 2005 meeting. The peer group was formed in such a manner that all aspects relevant to the managing of Connexxion are represented in its composition. The fixed salary will be based on this peer group and should, in principle, not exceed the median for this group. In order to objectify the outcome of this peer group comparison, it is also compared with the median for the general executive market, as monitored by external specialists. In addition to their fixed annual salary, members of the Executive Board are also entitled to certain emoluments, such as a flat-rate expense allowance, a travel allowance, a telephone allowance and the other customary benefits applying to many members of staff.

Pensions

The pensions of the staff of Connexxion Holding NV and its operating companies are defined-benefit pensions that are insured with various industry-wide pension funds. The staff of Connexxion Openbaar Vervoer NV, Connexxion Nederland NV and Connexxion Holding NV and the members of the Executive Board are members of the compulsory industry-wide pension fund for the public transport sector. This fund has operated an average-earnings scheme since 1 January 2005 which is based on a pensionable age of 65.

Variable pay

In addition to their fixed annual salaries, the members of the Executive Board are also eligible for two types of variable pay consisting of a short-term and a long-term component. The short-term component, otherwise known as the annual bonus, is intended to act as an additional incentive in encouraging the members of the Executive Board to meet the targets set out in the annual plan as well as a number of targets separately agreed upon. The long-term component is intended to foster company loyalty of members of the Executive Board and to create shareholder value. The two forms of variable pay do not lead to any corresponding pension entitlements.

Short-term component

The value of the annual bonus has been set at 30% of the fixed annual salary, provided that the recipient has met all the relevant quantitative and qualitative targets.
The annual bonus may be raised to a maximum of 45% of the fixed annual salary if the recipient has performed well in excess of the targets set.

Two thirds of the value of the short-term bonus is linked to the meeting of targets set out in the annual plan approved by the Supervisory Board. This is formulated as a series of quantitative targets applying to all members of the Executive Board in accordance with the following table:

Meeting of targets in annual plan	**Bonus**
< 85%	nil
85%	10%
100% (standard)	20%
> 115% (maximum)	30%

If the degree to which the targets are met falls between the percentages set out above, the bonus is calculated on a pro rata basis.

One third of the value of the short-term bonus is linked to the meeting of qualitative targets set each year by the Supervisory Board. Individual targets are set for each member of the Executive Board. A bonus of 10% is awarded if the member in question meets the standard target. A maximum bonus of 15% may be awarded if the member in question performs in excess of the standard target.

No short-term bonus is paid if the aggregate value of the bonus, based on the attainment of both quantitative and qualitative targets, is less than 15%. The short-term bonus is paid together with the recipient's monthly salary in the month following the relevant Annual General Meeting of Shareholders.

The bonus is paid net of tax and social security contributions. Should the contract of employment of a member of the Executive Board either take effect early or be terminated prior to year end, the short-term bonus will be calculated on a pro rata basis and paid following the approval of the financial statements for the financial year in question.

Long-term component

The aim of the annual long-term bonus is to foster the Executive Board members' loyalty to the Company in the long term by allowing them to share in the growth of the Company's value, and also to create shareholder value.

The growth of the Company's value is calculated each year on the date when the financial statements are approved, and is based on the three preceding years. The calculation will be performed for the first time when the financial statements for 2007 are adopted, when the figures for 2007 will be compared with those in the financial statements for 2004.

The Company's value is calculated in the following way. The Company's profit before exceptional items (including amortisation and pension surpluses and deficits), interest and taxation is multiplied by a fixed factor, which may change only in the event of the sale of all or part of the Company. The resultant value on 31 December of year 1 (the baseline value) is compared with the corresponding value on 31 December of year 3. The percentage increase in the value of the Company during a period of three years is then applied to the fixed annual salary earned in the final year of the three-year period. This calculation generates the long-term bonus for the period in question.

The bonus is payable on an interim basis if the Company is fully sold.

The long-term bonus is paid together with the recipient's monthly salary in the month following the relevant Annual General Meeting of Shareholders.

Only full calendar years count towards the calculation of the bonus. In the case of an Executive Board member joining the Board in the first half of 2005, this year counts as a full calendar year. Executive Board members lose their entitlement to a long-term bonus if they voluntarily resign their contracts of employment.

Duration of contract and period of notice

The contract of employment signed with Mr P.J.Ph. Kortenhorst is of unspecified duration and subject to a term of notice. This contract will be honoured and is therefore not subject to this remuneration policy. Mr F.I.G. Janssen was appointed for a four-year period. Future appointees to the Executive Board will be appointed for a period of four years as well. The members in question may be reappointed by the competent body when their contracts expire at the end of this four-year period.

Severance payments

Mr P.J.Ph. Kortenhorst is entitled to payment of compensation if his contract of employment is terminated on an involuntary basis. The amount of compensation payable is subject to a minimum value and is related to the judgments given in comparable cases in the past.

Mr F.I.G. Janssen will be granted a severance payment of one fixed annual salary maximum. If the contract of employment of the involved member of the Executive Board is terminated during the first four-year period of his or her employment, and it would be manifestly unreasonable for him or her to receive a severance payment representing the annual salary, a maximum severance payment may be awarded representing twice the value of the annual salary.

Other points

New members of the Executive Board are eligible for a one-off removal allowance.

The Company does not grant any loans or mortgages or issue any guarantees or similar financial instruments, nor remit any outstanding debts.

The contract of employment signed with the relevant member of the Executive Board is the only valid legal arrangement made with the member in question. No rights may be derived from the remuneration policy formulated by the Company. All arrangements made with members of the Executive Board prior to the formulation of the Company's remuneration policy will be respected.

Audit of financial statements and role of external auditors

Connexxion's financial statements are audited by external auditors. The external auditors attend the meetings of the Supervisory Board at which the annual and half-yearly figures are discussed. They also attend the relevant meetings of the Audit Committee. The Company's external auditors are appointed each year by the Annual General Meeting of Shareholders. Since 2005, the external auditors have also attended the Annual General Meeting of Shareholders so that the shareholder can question them about the auditors' report. An arrangement was made with the external auditors that the lead partner may not be responsible for auditing the Company's accounts for a period of more than five years.

Every year, the Audit Committee assesses the fee charged by the external auditors and checks whether this fee relates to the financial statements or to other activities connected with the audit work performed by the external auditors.

Every year, the Audit Committee and the Executive Board discuss the role and effectiveness of the external auditors, as well as the engagement granted to them.

The Supervisory Board is informed of the outcome of these discussions. Once every four years, an in-depth review is held of the work of the external auditors, the principal conclusions of which are presented to the Annual General Meeting of Shareholders. The Annual General Meeting of Shareholders uses this information to reach a decision on the proposal for the appointment of the external auditors.

Dividend policy

The dividend policy is aimed at maximising shareholder value. Connexxion wishes to optimise its capital position in order to remain strong enough to safeguard its position on the passenger transport market. The Company's dividend policy is subject to a review based on the expected future trend in the ratio of the net debt to the EBITDA, and the interest coverage ratio. These ratios are primarily dependent on the level of capital expenditure. It is on the basis of these financial frameworks, which must at all times be in line with the industry trend, that the Company sets the level of its retained earnings and the dividend to be distributed. The aim however will be to distribute 50% of the net profit attributable to the shareholders of Connexxion Holding NV.

Code of conduct and whistleblowing procedure

Connexxion is a service provider. Both passengers and concession granters rely on our providing a reliable and punctual service. For this reason, reputation is a key factor in this respect. The personal integrity of our directors, managers and staff is the foundation stone underlying the quality of our organisation, the services we supply and our reputation.

We have taken additional measures to safeguard our integrity by adopting a code of conduct and a whistleblowing procedure.

Our code of conduct applies to all our staff and is intended to make clear what exactly the Company expects from them in terms of ethical standards of behaviour. The code applies not just to their relations with each other, but also to their relations with customers, concession granters, suppliers and other stakeholders. The code of conduct mentions a compliance officer, i.e. the Legal Affairs & Risk Management director.

The whistleblowing procedure is intended to enable staff to report any suspicious practices of a general, operational or financial nature. The procedure describes the right and obligations of an employee who wishes to report what he or she believes to be a malpractice. The procedure also sets out the obligations of management in this respect. Staff using the whistleblowing procedure to report alleged improprieties can do so in the knowledge that they are not placing their jobs in jeopardy. We asked Mr A.H.M.C. Walravens, a former Chairman of our Supervisory Board, to act as a confidential adviser to whistleblowers, and he agreed to do so. Both the code of conduct and the whistleblowing procedure have been posted on our website.

4.11 Risk profile

During the year under review, we again performed a risk analysis for our operational divisions and the support units Fleet, Property Management and Facility Services. We also mapped out the risk management measures to be taken. The following specific risks were identified:

Political environment
The Dutch government's policy in the field of public transport became less clear-cut in 2007. Subject to strict conditions set by the European Commission, local transport contracts no longer have to be put out to tender for the G3 cities (Amsterdam, Rotterdam and The Hague). Compliance with these conditions by the G3 cities could have a major impact on the market in which Connexxion operates.

In addition, the State Secretary of Transport and Water Management decided to raise the price of the national multi-journey bus and tram ticket, known locally as Nationale Strippenkaart, by 2.5% in 2008, instead of the 3.1% as proposed by representatives of transport companies, public transport contracting authorities and consumers' associations. This has major consequences for the passenger transport revenue in 2008. In addition to the lower price indexation for the bus and tram ticket, 2007 saw and 2008 will see a disappointing indexation of government contributions compared with cost development in the sector. If indexations of passenger transport revenue and government contributions are not more in line with cost development in the coming years, this will put further pressure on future performance or service levels.

Tight conditions on the employment market
Since we have been awarded new transport concessions and thus need to expand our services, we are continuously on the look out for new staff. In particular in the large cities, the Company has to deal with tight conditions on the employment market, however. Staff scarcity has led to the Company hiring in subcontractors and temporary staff. This did not contribute to the quality of our services in all cases, and caused additional costs. In the future, this problem will become even more serious in view of the relatively high average age of our staff.

Market forces
The introduction of market forces has produced a number of risks and/or uncertainties in relation to (a) our market share, (b) our competitiveness and (c) the size of the market as a whole.

The concessions put out to tender in 2008 may well have a significant impact on the market share of Connexxion's public transport operations. In 2008, some 32% of Connexxion's public transport revenue is due to be put out to tender. As in previous years, a specialised tender team will be used. In recent years, the team has sufficiently demonstrated an ability to win bid procedures.

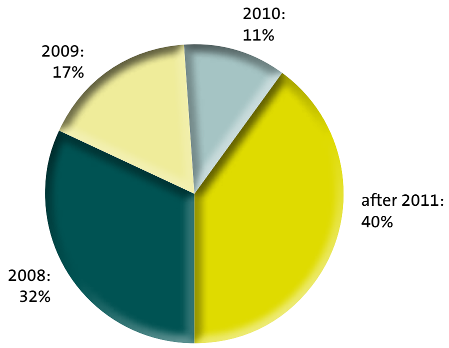
Our competitiveness will suffer if we do not succeed in raising the efficiency of both our staff and our vehicles. We will further work on the existing ideas on productivity improvements in the coming year. We need to further improve the use we make of our vehicles by tightening up our capacity management practices and reducing both the amount of time spent on maintenance and the frequency with which maintenance is performed.

The Taxi Services division is feeling the effects of increasingly fierce competition from a range of operators, both existing and new, some of whom appear to be tendering for contracts with the sole purpose of keeping their heads above water. Nonetheless, neither the Public Transport division nor the Taxi Services division has abandoned its profitability criteria in the face of market pressure. The Taxi Services division also uses a professional, specialist tender team so that it can submit competitive tenders.

The fact that the markets for both large-scale and small-scale transport services work with long-term contracts serves to mitigate the above risk posed by fiercer competition. The figure below shows how much of the revenue earned by Connexxion Public Transport is due to be put out to tender in the coming years. Many of the contracts signed by the Taxi Services division are for periods of at least three years, whereas the contracts for public transport services generally have terms of eight years.

Figure 15: **Expiry dates of contracts signed by Connexxion Public Transport, GVU, Hermes Group and Novio**

(as a % of revenue)



Growth in passenger numbers

Growth in passenger numbers will be stimulated by the introduction of the public transport smartcard.

The public transport smartcard will enable passengers to travel by all modes of public transport with one single ticket. The electronic card works with credit balances and season tickets, and can easily be recharged at stations and through Internet applications. The convenience offered by the public transport smartcard is expected to raise the number of passengers. The nation-wide introduction of the smartcard and the phasing out of the Strippenkaart is scheduled for 1 January 2009. Possible postponing the introduction of the smartcard would not only cause a further increase in project costs, but will also mean that Connexxion's increase in passenger numbers (thanks to the convenience offered by the smartcard) will be realised at a later stage.

In general, the profitability of concessions may well come under pressure if Connexxion does not succeed in increasing the number of passengers. We should be able to demonstrate, not just to contracting authorities, but also to non-passengers and passengers who can choose from different travel options, how attractive our transport solutions are by offering appealing transport plans, combined with improved passenger information, differentiated prices and a high standard of service and vehicles.

4.12 Management control system

Corporate culture

Connexxion has formalised its core values in a Code of Conduct, setting rules for dealings with suppliers, for instance. In addition to said Code of Conduct, we have a procedure in place for challenging unethical behaviour. Within this scope, the Company appointed a Grievance and Ethics Committee and adopted whistle-blowing procedures.

Our internal processes have been defined and recorded in an easy-to-access process portal. Sets of duties lay the foundation for our job descriptions. In addition to describing duties, the job descriptions also include authorities and powers, and the related responsibilities. The job descriptions are formalised in the Connexxion job book. At Connexxion, we adhere to a strict authorisation procedure, which is based on the use of dual signatures or authorisations. Our Basware automated payables system translates this into authorisations at individual level.

Our selection & recruitment process incorporates safeguards to ensure that we recruit well-qualified employees. Connexxion interviews, regular planning meetings and performance appraisals give us the opportunity to underline any deficiencies in an employee's qualifications that might stand in the way of current performance or promotion. Through Connexxion Academy, we offer training courses for drivers and mechanics, as well as for support staff.

Connexxion advocates an open corporate culture, where employees are committed to the Company. This ambition comes with continuous improvements as well as incidental errors. The upside is that people can be held accountable for keeping their promises and achieving their targets.

Risk assessment

Further to the Strategic Plan 2008-2010, we have defined our mission and vision in the Business Plan 2008-2012. This plan takes a bottom-up approach in steering the divisions. The main features of the Business Plan were not only shared with staff representatives, but are also communicated to all our employees through the Connexxion's staff magazine.

At Connexxion, we place reliance on the professionalism of our employees to translate developments in the external environment to our own organisation. This is periodically followed up at divisional level through risk identification. Any risks identified are recorded in risk maps, together with actions and responsibilities. These risk maps are discussed in the Executive Board's quarterly assessment of divisional developments.

Control and monitoring

The process portal described earlier not only contains the primary and supporting processes, but also the management processes. The processes relative to management control form part of said processes in the process portal. Our divisions translate the Business Plan 2008-2012 into annual plans. These annual plans are compared with the divisions' actual performance on a monthly basis, both by the divisions and, to a lesser degree of detail, by the Executive Board.

Information technology is becoming increasingly important for Connexxion's primary business processes. The year 2007 saw the implementation of a vehicle management system that supports the primary processes of TSN in an improved fashion. This system will be operational with effect from 1 January 2008.

In order to guarantee reliable financial records, the accounting manual provides details of our accounting principles. Our key accounting principles are set out in the notes to the financial statements.

Connexxion has an Internal Audit Department. As part of our control mechanisms and business assurance processes, an annual audit plan is drawn up to identify key business processes and the related risks. The plan is implemented by our internal and external auditors working in unison. They carry out audits of the financial reports and check whether operational policies and procedures are in place and enforced. They both issue formal reports. The Internal Audit Department reports to the Chairman of the Executive Board, and issues regular reports to the Audit Committee of the Supervisory Board.

Information and communication

We communicate with our employees through a broad range of staff magazines, including Connexxion's, OVxxtra, Contaxxi and TSN Nieuws. In addition, we exchange information through our intranet. Staff meetings, progress meetings and so-called Connexxion interviews are other ways in which we cascade information throughout the organisation. In addition, bilateral contacts and several consultative committees are essential in communicating our objectives and securing feedback on our corporate strategy.

Divisional management's assessment of risk

In order to give the Executive Board additional guarantees that the internal control guidelines and procedures are being observed throughout the group, all divisional executives are required to sign a letter of representation attesting that the internal structure and the related controls, the system of risk assessment, the communication and information provision procedures, and the periodic monitoring of these elements provide reasonable assurance that the strategic and operational targets of the division will be achieved, that the internal and external financial and other reports are reliable, and that the division complies with all the relevant rules and regulations.

The system works on the assumption that the data supplied by the executives concerned are treated as critically as possible.

4.13 Executive Board's assessment of risk management and internal control

Taking account of the above, and having thoroughly discussed this mater with the Supervisory Board's Audit Committee. The Executive Board believes that the Company's internal structure and the related controls, its system of risk assessment, its communication and information provision procedures, and its periodic monitoring of these elements provide reasonable assurance that:

- the Board of Management is aware of the extent to which the Company has achieved its strategic and operational objectives;
- the internal and external financial reports are reliable;
- the Company complies with the relevant laws and regulations.

Although there are no indications that our risk management and internal control systems will not operate properly in 2008, this remains the object of our constant attention.

The phrase 'reasonable assurance' is taken to mean the level of assurance that would be provided by a careful manager acting in the same circumstances. However well internal risk management and control systems may operate, they can never provide absolute assurance that a company will always be able to achieve its strategic, operational, reporting and compliance targets.

In reality, decisions are never free of errors of judgment, costs are inevitably weighed up against benefits whenever risks are accepted and controls put in place, even simple errors or mistakes resulting from human failure may cause significant losses, members of staff may contrive to circumvent internal controls and, finally, managers may ignore the agreements made with the Board.

Hilversum, The Netherlands, 21 January 2008

Executive Board Connexxion Holding NV

Peter Kortenhorst	Frank Janssen
Chairman	COO

Together with the Willem de Kooning Academy, Connexxion organised a unique event on 17 May 2007. Students of this Academy used the bus as a stage for their clothing designs during a spectacular fashion show in the city centre of Rotterdam.

“The entire street turned out for it!”

Monique de Ruijter, driver of our Krimpen a/d IJssel branch

Techno Service Nederland has 12,500 vehicles under maintenance. Safety for our passengers, drivers and other road users is the focal point.

“Safety is our priority number 1, 2 and 3”

Levent Coklu, mechanic at our workshop in The Hague

Supervisory Board

C. van Eykelenburg (1952)

Carel van Eykelenburg is a member of the Executive Board of N.V. Bank Nederlandse Gemeenten (BNG) since January 2005, where he holds the position of CFO. From 2001 until 2005 he was president of the Executive Board of N.V. MN Services, the second largest service provider for pension funds (asset management and administration) in The Netherlands. From 1998 until 2001 he was the CEO of the largest private pension fund in The Netherlands (PMT). From 1994 until 1998 he was president of the Informatie Beheer Groep, a government agency for student financing and administration. Before that period he was deputy director of international cooperation at the Ministry of Education and Science and the chief of staff to the Minister of Education and Science in The Netherlands. He studied Chemical Technology at the University of Delft and he holds a doctorate in Science (mathematical biology). Carel van Eykelenburg is member of the Supervisory Boards of Codarts (University of Professional Arts Education), GITP International (HRM Consultancy), BOEi (Property Development) and HEC (ICT and Strategy Consultancy). Furthermore he is a member of the Advisory Board of Euronext. From 1996 until 2002 he was president of the Dutch Study of Public Management.

F.N.P. Gagey (1956)

Frédéric Gagey is a graduate of the École Polytechnique and the École Nationale de la Statistique et de l'Administration Economique (ENSAE). He also holds a Masters in Economics from the Université de Paris 1. Gagey started his career at the French Bureau of Statistics (INSEE) and the French Ministry of Finance. From September 1994 until April 1997, he served as Vice President - Budget & Control at the French domestic carrier Air Inter. After the merger between Air Inter and Air France in April 1997, Mr Gagey became Vice President for privatization and financial communication for Air France. In June 1999, Frédéric Gagey was named Air France Vice-President Finance. Mr Gagey joined the Board of Managing Directors on January 1, 2005 and became Managing Director & Chief Financial Officer of KLM NV. and member of the Executive Committee Air France KLM. Mr Gagey is also a member of the Supervisory Board of Martinair.

M.J.L. Jonkhart (1950)

Marius Jonkhart earned a Master's Degree in Business Administration at the Interfaculty Institute of Delft/Rotterdam University in 1973. In 1975, he followed this with a Master's Degree in Business Economics at Erasmus University in Rotterdam, where in 1980 he took a PhD with honours in Economic Sciences. From 1981 until 1998, he worked at the Dutch Ministry of Finance, from 1984 as Director of the Domestic Monetary and Financial Affairs Directorate. From 1987 until 1998 he was a Professor of Financing and Investment Issues at Erasmus University in Rotterdam. From 1988 until 1999 he was Chief Executive Officer of Nationale Investeringsbank NV. Since 2000 he has been Chairman of the Executive Board of NOB Holding NV. Mr Jonkhart is also a member of the Supervisory Boards of Aozora Bank (formerly Nippon Credit Bank, Japan), Aercap Holdings NV, BAWAG PSK AG, Corus Nederland NV and Orco Bank International NV. He is also member of the Supervisory Committee of the Dutch Forestry Organisation.

M.E. van Lier Lels (1959)

Marike van Lier Lels studied Maritime Business Studies at the Delft University of Technology. From 1986 to 1999, she held various positions at Koninklijke P&O Nedlloyd NV, lastly as Member Executive Committee European Transport & Distribution. In the period 1995 to September 2000 she was Managing Director of Van Gend & Loos Benelux. From September 2000 to January 2005, she was Executive Vice President & Chief Operating Officer of Schiphol Group.

Ms Van Lier Lels is also a member of the Supervisory Boards of Koninklijke KPN NV, USG People NV, TKH Group NV, Getronics NV, Slavenburg Holdings BV and Maersk BV. She holds various directorships at for example the Netherlands Court of Audit, the Council for Transport and Water Management, the Advisory Council of Science and Technology Policy, the Netherlands Bureau for Economic Policy Analysis and the Eindhoven Design Academy.

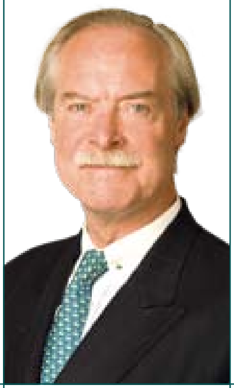
Th.G.J. Walrafen (1941)

Thierry Walrafen is a graduate of Ecole Nationale d'Administration (Paris) and holds degrees from the Faculté de Droit (Paris) and Institut d'Etudes Politiques (Paris). On to May 1992, Thierry Walrafen was a Senior civil servant, in the Ministry of Economy and Finance in France which he had joined in 1968. He has held various responsibilities in the Economic Policy Research department of the Ministry, notably Head of International Economics (1976-1979), then of the Public Finance Division (1979-1981). He has occupied several posts outside France as Treasury Representative. He was a Financial attaché, Near and Middle East, in Beirut, Lebanon, 1974-1976. In Washington DC, USA, he was Financial Counsellor at the French Embassy and Executive Director at the Interamerican Development Bank (1981-1984). From 1984 to 1992 he was Financial Minister at the French Embassy in Bonn, Germany, the same post he occupied in The Hague from 1990 to 1992. From May 1992 to November 2004, he was a Member of the Executive Committee of Caisse des Dépôts et Consignations, as Senior Executive Vice President, European and International Affairs on to November 1997 when he was appointed Contrôleur General of the Caisse des Dépôts Group. From December 2004 to July 2007, Thierry Walrafen was an Inspecteur General des Finances at the Ministry of Economy and Finance. He is also Editor of the Revue d'Economie Financière since spring 1996.

The Supervisory Board and its committees were composed as follows at year-end 2007:

	Nationality	Appointment	Reappointment	Year of retirement	Committee
C. van Eykelenburg	Dutch	2007	-	Yet to be determined	Selection & Nomination Committee (Chairman) Remuneration Committee (member)
F.N.P. Gagey	French	2007	-	Yet to be determined	Audit Committee (member)
Th.G.J. Walrafen	French	2007	-	Yet to be determined	Audit Committee (member) Selection & Nomination Committee (member) Remuneration Committee (Chairman)
M.J.L. Jonkhart	Dutch	2004	-	2008	Audit Committee (Chairman)
M.E. van Lier Lels	Dutch	2006	-	2010	Selection & Nomination Committee (member) Remuneration committee (member)

Executive Board



P.J.Ph. Kortenhorst (1950)

Peter Kortenhorst joined the Executive Board of Connexxion Holding NV on 1 August 2001. He was previously, among other positions, CFO at Granaria Holdings BV (1993-2000) and a Senior Executive Vice President of Bank Mees & Hope NV (1976-1993). He has been Chairman of the Executive Board since mid-2003.

Mr Kortenhorst is also:

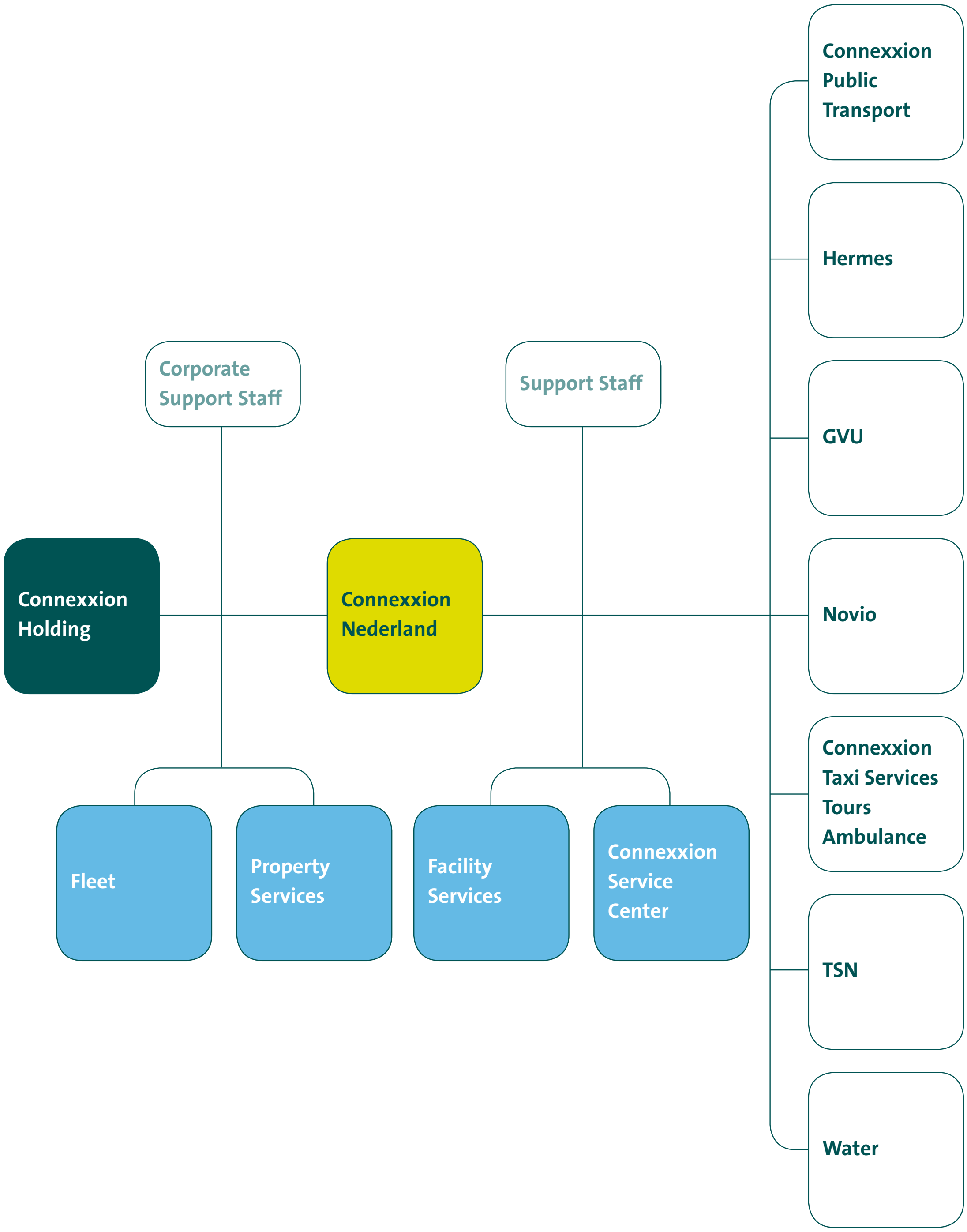
- Chairman of the Supervisory Board of ROI;
- Member of the Policy Board of Union Internationale des Transport Publics (UITP);
- Member of the Board of Stichting Maatschappij en Onderneming (SMO);
- Member of the Supervisory Board of TransLink Systems BV (TLS).

Since November 2007, Peter Kortenhorst has been a member of the Comex (Comité Executive) of the Transdev+Connexxion alliance.

F.I.G. Janssen (1965)

In 1992, Frank Janssen joined a legal predecessor of the Company as policy advisor for Strategic Development. He fulfilled various financial and operational management positions prior to his appointment as member of the Executive Board and Chief Financial Officer on 29 March 2005. On 20 November 2007, Mr Janssen was appointed Chief Operating Officer. Since that date, the position of Chief Financial Officer has been vacant. This post is filled temporarily by Mr Janssen. Mr Janssen represents Connexxion at the General Meeting of Shareholders of all investments of Connexxion Participaties BV and the Water division. Since November 2007, Mr Janssen has been a member of the Comex (Comité Executive) of the Transdev+Connexxion alliance.

Figure 16: **Organisation Chart of Connexxion**



Company Boards

The Company Boards had the following members as at year-end 2007:

Supervisory Board	
Carel van Eykelenburg	Chairman
Thierry Walrafen	Vice-chairman
Frédéric Gagey	
Marius Jonkhart	
Marike van Lier Lels	
Dirk Slijper	Secretary

Executive Board	
Peter Kortenhorst	Chairman
Frank Janssen	Chief Operating Officer
Willem Lely	Secretary

Central Works Council	
Tom Roording	Techno Service Nederland, Chairman
Guus van Tol	Connexxion Public Transport, Secretary
Aad Wayenberg	Connexxion Tours, Deputy Secretary
Hans Abdoelkariem	Techno Service Nederland
Wouter Adriaanse	Novio Express
Elly Bakker	Connexxion Tours
Hennie Berkien	Techno Service Nederland
Ineke van de Broek-Uijl	GVU
Wiel van der Grift	Novio Techniek
Wil Heymeriks	Novio Techniek
Jeltje Hoekstra	Connexxion Taxi Services
John Huismans	Connexxion Water
Dick Knutzen	Connexxion Public Transport
Toon Kwakernaat	Novio Public Transport
Mark Lammers	Connexxion Taxi Services
Bert Leenards	Connexxion Public Transport
Rob Leenen	Hermes Groep
Piet Mooren	Connexxion Taxi Services
Barry Nuwenhof	Novio
Wim Schulenberg	Connexxion Taxi Services
Rein Snijder	Hermes Groep
Esmi Swart	GVU
Maarten Sweep	Novio Public Transport
Jaap Wehnes	Connexxion Public Transport
Jeroen Wijers	Connexxion Public Transport

Chapter 7

2007 Financial Statements

7.1 Consolidated balance sheet as at 31 December 2007

Before proposed profit appropriation

In thousands of euros	Notes	2007	2006
Assets			
Non-current assets			
Property, plant and equipment	7.5.13	463,313	382,291
Intangible assets	7.5.14	25,931	2,561
Investments in equity accounted investees	7.5.15	2,985	8,528
Other investments, including derivatives	7.5.16	18,725	45,545
Deferred tax assets	7.5.17	38,795	41,750
Total non-current assets		**549,749**	**480,675**
Current assets			
Inventories	7.5.18	10,480	9,422
Current tax assets		2,100	1,590
Trade and other receivables	7.5.19	128,649	95,902
Cash and cash equivalents	7.5.20	85,033	60,868
Assets classified as held for sale	7.5.21	12,110	12,358
Total current assets		**238,372**	**180,140**
Total assets		**788,121**	**660,815**

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

In thousands of euros	Notes	2007	2006
Equity and liabilities			
Equity attributable to equity holders of the Company	7.5.22	198,727	215,830
Minority interest	7.5.23	(354)	12,152
Total equity		198,373	227,982
Liabilities			
Loans and borrowings	7.5.24	228,870	135,842
Provisions	7.5.25	39,862	32,805
Deferred tax liabilities	7.5.17	20,940	17,763
Derivatives	7.5.26	186	1,320
Total non-current liabilities		289,858	187,730
Bank overdrafts		10,093	2,040
Loans and borrowings	7.5.24	25,934	26,401
Trade and other payables, including derivatives	7.5.28	191,532	144,220
Deferred income	7.5.29	40,793	41,141
Provisions	7.5.25	28,884	27,408
Liabilities classified as held for sale	7.5.30	2,654	3,893
Total current liabilities		299,890	245,103
Total liabilities		589,748	432,833
Total equity and liabilities		788,121	660,815

7.2 Consolidated income statement for the year 2007

In thousands of euros	Notes	2007		2006	
Revenue					
Public transport revenue					
- Passenger transport revenue		229,170		190,021	
- Student travel cards revenue		101,570		88,417	
- Government contributions		350,072		324,108	
- Other public transport revenue		33,843		20,190	
Taxi transport revenue		244,239		171,557	
Touring transport revenue		31,471		19,571	
Water transport revenue		10,659		7,738	
Revenue from maintenance and repairs		22,568		24,833	
Trade revenue		10,852		14,134	
Other revenue	7.5.35	15,575		23,672	
Total revenue			**1,050,019**		**884,241**
Operating expenses					
Cost of sales	7.5.36	(166,469)		(100,624)	
Personnel expenses	7.5.37	(581,644)		(505,261)	
Amortisation, depreciation and impairments	7.5.38	(70,166)		(58,536)	
Energy cost for transport		(77,350)		(71,036)	
Other costs of rolling and floating stock		(52,679)		(40,066)	
Other operating expenses	7.5.39	(83,105)		(78,224)	
Total operating expenses			**(1,031,413)**		**(853,747)**
Results from operating activities			**18,606**		**30,494**
Finance income	7.5.40	5,738		4,827	
Finance expenses	7.5.41	(11,881)		(11,131)	
Net finance expense			**(6,143)**		**(6,304)**
Share of profit of equity accounted investees (net of income tax)	7.5.42		(3,166)		(1,238)
Profit before income tax			**9,297**		**22,952**
Income tax expense	7.5.43		(6,480)		(7,263)
Profit for the period			**2,817**		**15,689**

In thousands of euros	Notes	2007	2006
Attributable to:			
Equity holders of the Company		2,361	14,580
Minority interest	7.5.44	456	1,109
Profit for the period		**2,817**	**15,689**

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

7.3 Consolidated statement of recognised income and expense for 2007

In thousands of euros	2007	2006
Income and expenses recognised in equity:		
Effective portion of changes in fair value of cash flow hedges	9,703	(3,186)
Net change in fair value of available-for-sale financial assets	(583)	(43)
Total income and expenses recognised in equity	**9,120**	**(3,229)**
Profit for the period	**2,817**	**15,689**
Total recognised income and expense for the period	**11,937**	**12,460**
Attributable to:		
Equity holders of the Company	11,449	11,361
Minority interest	488	1,099
Total recognised income and expense for the period	**11,937**	**12,460**

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

7.4 Consolidated cash flow statement for 2007

In thousands of euros		2007		2006
I. Cash flows from operating activities				
Results from operating activities	18,606		30,494	
Adjustments for:				
Depreciation and amortisation of intangible assets	68,985		56,513	
(Reversal of) impairment losses	1,181		2,023	
Badwill	(2,663)		-	
Gain on sale of non-current assets	(9,623)		(21,679)	
Change in inventories	(172)		3,162	
Change in current assets	287		(3,536)	
Change in current liabilities	5,939		(15,143)	
Allocation to and release from provisions	4,514		12,585	
Withdrawal from provisions	(20,564)		(23,361)	
		66,490		41,058
Dividends received	174		298	
Interest received	6,322		4,349	
Interest paid	(9,529)		(9,210)	
Income taxes paid	(2,506)		(1,805)	
		(5,539)		(6,368)
Net cash from operating activities		**60,951**		**34,690**
II. Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	(13,001)		(1,316)	
Acquisitions of property, plant and equipment and intangible assets	(111,406)		(80,815)	
Proceeds from sale of property, plant and equipment and intangible assets	15,892		85,447	
Change in other investments	34,271		(43,357)	
Other changes	465		(698)	
Net cash used in investing activities		**(73,779)**		**(40,739)**

In thousands of euros	2007	2006
III. Cash flows from financing activities		
Dividends paid	(30,800)	(7,181)
Change in bank overdrafts	(2,625)	1,453
Proceeds from loans and borrowings	233,000	44,241
Repayment of loans and borrowings	(162,582)	(48,604)
Net cash from (used in) financing activities	**36,993**	**(10,091)**
Change in cash and cash equivalents	**24,165**	**(16,140)**
Cash and cash equivalents at beginning of year	60,868	77,008
Cash and cash equivalents at end of year	85,033	60,868
Change in cash and cash equivalents	**24,165**	**(16,140)**

The notes on pages 72 to 125 are an integral part of these consolidated financial statements.

7.5 Notes to the consolidated financial statements

7.5.1 Introduction

Connexxion Holding NV is a company limited by shares incorporated under the laws of the Netherlands. Since 12 October 2007 two-third of the shares are held by Transdev-BNG-Connexxion Holding BV, the consortium between the French passenger transport company Transdev and Bank Nederlandse Gemeenten, and one-third of the shares are held by the Dutch State. The company has its statutory seat in Utrecht, the Netherlands and its head office is located in Hilversum, the Netherlands (Marathon 6, 1213 PK). The consolidated financial statements of the Company for the financial year ended on 31 December 2007 comprise the information of the Company and its subsidiaries (jointly referred to as "the Group") and the Group's interest in (non-consolidated) associates and joint ventures. The group's principal activity is providing public and private passenger transport services and performing any related activities.

The consolidated financial statements of the Group were prepared by the Executive Board on 21 January 2008 and discussed in the Supervisory Board meeting of 21 January 2008. Should any circumstances requiring adjustment of the financial statements emerge up to the General Meeting of Shareholders on 19 February 2008, at which the financial statements are adopted, such an adjustment will still have to be made pursuant to the provisions of Section 362 (6) and Section 392 (1g), Part 9, Book 2 of the Netherlands Civil Code.

The company income statement has been prepared using the exemption pursuant to Section 402, Part 9, Book 2 of the Netherlands Civil Code.

7.5.2 Statement of compliance

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB) as well as IFRSs as adopted by the European Union ("EU-IFRS").

IFRS standards, having an effective date of 1 January 2007, amongst others IFRS 7 – Financial Instruments: Disclosures, have been consistently applied by the company. The impact on the financial statements was however not material.

IFRS standards and interpretations of standards, that will become effective after 1 January 2008, are:

- IFRS 8 - Operating Segments (effective date: 1 January 2009);
- IFRIC 12 – Service Concession Arrangements (effective date: 1 January 2008).

Connexxion did not opt for an earlier application of IFRS standards and interpretations of standards, that will become effective as from 1 January 2008. These standards are not considered to have a significant impact on the company's financial statements.

7.5.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- derivative financial instruments are measured at fair value (refer to Section 7.5.8);
- available for sale financial assets are measured at fair value (refer to Section 7.5.9.9).

Income and expenditure are allocated to the year to which they relate. Profits are only recognised insofar as they were realised on balance sheet date. Losses and risks originating before the end of the reporting year are recognised if they were known before the preparation of the financial statements.

7.5.4 Functional and presentation currency

The euro (€) is Connexxion's functional and presentation currency. Unless stated otherwise, amounts in these financial statements are stated in thousands of euros, rounded to the nearest 1,000.

7.5.5 Use of estimates and judgements

Preparation of financial statements under EU-IFRS requires management to use judgements, estimates and assumptions affecting the application of standards and the reported amounts for assets, liabilities, income and expenses. The estimates made and associated assumptions are based on historical experience and various other factors that can be considered reasonable and fair under the given circumstances. Those estimates and assumptions provided a basis for the valuation of reported assets and liabilities whose size cannot yet be derived from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates and assumptions are recognised in the period in which the estimates are revised if the revision relates exclusively to the period concerned, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements used by management in applying EU-IFRS that entail significant effects for the financial statements, and estimates entailing a significant risk of a material adjustment in the subsequent year are disclosed in Section 7.5.33.

7.5.6 Basis of consolidation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see Section 7.5.35 and Section 7.5.39).

Subsidiaries

Subsidiaries are companies in which Connexxion Holding NV directly or indirectly exercises decisive control. Decisive control means that Connexxion directly or indirectly controls the financial and operating policies of a company so as to obtain benefits from the activities of that company. The financial statements of such subsidiaries are included in the consolidated financial statements as from the date when control is acquired up to the date when Connexxion ceases to hold control. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The principal group companies included in the consolidation of Connexxion Holding are:

Connexxion Openbaar Vervoer NV, Haarlem, The Netherlands	100%
Hermes Groep NV, Weert, The Netherlands	100%
GVU NV, Utrecht, The Netherlands	100%
Novio NV, Nijmegen, The Netherlands	100%
Connexxion Taxi Services BV, Schiedam, The Netherlands	100%
Connexxion Tours BV, Hilversum, The Netherlands	100%
Connexxion Water BV (formerly BV Rederij Naco), Alkmaar, The Netherlands	100%
Connexxion Vastgoed BV, Hilversum, The Netherlands	100%
Connexxion Facilitair Bedrijf BV, Hilversum, The Netherlands	100%
Connexxion Vloot BV, Hilversum, The Netherlands	100%
Techno Service Nederland NV, Utrecht, The Netherlands	100%
Connexxion Participaties BV, Hilversum, The Netherlands	100%

Associates and jointly controlled entities (equity accounted investees)

Associates are companies over whose financial and operational policies the Group has significant influence but not decisive control.

The principal associates are:

REISinformatiegroep BV,	
Utrecht, The Netherlands	32.8%
Trans Link Systems BV,	
Amersfoort, The Netherlands	20.0%

Joint ventures are companies in which Connexxion has joint control with two or more parties under contractual arrangements. In 2007 Connexxion has sold her interests in Syntus BV, Doetinchem (33.3%). The sale of the shares in Arke/TAD BV, Enschede (50.0%) is expected to be completed in the first quarter of 2008. The joint venture has been classified as assets held for sale.

The list with information about the capital interests as referred to in Sections 379 and 414, Part 9, Book 2 of the Netherlands Civil Code, has been filed with the Trade Register of the Hilversum Chamber of Commerce.

Transactions eliminated on consolidation
Intra group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

7.5.7 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

7.5.8 Derivative financial instruments

1: Connexxion uses derivates to hedge the risk of the variability of cash outflows arising from future purchases of diesel fuel. The policy is designed to limit the effects of currency and price fluctuations. Incidentally Connexxion uses interest-rate swaps. By using interest-rate swaps a variable interest rate, in accordance with the contract terms, can be changed into a fixed interest rate.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value (market quotation).

The effective portion of fair value movements for derivatives is taken to group equity. The ineffective portion of any gains or losses is taken directly to financial income or expense in the income statement. Transfers of amounts deferred to group equity to the income statement are effected in the same period or periods in which the hedged position is charged to the income statement. If a hedging instrument expires, is sold or discontinued or if Connexxion discontinues its designation as a hedge but the hedged transaction is nonetheless expected to take place, the gain or loss accumulated to that date will continue to be included in group equity until the date when the hedged position is charged to the income statement. If the hedged transaction is no longer expected to occur, unrealised gains or losses accumulated in group equity are taken immediately to the income statement.

2: Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

7.5.9 Accounting policies for the balance sheet

7.5.9.1 Property, plant and equipment

Owned assets

Property, plant and equipment is carried at cost or deemed cost, net of accumulated depreciation and impairments. Property, plant and equipment, that is expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. (refer also to Section 7.5.9.9)

Part of the rolling stock was revalued at fair value on 1 January 2004, i.e. the date of transition to EU-IFRS, as from which date its fair value is the deemed cost and accordingly the new acquisition cost of the asset. If a provision for the estimated cost of dismantling and removing an asset and site restoration is necessary, historical cost is increased by the same amount.

Insofar as an item of property, plant or equipment contains substantial components having different useful lives, these are recognised as individual items of property, plant and equipment, where possible. Connexxion applies a component-based approach in depreciating these substantial components.

Fixed assets under construction are carried at the expenditure incurred.

Leased assets

Leases effectively transferring all the risks and rewards incidental to ownership to the Group are classified as finance leases. Property, plant and equipment acquired under finance leases are carried at the lower of their fair value or the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Costs after acquisition

Recurring replacement costs relating to property, plant and equipment are capitalised if the future economic benefits of the asset will flow to the Group and the costs of such recurrent replacement investments can be reliably measured. All other costs are recognised in the income statement as incurred.

Depreciation

Depreciation is based on the useful life and calculated using fixed percentages of cost, taking into account any (guaranteed) residual value. Depreciation starts as from the moment the asset is put into use. The annual depreciation for various categories of property, plant and equipment, based on the estimated useful life of the asset, is listed below.

Land:	0%
Buildings [1]:	2%
Buses [2]:	5% -20%
Trolley equipment:	6.7%
Tram:	3.3%
Trains:	3.3%
Taxis:	12.5% - 33.3%
Other assets:	5% - 33.3%

1) Buildings on land on long leases are depreciated as per the term of the contract concerned, whenever this depreciation period is shorter.

2) Depending on the term of the concession.

7.5.9.2 Intangible assets

Goodwill

All business combinations are accounted for using the purchase method. Goodwill is recognised upon acquisition of subsidiaries, associates and joint ventures. For acquisitions after 1 January 2004 goodwill is the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. The net identifiable assets also include intangible assets such as customer relationships, contract rights and trademarks.

For acquisitions prior to that date, goodwill is based on deemed cost of acquisition, which is equal to the value attributed to it under Dutch GAAP as previously applied.

Goodwill is valued at historical cost net of accumulated impairment losses, and is tested annually for impairment (refer to Section 7.5.9.8). For joint ventures and associates, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture or associate. Negative goodwill (badwill) arising upon an acquisition is recognised directly in the income statement.

Capitalised contract rights

Capitalised contract rights as part of intangible assets relate to acquired passenger transport contracts upon the acquisition of group companies. The fair value upon acquisition is determined from future cash flows of revenues and costs of these passenger transport contracts.

Capitalised contract rights are being amortized on a straight line basis over the (remaining) term of the contract (three to five years).

At each reporting date the Company assesses whether there is an indication for a possible impairment of the capitalised contract rights. If such an indication exists, the company determines the realisable value of the capitalised contract rights. An impairment loss is recognised when the book value is higher than the realisable value. The realisable value is the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows discounted at a rate that reflects the risks of the underlying contract.

Research and development

Expenditure for research performed with a prospect of gaining new scientific or technical knowledge and insight is recognised as an expense in the income statement as incurred.

Expenditure on development activities in which the research results are used to generate substantially improved products and processes are capitalised if the product or process is technically and commercially viable and the Group has sufficient resources to complete the development phase. Capitalised expenditure comprises costs of materials, labour directly contributing and an attributable portion of direct overhead costs. Capitalised development costs are valued at cost net of accumulated amortisation and impairment losses.

If the capitalised developments costs mainly consist of expenditures for an item of property, plant and equipment or are inextricably linked to an item of property, plant and equipment, the capitalised costs are treated as being an item of property, plant and equipment.

The other development costs are recognised as an expense in the income statement as incurred.

Amortisation of an intangible asset is charged to the income statement on a systematic basis over the useful life from the time of inception, unless its useful life is indefinite.

Goodwill and intangible assets with indefinite useful lives are systematically tested for impairment on each balance sheet date.

7.5.9.3 Other investments, including derivatives

Non-current receivables and loans (due from joint ventures and non-consolidated investments) are carried at amortised cost net of impairments deemed necessary.

All investments are reviewed on the balance sheet date for objective indications that their carrying value may not be recoverable. The impairment is the difference between amortised cost and the value of future cash flows, discounted at the original effective value of the receivable. Cash flows with a remaining term to maturity under twelve months are not discounted. Profits or losses on the sale of investments are recognised in the period in which those assets are sold.

7.5.9.4 Investments in equity accounted investees

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity which is subject to joint control. Joint ventures are investments in equity accounted investees from the date joint control commences to the date it effectively ceases.

Associates are companies over whose business and financial policies significant influence but no control is exercised. These are investments in equity accounted investees, net of any impairments from the date the significant influence commences to the date it effectively ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. The accounting policies of joint ventures and associates have been aligned with those of the Group.

Interests in companies over which no significant influence is exercised are valued at cost.

7.5.9.5 Income tax and deferred taxes

The company forms a tax group together with several subsidiaries. The tax charge represents the total amount of taxes due and offsettable for the period as well as any deferred taxes. The tax due and offsettable for the period represents the amount of the income tax in relation to the taxable profit or loss.

Deferred taxes represent liabilities and/or assets in relation to income taxes payable and/or receivable resulting from temporary differences, unused tax losses or unused tax facilities. Temporary differences arise due to differences between the carrying amount of assets and liabilities in the balance sheet and their carrying amounts for tax purposes. Deferred tax assets and liabilities are calculated based on the tax rates prevailing at year end or at the rates prevailing in the next few years that have been enacted or substantively enacted. A deferred tax liability is recognised for all temporary differences.

A deferred tax asset is recognised if it is likely that this will be offset against future profits for tax purposes. The carrying amount of the deferred tax asset is reviewed at every balance sheet date and reduced insofar as it is no longer likely that sufficient profits for tax purposes will be available to realise the asset in whole or in part.

Current and deferred tax assets and liabilities are only netted if the Company has a right enforceable at law to do so, and the assets and liabilities relate to the same tax authorities and taxpayer, as well as (in the event of deferred tax liabilities) the same term. Corporate income tax shall as often as possible be allocated to the subsidiaries as if they were autonomous taxpayers.

7.5.9.6 Inventories

Inventories are carried at the lower of historical cost and net realisable value, less a provision for obsolescence. Provisions for inventories are determined by means of an individual assessment of the stock at product group level. Realisable value is the estimated selling price in ordinary operations, net of estimated costs of completion and costs to sell. Historical cost is based on weighted average prices, and includes the costs of acquiring them, costs incurred to transport them to the current location and costs incurred to bring them into their current condition.

7.5.9.7 Trade and other receivables

Trade and other receivables are carried at face value less a provision for non-collectibility on an item-by-item basis, where necessary.

7.5.9.8 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Within Connexxion divisions are considered to be the lowest level of cash generating units, except for group companies in public transport, where the contract for passenger transport is considered to be the lowest level.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

7.5.9.9 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

The valuation of financial instruments held for sale is listed in Section 7.5.8.

7.5.9.10 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at bank. Demand deposits are considered cash and cash equivalents.

7.5.9.11 Equity

Equity attributable to equity holders of the Company

The share capital is qualified as equity. Dividends are recognised as a liability in the period in which they are declared.

Minority interest

The minority interest represents the minority shareholding of third parties in the various consolidated subsidiaries. The minority interest disclosed in the consolidated balance sheet is based on the original share of these minority shareholders in the various consolidated subsidiaries, adjusted for their share in the profits or losses of these subsidiaries.

7.5.9.12 Loans and borrowings

Loans and borrowings are at inception of the loan carried at historical cost, less any costs incurred. Subsequent to initial recognition, loans and borrowings are carried at amortised cost and any difference between cost and the amount of the repayment is recognised in the income statement over the term to maturity.

7.5.9.13 Provisions

The provisions recognised in the balance sheet date are formed for liabilities already present on balance sheet date as a result of past events, where the liability can reliably be estimated and whose settlement is likely to require an outflow of resources in the future. Provisions with a term exceeding one year are measured by discounting expected future cash flows based on a discount rate that is a pre-tax rate that reflects the current market situation and risks specific to the liability. Provisions with a term of less than one year are carried under current provisions.

Long-term employee benefits

The pension funds which Connexxion uses have stated that they are unable to apply IAS 19 as they are unable to provide a reliable and consistent segmentation of plan assets and pension benefits of the participants, former participants and sleepers over the various employers affiliated with the funds. Since Connexxion is not obliged in the event of underfunding in the pension funds concerned to make supplementary contributions other than by way of future premium increases, Connexxion classifies its defined benefits schemes as defined contribution schemes. Contributions to pension schemes are accordingly accounted for as defined contribution schemes and are recognised as an expense in the income statement as incurred.

Other long-term employee benefits relate to provisions for long absenteeism, future jubilee benefits, employment termination benefits, job-related discharge from service dictated by age (refer to Section 7.5.25.2).

The long-term employee benefits are carried at present value.

Provision for pending damage claims

The provision for pending damage claims has been formed mainly for future settlements of bodily injuries involving Connexxion vehicles. The provision is determined by the WAM-insurer (Wet Aansprakelijkheidsverzekering Motorrijtuigen – Dutch Motor Insurance Liability Act) on the basis of the applicable standards for bodily injuries using insurers' historical data.

Environmental provision

The environmental provision is intended for the site restoration in respect of contaminated land by Connexxion or its legal predecessors. The extent of the provision has been determined with the assistance of experts in this field based on specific environmental reviews.

Restructuring provision

Restructuring provisions have been formed based on detailed and formal restructuring plans, which have been approved by the Executive Board and which have either been started or communicated to the parties concerned.

Risks from claims, disputes and legal proceedings

Provisions for risks arising from claims, disputes and legal proceedings are formed if it is likely that the legal entity will be involved in legal proceedings.

Provision for onerous contracts

Provisions for onerous contracts are formed if the unavoidable costs of observance of the contractual commitments are expected to exceed the prospective economic benefits of the contract concerned. In longterm transport contracts, it can be determined with a reasonable degree of assurance whether a contract was structurally onerous only after expiry of the commencement period of the contract.

Provisions for onerous contracts are formed after the related, directly attributable items of property, plant and equipment have been written down to residual value.

7.5.9.14 Current liabilities

Current liabilities are recognised at amortised cost. Current liabilities, such as deferred revenue, forming part of working capital used in the regular operating cycle are classified as current liabilities, even if they are settled after more than twelve months.

7.5.9.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to Connexxion. All other leases are operating leases.

If Connexxion acts as lessee in an operating lease, lease payments are recognised as an expense on a straight-line basis over the lease term, unless another allocation is more representative of the time pattern of Connexxion's benefits.

If Connexxion acts as lessor in an operating lease, assets are presented in its balance sheet according to the nature of the asset. Income from operating leases is recognised in income on a straight-line basis over the lease term, unless another allocation is more representative of the time pattern of Connexxion's benefits.

7.5.9.16 Contingent liabilities

Contingent liabilities are liabilities that arise if the occurrence of a certain future event is uncertain or if it is not probable that an outflow of resources will occur or if the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are recognised under 'off-balance sheet commitments'.

7.5.10 Accounting policies for the income statement

7.5.10 Revenue

Connexxion's principal activity is providing public and private passenger transport services and performing any related activities. Revenue is recognised in proportion to the services rendered on balance sheet date if (i) the amount of revenue can reliably be valued (ii) it is probable that the economic benefits will accrue to the Company (iii) the extent to which the services were rendered on balance sheet date can be reliably measured and (iv) the costs already incurred for the transaction and the costs required for its completion can be reliably measured. Revenue represents the amounts (excluding discounts and turnover taxes) derived from the provision of services and goods during the reporting year.

Public transport revenue

Public transport revenue comprises Connexxion's share in the national proceeds from tickets sold. This share is determined based on the apportionment keys set by the Ministry of Transport. Proceeds in respect of tickets sold are settled in the event of a transition to another public transport company. Since the final annual settlement of the national proceeds from tickets sold is not available until after the year-end closing, a portion of the turnover concerned is estimated.

Student travel cards revenue

The Ministry of Education, Culture and Science facilitates the use of public transport by students . Revenue from the annual student travel cards is based on the number of students multiplied with a contractually agreed amount for each type of card.

Government grants

Government grants are transfers of resources by government in return for past or future compliance with certain conditions relating to the operating activities of Connexxion. Government grants are not recognised until there is reasonable assurance that Connexxion will comply with the conditions attaching to them and the grants will be received. Government grants comprise grants related to income and grants related to assets.

Grants related to income are government grants other than those related to assets. In accordance with the accrual accounting assumption, grants related to income are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants related to income are separately disclosed in the income statement under “Government contributions”.

Grants related to assets are government grants of which the main condition is that they must be used to purchase, build or otherwise obtain fixed assets. Government grants related to assets are recognised in the balance sheet by deducting the grant from the measurement of the carrying amount of the asset to which the grant relates, or by including the grant as deferred income. In the first case the grant is included over the useful life of a depreciable asset by way of a reduced depreciation charge. In the second case the grant is recognised as income over the useful life of the asset.

7.5.10.2 Costs

Costs are allocated to the reporting year to which they relate.

7.5.10.3 Financial income/expense

Financial income and financial expenses represent interest paid on loans and interest received on funds invested, and realised gains on the ineffective portion of a realised hedge. Interest income is recognised in the income statement as it accrues. The interest expense component of payments under finance lease contracts is recognised in the income statement based on the implicit interest rate. Finance charges in relation to the acquisition, construction or manufacture of an item of property, plant and equipment are not capitalised, but directly recognised in the income statement.

The effect of adding interest to provisions with a term exceeding twelve months is included in profit or loss in the net financing costs.

The effect of discounting provisions is recognised in the income statement in the net financing costs.

7.5.11 Principles for the cash flow statement

The cash flow statement is prepared using the indirect method and draws a distinction between cash flows from operating activities, investing activities and financing activities. Cash items included in the cash flow statement are made up of liquid funds, cash and bank balances and demand deposits. Interest paid and received, dividends received and income taxes are included in the cash flow from operating activities.

Dividends paid are included in the cash flow from financing activities. The acquisition prices of group companies acquired are recognised under cash flow from investing activities, insofar as payment was made in cash. Any cash and cash equivalents present in these group companies is deducted from the acquisition price.

Lease instalments paid under finance lease contracts are recognised as cash outflows from financing activities insofar as they relate to the actual repayment, and as cash outflows from operating activities insofar as they relate to the interest.

7.5.12 Events after the balance sheet date

Events after the balance sheet date providing further information about the actual situation on the balance sheet date are recognised in the financial statement until the moment on which the Executive Board authorises the financial statements for issue.

Events after the balance sheet date not providing further information about the actual situation on the balance sheet date, but which do have significant financial consequences are disclosed under “Other information”.

7.5.13 Property, plant and equipment

						2006
	Land and buildings	Rolling stock	Under construction	Not used in operations	Other property, plant and equipment	Total
Cost						
Balance at 1 January 2006	122,330	501,998	3,405	1,117	87,750	**716,600**
Additions	968	46,351	15,324	-	17,922	**80,565**
Effect of acquisition	380	1,062	-	-	219	**1,661**
Assets classified as held for sale	(67,788)	(41,844)	-	-	-	**(109,632)**
Reclassification	1,250	3,780	(1,649)	(1)	(3,380)	**-**
Disposals	-	-	-	-	(99)	**(99)**
Balance at 31 December 2006	**57,140**	**511,347**	**17,080**	**1,116**	**102,412**	**689,095**
Accumulated depreciation and impairments						
Balance at 1 January 2006	(48,826)	(203,403)	(1,240)	(728)	(63,588)	**(317,785)**
Depreciation	(2,428)	(49,906)	-	(9)	(4,170)	**(56,513)**
Impairment losses recognised in the income statement	-	(3,131)	-	-	-	**(3,131)**
Impairment losses reversed in the income statement	-	1,632	-	-	-	**1,632**
Effect of acquisition	-	-	-	-	(111)	**(111)**
Assets classified as held for sale	28,651	40,195	-	-	-	**68,846**
Disposals	-	-	-	-	14	**14**
Other changes	244	-	-	-	-	**244**
Balance at 31 December 2006	**(22,359)**	**(214,613)**	**(1,240)**	**(737)**	**(67,855)**	**(306,804)**
Carrying amount						
At 1 January 2006	**73,504**	**298,595**	**2,165**	**389**	**24,162**	**398,815**
At 31 December 2006	**34,781**	**296,734**	**15,840**	**379**	**34,557**	**382,291**

2007

	Land and buildings	Rolling stock	Under construction	Not used in operations	Other property, plant and equipment	Total
Cost						
Balance at 1 January 2007	57,140	511,347	17,080	1,116	102,412	689,095
Additions	9	92,404	6,189	-	12,804	111,406
Effect of acquired operations	739	12,210	-	-	17,315	30,264
Assets classified as held for sale	(4,633)	(43,615)	-	-	-	(48,248)
Reclassification	-	17,871	(17,696)	1	(176)	-
Disposals	-	-	-	-	(7,609)	(7,609)
Other changes	11,275	-	-	-	-	11,275
Balance at 31 December 2007	**64,530**	**590,217**	**5,573**	**1,117**	**124,746**	**786,183**
Accumulated depreciation and impairments						
Balance at 1 January 2007	(22,359)	(214,613)	(1,240)	(737)	(67,855)	(306,804)
Depreciation	(2,577)	(53,015)	-	(10)	(7,042)	(62,644)
Impairment losses recognised in the income statement	(4)	(6,977)	-	-	-	(6,981)
Impairment losses reversed in the income statement	-	5,800	-	-	-	5,800
Assets classified as held for sale	2,447	38,273	-	-	-	40,720
Disposals	-	-	-	-	7,039	7,039
Balance at 31 December 2007	**(22,493)**	**(230,532)**	**(1,240)**	**(747)**	**(67,858)**	**(322,870)**
Carrying amount						
At 1 January 2007	**34,781**	**296,734**	**15,840**	**379**	**34,557**	**382,291**
At 31 December 2007	**42,037**	**359,685**	**4,333**	**370**	**56,888**	**463,313**

Other changes in the line land and buildings are a reclassification for leased property which are now considered as financial lease liabilities (refer to Section 7.5.13.2).

7.5.13.1 Impairments of assets

The write-down of rolling stock to net realisable value totals € 7.0 million (2006: € 3.1 million). The impairment of rolling stock was caused by a number of concessions incurring a loss. Consequently, a downward revaluation was applied to the related directly attributable rolling stock. The reversal of a downward revaluation of rolling stock (2007: € 5.8 million; 2006: € 1.6 million) was caused by a number of concessions which is not onerous anymore in the remaining contract period.

7.5.13.2 Assets held under finance lease

The line item 'rolling stock' includes buses and taxis with a carrying amount of € 58.1 million (2006: € 68.3 million) which are held under finance lease. Leased property which is now considered as a financial lease has a carrying amount of € 10.5 million (2006: € 0.0 million). In a number of cases, it has been agreed upon with the lessor that the lessee has the option to purchase the leased asset, which option may be exercised at the end of the term of the lease contract.

7.5.13.3 Pledged property, plant and equipment

Connexxion has pledged rolling stock with a carrying amount of € 282.4 million (2006: € 215.2 million) as security for financing.

7.5.13.4 Fully depreciated property, plant and equipment

Rolling stock which was fully depreciated and still in use by the Company has a carrying amount of € 1.1 million (2006: € 1.0 million).

7.5.13.5 Property, plant and equipment retired from active use and held for disposal

The Company has retired buildings from active use and holds these for disposal. The lower of carrying amount and net realisable value of these buildings amounts to € 3.6 million (2006: € 4.7 million). In addition, the Company has retired rolling stock from active use and holds this for disposal. The lower of carrying amount and net realisable value of this rolling stock amounts to € 1.4 million (2006: € 0.4 million). The property, plant and equipment retired from active use which is held for disposal is presented under current assets (refer to Section 7.5.21).

7.5.13.6 Capital commitments

The capital commitments in relation to property, plant and equipment are stated in the section on off-balance sheet commitments (refer to Section 7.5.32).

7.5.14 Intangible assets

	Goodwill		Capitalised contract rights		Total	
	2007	2006	2007	2006	2007	2006
Cost						
Balance at 1 January	1,396	872	1,689	-	3,085	**872**
Additions	-	-	-	250	-	**250**
Effect of acquisition	1,917	524	27,794	1,439	29,711	**1,963**
Other changes	566	-	(1,090)	-	(524)	**-**
Balance at 31 December	**3,879**	**1,396**	**28,393**	**1,689**	**32,272**	**3,085**
Accumulated amortisation and impairments						
Balance at 1 January	(524)	-	-	-	(524)	**-**
Amortisation	-	-	(6,341)	-	(6,341)	**-**
Impairment losses recognised in the income statement	-	(524)	-	-	-	**(524)**
Other changes	524	-	-	-	524	**-**
Balance at 31 December	**-**	**(524)**	**(6,341)**	**-**	**(6,341)**	**(524)**
Carrying amount						
At 1 January	**872**	**872**	**1,689**	**-**	**2,561**	**872**
At 31 December	**3,879**	**872**	**22,052**	**1,689**	**25,931**	**2,561**

Goodwill

The effect of acquired operations in relation to goodwill relates to goodwill paid for the acquisition of subsidiaries (refer to Section 7.5.31.1). Goodwill at year-end 2007 relates to Novio NV, Connexxion Taxi Services BV and Carmar Schadeherstelbedrijf BV. Based on the Company's calculation of future results no impairment is required. Other changes are the result of a more detailed value analysis of the acquired transport contracts.

Capitalised contract rights

Capitalised contract rights relate to passenger transport contracts acquired upon the acquisition of subsidiaries (refer to Section 7.5.31). Capitalised contract rights chiefly relate to passenger transport contracts in GVU NV and Novio NV. At reporting date no impairment is needed.

7.5.14.1 Impairments of assets

Impairments of assets are recognised in the income statement under the line items 'depreciation, amortisation and impairments'.

7.5.15 Investments in equity accounted investees

	Notes	2007	2006
Associates and joint ventures	7.5.15.1	2,985	8,528
Total investments in equity accounted investees		**2,985**	**8,528**

7.5.15.1 Associates and joint ventures

	Associates		Joint ventures		Total	
	2007	2006	2007	2006	2007	2006
Balance at 1 January	5,994	3,363	2,534	2,511	8,528	5,874
Profit for the period	(3,176)	(1,439)	10	201	(3,166)	(1,238)
Dividends received	(174)	(230)	-	(68)	(174)	(298)
Capital contributions	30	4,300	-	-	30	4,300
Effect of sale or discontinued operations	-	-	-	(110)	-	(110)
Associates disposed off	-	-	(2,600)	-	(2,600)	-
Other	317	-	50	-	367	-
Balance at 31 December	**2,991**	**5,994**	**(6)**	**2,534**	**2,985**	**8,528**

7.5.15.2 Investments in associates

The total amount of assets, liabilities, revenues and profit or loss of the associates as at 31 December can be broken down as follows (based on 100%):

	Share Connexxion	Assets	Liabilities	Equity	Revenues	Profit / loss (-)	Off-balance sheet commit-ments
2007							
Delta Expo Beheer BV [2]	41.7%						
REISinformatiegroep BV [1]	32.8%	6,380	1,849	4,531	10,115	-	-
Trans Link Systems BV [1]	20.0%	56,375	64,771	(8,396)	2,500	(22,300)	-
Bedrijfsvervoer Limburg BV [2]	25.0%						
Advanced Netherlands Transport BV [2]	20.0%						
2006							
Delta Expo Beheer BV [3]	41.7%	6,310	2,550	3,760	4,945	45	-
Waterbus BV [3] [4]	34.5%	12,487	13,505	(1,018)	5,782	-	-
REISinformatiegroep BV [3]	32.8%	6,380	1,849	4,531	10,044	531	-
Fast Ferry BV [3] [6]	31.0%	-	-	-	-	-	-
Trans Link Systems BV [3]	20.0%	48,885	34,980	13,905	10,202	(9,806)	-
Bedrijfsvervoer Limburg BV [2]	25.0%						
Advanced Netherlands Transport BV [3]	20.0%	1	1	-	52	(8)	-
CV Twente Stadion [3] [5]	10.0%	11,893	8,772	3,121	-	-	-

[1] The information about 2007 is based on preliminary figures.
[2] Information is not yet or only partially available.
[3] The information about 2006 is based on final figures and can therefore be different from the figures reported in the 2006 financial statements.
[4] Since 27 July 2007 Waterbus is a subsidiary of Connexxion Holding NV.
[5] In 2007 Connexxion Holding NV has disposed of this associated company.
[6] This company is liquidated in 2007.

7.5.15.3 Investments in joint ventures

The total amount of assets, liabilities, revenues and profit or loss of the joint ventures as at 31 December can be broken down as follows (based on 100%):

	Share Connexxion	Assets	Liabilities	Equity	Revenues	Profit / loss (-)	Off-balance sheet commit-ments
2007							
Schiphol Travel Taxi BV [1]	50.0%	931	945	(14)	6,307	-	-
2006							
Arke/TAD BV [2] [4]	50.0%	1,763	460	1,303	2,703	(96)	-
Syntus BV [2] [3]	33.3%	20,889	15,169	5,720	57,638	1,814	-
Schiphol Travel Taxi BV [2]	50.0%	347	361	(14)	5,836	-	-

1) The information about 2007 is based on preliminary figures.
2) The information about 2006 is based on final figures and can therefore be different from the figures reported in the 2006 financial statements.
3) In 2007 Connexxion Holding NV has disposed of this joint venture.
4) In 2007 Connexxion Holding NV decided to dispose of this joint venture. The joint venture has been reclassified to assets held for sale.

7.5.16 Other investments, including derivatives

	Notes	2007	2006
Prepayments referring to acquisitions		4,441	41,400
Derivative financial instruments	7.5.26	7,150	791
Other non-current receivables	7.5.16.1	7,134	3,354
Total other investments, including derivatives		**18,725**	**45,545**

At the end of 2007 the prepayments referring to acquisitions relate to the acquisition of Gebr. Zoet Ambulance BV as per 1 January 2008. At the end of 2006 the prepayments referring to acquisitions relate to the acquisition of both GVU NV and Novio NV as per 1 January 2007. Diesel swaps are disclosed under the line item 'derivative financial instruments' (refer to Section 7.5.8).

7.5.16.1 Other non-current receivables

	Notes	2007	2006
Other non-current receivables			
Receivables from associates		4,840	928
Finance lease receivables	7.5.16.4	282	597
Other		2,012	1,829
Total other non-current receivables		**7,134**	**3,354**
Repayments on non-current receivables in the coming year			
Finance lease receivables		544	882
Other		2,039	196
Total repayments on non-current receivables in the coming year	7.5.19	**2,583**	**1,078**
Total other receivables		**9,717**	**4,432**

Repayments on other non-current receivables in the coming year are classified under the line item 'current receivables'.

7.5.16.2 Changes in other non-current receivables

The changes in other non-current receivables were as follows:

	2007	2006
Balance at 1 January	4,432	6,226
Receivables granted	5,540	-
Effect of acquired operations	1,300	-
Repayments	(910)	(2,233)
Effect of amortisation	283	(15)
Other changes	(928)	454
Balance at 31 December	**9,717**	**4,432**

7.5.16.3 Breakdown of other non-current receivables based on their term and interest rate

				Total	
Interest rate	**< 1 year**	**1 - 5 years**	**> 5 years**	**2007**	**2006**
To 4	2,039	1,300	4,840	**8,179**	**21**
4 to 6	544	994	-	**1,538**	**2,407**
6 to 8	-	-	-	**-**	**2,004**
Total	**2,583**	**2,294**	**4,840**	**9,717**	**4,432**

7.5.16.4 Finance lease receivables

Connexxion Holding NV has concluded finance lease contracts for equipment used for the maintenance of green spaces.

Nominal lease payments and their present value

The nominal lease payments and their present value can be broken down as follows:

	2007		2006	
	Nominal lease payments	**Present value lease payments**	**Nominal lease payments**	**Present value lease payments**
< 1 year	544	544	882	882
1 - 5 years	303	282	631	597
Total nominal lease payments	**847**		**1,513**	
Effect of discounting	21		34	
Total present value of lease payments	**826**	**826**	**1,479**	**1,479**

The above finance lease contracts do not include any (a) contingent rents, (b) unrealised residual values and (c) accumulated impairment for uncollectible minimum lease payments.

7.5.17 Deferred tax assets and liabilities

The deferred tax assets and liabilities can be allocated to the following items:

	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	5,487	17,223	7,944	17,248
Provisions	2,257	-	2,892	-
Tax losses available for carry-forward	30,437	-	29,579	-
Other	614	3,717	1,335	515
Total deferred taxes	**38,795**	**20,940**	**41,750**	**17,763**

The deferred tax asset has an expected term of approximately 5 years. In 2008, approximately 20% of the deferred tax asset is expected to be realised. In 2007 the line item other deferred tax assets and liabilities mainly relates to derivative financial instruments.

7.5.17.1 Statement of changes in temporary tax differences during the year

During the year, the following changes in the temporary tax differences took place:

	Balance at 1 January 2006	Recognised in income	Recognised in equity	Balance at 31 December 2006
Property, plant and equipment	(3,407)	(5,897)	-	(9,304)
Provisions	6,838	(3,946)	-	2,892
Tax losses available for carry-forward	20,186	9,393	-	29,579
Other	6,882	(7,170)	1,108	820
Total deferred taxes	**30,499**	**(7,620)**	**1,108**	**23,987**

	Balance at 1 January 2007	Recognised in income	Recognised in equity	Balance at 31 December 2007
Property, plant and equipment	(9,304)	(2,432)	-	(11,736)
Provisions	2,892	(635)	-	2,257
Tax losses available for carry-forward	29,579	858	-	30,437
Other	820	(801)	(3,122)	(3,103)
Total deferred taxes	**23,987**	**(3,010)**	**(3,122)**	**17,855**

7.5.18 Inventories

	2007	2006
Spare parts	8,383	7,411
Other inventories	2,097	2,011
Total inventories	**10,480**	**9,422**

In 2007, Connexxion Holding NV has applied a downward revaluation to inventories to net realisable value of € 0.2 million (2006: € 0.1 million). No downward revaluation was reversed in 2007 (2006: € 0.4 million). The total amount of the inventories to which downward revaluations were applied to net realisable value is € 1.8 million at year-end 2007 (2006: € 1.6 million).
As in prior year inventories have not been pledged as a security.

7.5.19 Trade and other receivables

	Notes	2007	2006
Trade receivables		53,802	49,469
Public transport funds receivable		7,890	17,985
Repayments on non-current receivables in the coming year	7.5.16.1	2,583	1,078
Receivables from associates and joint ventures		-	35
Derivative financial instruments	7.5.26	6,857	180
Value added tax		10,675	2,930
Payroll taxes and social security contributions		575	304
Prepayments and accrued income		44,961	19,275
Other receivables		1,306	4,646
Total trade and other receivables		**128,649**	**95,902**

7.5.20 Cash and cash equivalents

	2007	2006
Cash and bank balances	85,033	60,868
Total cash and cash equivalents	**85,033**	**60,868**

Cash and cash equivalents are at the Company's free disposal. In 2007 the effective interest rate was calculated on the basis of Eonia minus a margin of 0.05 per cent and amounted to 3.8% (2006: 2.8%).

7.5.21 Assets classified as held for sale

	2007	2006
Property, plant and equipment	5,016	5,119
Associates and joint ventures	638	-
Financial instruments	6,456	7,239
Total assets classified as held for sale	**12,110**	**12,358**

The line item 'property, plant and equipment classified as held for sale' mainly comprises buildings. They are expected to be sold within 1 year. Associates and joint ventures held for sale relates to the joint venture Arke/TAD BV. The Company expects to finalize the sale of Arke/TAD BV in the first quarter of 2008.

Financial instruments classified as held for sale concern bonds. In 2007, solely unrealised gains and losses of € 0.8 million negative were realised on these bonds, which were directly included in equity (2006: € 0.1 million negative).

An increase of 1 per cent of the interest rate would have led to a decrease in value as per balance sheet date of € 0.2 million (2006: € 0.2 million) for financial instruments classified as held for sale.

7.5.22 Equity attributable to equity holders of the Company

					2006
	Share capital	**Unrealised changes in fair value of financial instruments**	**Statutory and other non-distributable reserves**	**Retained earnings**	**Total**
Carrying amount at 1 January 2006	**79,553**	**366**	**4,187**	**126,535**	**210,641**
Income and expenses recognised in equity	-	(3,219)	-	-	**(3,219)**
Gains and losses not recognised in the income statement	**-**	**(3,219)**	**-**	**-**	**(3,219)**
Profit for the period	-	-	-	14,580	**14,580**
Effective portion of changes in fair value of financial instruments	-	578	-	-	**578**
Dividends received from associates and joint ventures	-	-	(298)	298	**-**
Allocations to statutory and other non-distributable reserves	-	-	2,954	(2,954)	**-**
Dividend distribution to equity holder	-	-	-	(6,750)	**(6,750)**
Carrying amount at 31 December 2006	**79,553**	**(2,275)**	**6,843**	**131,709**	**215,830**

	Share capital	Unrealised changes in fair value of financial instruments	Statutory and other non-distributable reserves	Retained earnings	2007 Total
Carrying amount at 1 January 2007	**79,553**	**(2,275)**	**6,843**	**131,709**	**215,830**
Income and expenses recognised in equity	-	9,088	-	-	9,088
Gains and losses not recognised in the income statement	**-**	**9,088**	**-**	**-**	**9,088**
Profit for the period	-	-	-	2,361	2,361
Effective portion of changes in fair value of financial instruments	-	2,318	-	-	2,318
Allocations to statutory and other non-distributable reserves	-	-	10	(10)	-
Withdrawals from statutory and other non-distributable reserves	-	-	(2,766)	2.766	-
Dividend distribution to equity holder	-	-	-	(5,800)	(5,800)
Payment at the expense of the distributable reserves	-	-	-	(25,000)	(25,000)
Other changes	-	(70)	-	-	(70)
Carrying amount at 31 December 2007	**79,553**	**9,061**	**4,087**	**106,026**	**198,727**

7.5.22.1 Authorised share capital

The authorised share capital of Connexxion Holding NV amounts to € 350.0 million, divided into 350,000 ordinary shares with a nominal value of € 1,000 each. All shares are registered shares; share certificates are not issued. Neither the value of the authorised share capital nor the number of shares changed during the current and previous year.

7.5.22.2 Issued capital

The issued capital of Connexxion Holding NV amounts to € 79.553 million, divided into 79,553 ordinary shares with a nominal value of € 1,000 each. The issued capital is fully paid up. Neither the value of the issued capital nor the number of shares changed during the current and previous year.

7.5.22.3 Unrealised changes in fair value of financial instruments

The unrealised gains and losses on financial instruments amount to € 9.1 million as at year-end 2007 (2006: € 2.3 million negative).

7.5.22.4 Statutory and other non-distributable reserves

The statutory and other non-distributable reserves relate to undistributed profits of associates and joint ventures and the tied-up capital of the Ambulance Service as per the relevant guidelines of the competent authority. The restricted capital of the Ambulance Service totalled € 3.3 million as at year-end 2007 (2006: € 3.3 million). The movements in the line item 'statutory and other non-distributable reserves' are included in the consolidated statement of changes in equity.

7.5.22.5 Retained earnings

The Executive Board proposes to add the profit for 2007 attributable to equity holders of the company, in an amount of € 2,361,000 to the other reserves. A part of retained earnings is for the benefit of public transport in general. The movements in the line item 'retained earnings' are included in the consolidated statement of changes in equity. In 2007 a distribution was made form retained earnings in an amount of € 25.0 million, on top of the dividend payment over 2006 of € 5.8 million.

7.5.23 Minority interest

	2007	2006
Carrying amount at 1 January	**12,152**	**11,484**
Income and expenses recognised in equity	32	(10)
Gains and losses not recognised in the income statement	**32**	**(10)**
Profit for the period	456	1,109
Acquisition of minority interest	(12,648)	-
Dividend distribution to equity holder	-	(431)
Other changes	(346)	-
Carrying amount at 31 December	**(354)**	**12,152**

In 2007 the remaining shares in Hermes Groep NV were acquired from the Province of Limburg and a number of Limburg municipalities. The interest in Waterbus BV was increased from 34.5% to 65.5%. At year-end 2007 the minority interest therefore only concerns the share held by third parties in Waterbus BV.

7.5.24 Loans and borrowings

	2007	2006
Non-current loans and borrowings		
Finance lease commitments	60,960	64,236
Loans from financial institutions	166,982	71,606
Other	928	-
Total non-current loans and borrowings	**228,870**	**135,842**
Repayments on loans and borrowings in the coming year		
Finance lease commitments	11,710	12,652
Loans from financial institutions	14,224	13,749
Total repayments on loans and borrowings in the coming year	**25,934**	**26,401**
Total loans and borrowings	**254,804**	**162,243**

The repayments on loans and borrowings are disclosed under the line item current liabilities.

	2007	2006
Balance at 1 January	162,243	166,614
Borrowings granted	233,000	44,241
Effect of acquisitions	10,301	-
Repayments	(162,048)	(48,604)
Effect of amortisation	-	(8)
Other changes	11,308	-
Balance at 31 December	**254,804**	**162,243**

The total credit facility not drawn as per 31 December 2007 amounts to € 61 million (2006: € 230 million). Connexxion has, to finance her activities, a continuous credit facility at her disposal. With the banks several covenants have been agreed to: the amount of equity (minimal € 200 million), the interest coverage ratio (minimal 2) and the extent to which the company is able to repay her interest bearing debts (Net Debt to EBITDA; maximal 3.0).

Equity has declined under the € 200 million as a result of a payment to the Ministry of Finance at the expense of the free distributable reserves. As a result the company breached the covenant of the minimal equity of € 200 million, agreed on with the banks. This fact has been accepted by all banks by means of a formal 'waiver' which will end at 30 September 2008.

As result of the privatisation expenses, the interest coverage ratio remained with 1.8 (2006: 3.1) under the threshold agreed on with the banks. Connexxion is currently discussing this with the banks to obtain a 'waiver' concerning this covenant.

7.5.24.1 Collaterals to guarantee loans and borrowings

Connexxion has pledged property, plant and equipment with a carrying amount of € 282.4 million (2006: € 215.2 million) as collateral for the interest bearing loans and borrowings (refer to Section 7.5.13.3).

7.5.24.2 Break-down of loans and borrowings based on their term and interest rate

Interest rate	< 1 year	1 - 5 years	> 5 years	Total 2007	Total 2006
To 4	13,809	14,037	-	27,846	41,247
4 to 6	12,125	48,690	166,143	226,958	120,685
6 to 8	-	-	-	-	311
Total	**25,934**	**62,727**	**166,143**	**254,804**	**162,243**

7.5.24.3 Finance lease commitments

Connexxion has concluded finance lease contracts for rolling stock.

Nominal lease payments and their present value

The nominal lease payments and their present value can be broken down as follows:

	2007 Nominal lease payments	2007 Present value lease payments	2006 Nominal lease payments	2006 Present value lease payments
< 1 year	14,169	11,710	15,905	12,652
1 - 5 years	51,841	46,603	62,742	55,445
> 5 years	15,969	14,357	9,013	8,791
Total nominal lease payments	**81,979**		**87,660**	
Effect of discounting	9,309		10,772	
Total present value of lease payments	**72,670**	**72,670**	**76,888**	**76,888**

Finance lease commitments are subject to the following conditions:
Connexxion undertakes to keep the property in a good condition, to insure it and to have it solely used by Connexxion. Ownership of the property shall only pass to the lessee after payment of the last instalment and the transfer price. The lease contract will only be terminated due to a destruction of the property or the lessee's bankruptcy. Connexxion has not recognised any contingent lease payments as an expense in the income statement. No limitations have been imposed in the lease contract. The carrying amount of rolling stock under finance lease contracts totals € 58.1 million as at 31 December 2007 (2006: € 68.3 million). The carrying amount of land and buildings under finance lease contracts totals € 10.5 million as at 31 December 2007 (2006: € 0.0 million).

7.5.25 Provisions

	Carrying amount 01-01-2006	Allocations	Effect of acquired operations	With-drawals	Release	Effect of amorti-sation	Reclassifi-cation to liabilities held for sale	Carrying amount 31-12-2006
Long-term employee benefits	20,632	4,642	164	(785)	(6,582)	226	-	**18,297**
Pending damage claims	17,207	7,608	-	(8,274)	(2,150)	306	-	**14,697**
Environmental	10,153	329	-	(1,126)	(1,899)	1,258	(2,929)	**5,786**
Restructuring	16,034	5,473	-	(12,974)	(2,836)	328	-	**6,025**
Claims, disputes and legal proceedings	7,640	5,649	-	(203)	-	-	-	**13,086**
Other	84	2,351	-	1	-	(114)	-	**2,322**
Total provisions	**71,750**	**26,052**	**164**	**(23,361)**	**(13,467)**	**2,004**	**(2,929)**	**60,213**

	Carrying amount 01-01-2007	Allocations	Effect of acquired operations	With-drawals	Release	Effect of amorti-sation	Reclassifi-cation to liabilities held for sale	Carrying amount 31-12-2007
Long-term employee benefits	18,297	2,047	16,933	(5,004)	(1,768)	(111)	-	**30,394**
Pending damage claims	14,697	7,656	-	(9,349)	(2,065)	366	-	**11,305**
Environmental	5,786	67	71	(387)	(926)	680	(693)	**4,598**
Restructuring	6,025	7,931	-	(3,948)	(1,255)	285	-	**9,038**
Claims, disputes and legal proceedings	13,086	150	698	(1,838)	(2,169)	20	-	**9,947**
Onerous contracts	-	350	6,269	-	(4,987)	-	-	**1,632**
Other	2,322	-	-	(38)	(517)	65	-	**1,832**
Total provisions	**60,213**	**18,201**	**23,971**	**(20,564)**	**(13,687)**	**1,305**	**(693)**	**68,746**

7.5.25.1 Breakdown of provisions based on their term

	2007		2006	
Term:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Long-term employee benefits	5,692	24,702	1,887	16,410
Pending damage claims	3,166	8,139	5,338	9,359
Environmental	1,284	3,314	1,302	4,484
Restructuring	7,298	1,740	5,152	873
Claims, disputes and legal proceedings	9,712	235	12,104	982
Onerous contracts	599	1,033	-	-
Other	1,133	699	1,625	697
Total provisions	**28,884**	**39,862**	**27,408**	**32,805**

For a general description of the above provisions, reference is made to the accounting policies (refer to Section 7.5.9.13).

7.5.25.2 Long-term employee benefits

The provision for long-term employee benefits is intended for benefits paid to employees due to long-term sickness, future jubilee benefits, termination benefits and for the provisions for job-related discharge from service dictated by age. In the calculation of future jubilee benefits, provisions for termination benefits for a certain group of employees and provisions for job-related discharge from service dictated by age, also for a certain group of employees, a 2.5% wage trend has been applied (2006: 2.5%) and by age category the disability, discharge and promotion rates have been determined. In addition, the life expectancy rates based on "Pensioentafel 2006" without backward age adjustments were applied. The disability rates are based on the report of the Dutch Association of Insurers, based on the model "costs to cover the Dutch Resumption of Work (Partially Fit Persons) Regulation, September 2005.

Provision for long-term absenteeism

The provision for long-term absenteeism is determined based on the estimate that employees are on prolonged sick leave and receive continued payment of full wages in the first and second years of sickness in exchange for 3 leave days maximum per calendar year. The effective market interest for high quality market bonds with a double A rating has been used as the discount rate.

Provision for future jubilee benefits

The provision for future jubilee benefits is determined based on the estimate that the qualifying employee reaches a 25th or 40th service anniversary and consequently receives a jubilee benefit. Double A rating has been used as the discount rate. In order to cover the disbursement expenses, the provision contains a 2% mark-up.

Provision for termination benefits

The provision for termination benefits relates to Hermes Group NV staff and former VSL staff, whose employment commenced prior to 1 January 1977. Upon dismissal, these employees are entitled to a benefit of 20% of the weekly wages per full year of employment, with a maximum of 30 full years of employment. The effective market interest for high quality market bonds with a double A rating has been used as the discount rate. In order to cover the disbursement expenses, the provision contains a 2% mark-up.

Provision for job related retirement

A former civil servant who was discharged from service dictated by age ("Functioneel Leeftijdontslag, FLO"), will receive a relevant benefit (hereinafter "a FLO benefit") from Connexxion until he reaches the age of 65. Any early retirement benefit ("Flexibele Pensioen Uitkering, FPU") will be deducted from this. The FPU benefit commences as soon as the employees concerned have reached the age of 62 years and 3 months. Employees born after 1 January 1950 have not been included in the calculation of the provision for job-related discharge from service dictated by age, since this scheme is no longer subject to tax facilities relative to this group and management expects that it will not be continued. The extent of the FLO benefit is 80% of the salary increased by 0.5% of the salary times the number of years of service in excess of thirty years, less the FPU benefit. The effective market interest for high quality market bonds with a double A rating has been used as the discount rate.

7.5.25.3 Pending damage claims

This provision changes as soon as a development occurs in the injury file, damages are paid or the file is closed. The weighted average cost of capital of Connexxion was used as the discount rate.

7.5.25.4 Environmental

The extent of the environmental provision is determined based on the estimated expenditure for having the environmental pollution known to Connexxion cleaned up by external experts, insofar as it has been demonstrated sufficiently that Connexxion caused this pollution. Since the exact planning of the clean-up work is uncertain, Connexxion made an estimate of the expenditures over time. The weighted average cost of capital of Connexxion was used as the discount rate.

7.5.25.5 Restructuring

Expectations are that the restructuring will mainly be completed in the course of 2008. The weighted average cost of capital of Connexxion was used as the discount rate.

7.5.25.6 Claims, disputes and legal proceedings

The provision for claims, disputes and legal proceedings is formed if management expects that this could lead for Connexxion to an outflow of funds. Based on the currently available data, legal advice sought and the amounts provided for, the Company does not expect the outcome of legal proceedings to have an material adverse effect on the Group's financial position. The weighted average cost of capital of Connexxion was used as the discount rate.

7.5.25.7 Onerous contracts

The provision for onerous contracts relates to public transport contracts which will, by Connexxion's estimate, incur a loss during the full term of the concession (i.e. the contract) and of which the directly attributable property, plant and equipment have been fully impaired to their residual values. In this estimate, Connexxion compares the costs of the contract with the expected economic benefits. Costs that can be avoided by future actions are not involved in the estimate and, in addition, only those costs that can directly be attributed are included in the determination of the costs. The weighted average cost of capital of Connexxion was used as the discount rate.

7.5.26 Derivatives

The item derivatives concerns the derived financial instruments for hedging the diesel price risk and the interest rate risk.

For the hedging of all future diesel purchases a hedging policy is formulated. This policy describes that after the granting of a concession to Connexxion within a month the forecasted diesel consumption must be hedged according to predetermined minimal portions for a certain period of time. Every half year the hedging execution will be checked if the minimum requirements are fulfilled. To prevent speculation the company has included in its policy that the total hedged volume should not exceed the total fuel consumption during the contract. Financial instruments used for hedging fuel risks are swaps, caps and floors.
The Value at Risk may not exceed € 2.0 million per year and the total Value at Risk over six years may not exceed € 6.0 million.
The total diesel exposure for all years to be hedged may not exceed 40%. Derivative transactions are solely contracted with financial institutions with a minimal A-credit rating. Connexxion always demands a settlement agreement with the counterparty.

The fair value of the outstanding positions at year end 2007 amounts to € 13.9 million (2006: € 2.7 million negative)

The book value of the derivatives can be specified as follows:

(x € million)	2007	2006
Non-current receivables	7.2	0.8
Current receivables	6.9	0.2
Non-current liabilities	(0.2)	(1.3)
Current liabilities	-	(2.4)
Total carrying amount derivatives	**13.9**	**(2.7)**

Connexxion is contractually obliged to settle the difference between the fixed and floating price on balance with the counterparty.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and to impact profit or loss:

(x million)	2008	2009	2010	2011	2012	2013
Amount of litres diesel hedged	79.0	50.4	29.1	18.0	16.1	-
Loan, hedged by means of a interest rate swap (in €)	8.4	8.0	7.5	7.0	6.5	6.1

(x € million)	2008	2009	2010	2011	2012	2013	Total
Expected cash flow diesel swap	6.8	2.2	2.0	0.9	1.4	-	**13.3**
Expected cash flow interest rate swap	0.1	0.1	0.1	0.1	0.1	0.1	**0.6**
	6.9	**2.3**	**2.1**	**1.0**	**1.5**	**0.1**	**13.9**

7.5.27 Pensions

Connexxion participates in various industrial pension funds, including ‘Stichting Pensioenfonds Openbaar Vervoer (SPOV)’, the ‘Algemeen Burgerlijk Pensioenfonds (ABP)’, ‘Stichting Bedrijfstakpensioenfonds voor het Beroepsvervoer over de weg’, ‘Pensioenfonds Metaal en Techniek’ and the ‘Spoorwegpensioenfonds’. All funds have their own conditions. With effect from 1 January 2006, both SPOV and ABP switched from a final pay scheme to an average earnings scheme. From that date, all pension funds in which Connexxion participates now apply the average earnings scheme. Said pension funds have their own funding ratios and bases as is apparent from the schedule below.

	Funding ratio	Bases	Last known figures
Stichting Pensioenfonds Openbaar Vervoer	151.0%	Current market rate	Third quarter 2007
Algemeen Burgerlijk Pensioenfonds	140.3%	Current market rate	At year-end 2007
Bedrijfstakpensioenfonds voor het Beroepvervoer over de weg	121.0%	Actuarial interest rate (4.00%)	Third quarter 2007
Pensioenfonds Metaal en Techniek	152.0%	Current market rate	Third quarter 2007
Stichting Spoorwegpensioenfonds	195.0%	Current market rate	Third quarter 2007

Considering the above mentioned ratios, Connexxion does not expect major changes in the pension expenses.

7.5.28 Trade and other payables, including derivatives

	Notes	2007	2006
Trade payables		64,472	43,702
Public transport funds payable		30,902	24,449
Derivative financial instruments		-	2,395
Personnel expenses	7.5.26	33,758	26,694
Current tax payable		75	57
Value added tax		2,935	3,110
Payroll taxes and social security contributions		15,169	13,385
Accruals		34,922	19,052
Other liabilities		9,299	11,376
Total trade and other payables, including derivatives		**191,532**	**144,220**

7.5.29 Deferred income

	2007	2006
Public transport funds	10,998	12,923
Other payments received in advance	29,795	28,218
Total deferred income	**40,793**	**41,141**

7.5.30 Liabilities classified as held for sale

Liabilities classified as held for sale, amounting to € 2.7 million (2006: € 3.9 million), relate to the current portion of the environmental provision for the buildings that will be sold.

7.5.31 Acquisitions of subsidiaries

On 1 January 2007 the Company acquired all of the shares in GVU NV for 29.0 million and all of the shares in Novio NV for 12.4 million. On 27 July 2007 the Company acquired 31% of the shares in Waterbus BV for € 0.2 million. Connexxion now owns 65.5% of the shares. The main activity of the acquired companies is public transport. The effects of the acquisitions of GVU and Novio amount to € 113.6 million on consolidated revenues and to € 3.3 million on consolidated results for the year 2007. Should Waterbus have been acquired as per 1 January 2007, the effect on consolidated revenues and consolidated result would not have been significant.

The above acquisitions have the following effect on the Group's assets, equity and liabilities on acquisition date:

	Notes	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Assets				
Non-current assets				
Property, plant and equipment	7.5.13	32,089	(1,825)	30,264
Intangible assets	7.5.14	-	27,794	27,794
Investments in equity accounted investees	7.5.15	(3,066)	3,069	3
Other investments, including derivatives	7.5.16	1,728	-	1,728
Deferred tax assets	7.5.17	1,875	177	2,052
Total non-current assets		**32,626**	**29,215**	**61,841**
Current assets				
Inventories		886	-	886
Current tax assets		198	-	198
Trade and other receivables		25,025	694	25,719
Cash and cash equivalents		38,613	-	38,613
Total current assets		**64,722**	**694**	**65,416**
Total assets		**97,348**	**29,909**	**127,257**

	Notes	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Equity and liabilities				
Equity attributable to equity holders of the Company		**11,158**	**28,209**	**39,367**
Minority interest		**(346)**	**-**	**(346)**
Total equity		**10,812**	**28,209**	**39,021**
Liabilities				
Loans and borrowings	7.5.24	10,695	-	10,695
Provisions	7.5.25	19,153	1,010	20,163
Total non-current liabilities		**29,848**	**1,010**	**30,858**
Bank overdrafts		10,678	-	10,678
Loans and borrowings	7.5.24			
Trade and other payables, including derivatives		42,201	690	42,891
Deferred income				
Provisions		3,809	-	3,809
Total current liabilities		**56,688**	**690**	**57,378**
Total liabilities		**86,536**	**1,700**	**88,236**
Total equity and liabilities		**97,348**	**29,909**	**127,257**

The effect of acquisitions on the Group's assets, equity and liabilities on acquisition date can be broken down as:

	GVU	Novio	Waterbus	Total
Non-current assets	37,611	11,024	13,206	61,841
Current assets	22,495	42,676	245	65,416
Total assets	**60,106**	**53,700**	**13,451**	**127,257**
Equity	29,039	10,503	(521)	39,021
Non-current liabilities	11,915	8,248	10,695	30,858
Current liabilities	19,152	34,949	3,277	57,378
Total liabilities	**31,067**	**43,197**	**13,972**	**88,236**
Total equity and liabilities	**60,106**	**53,700**	**13,451**	**127,257**

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisitions. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

7.5.31.1 Goodwill on acquisition

For the acquisition of Novio and Waterbus Connexxion has paid an amount of € 1.9 million regarding to goodwill. This amount can be broken down as follows:

	GVU	Novio	Waterbus	Total
Consideration paid, satisfied in cash	29,000	12,400	170	41,570
Acquisition costs	39	20	-	59
Less: Equity against fair value	(29,039)	(10,503)	(170)	(39,712)
Goodwill paid on acquisition	**-**	**1,917**	**-**	**1,917**

Goodwill is paid following expected synergies from the business combination (refer to Section 7.5.14).

7.5.31.2 Net cash outflow

The net cash outflow amounts to € 3.0 million. This amount can be broken down as follows:

	GVU	Novio	Waterbus	Total
Consideration paid, settled in cash	29,039	12,420	170	41,629
Less: Cash and cash equivalents acquired	(19,484)	(19,081)	(48)	(38,613)
Net cash outflow	**9,555**	**(6,661)**	**122**	**3,016**

7.5.32 Off-balance sheet commitments

7.5.32.1 Capital commitments

Connexxion has entered into contracts for the purchase of assets for an amount of € 17.3 million (2006: € 42.2 million). Capital commitments of rolling stock all relate to 2008. The other capital expenditures relate to capital expenditure in the OV Chip Card. These expenditures all relate to 2008. This amount can be broken down as follows:

(x € million)	2007	2006
Rolling stock	1.6	18.1
Other capital expenditure	15.7	24.1
Total capital commitments	**17.3**	**42.2**

7.5.32.2 Operating leases

Connexxion has concluded operating lease contracts for rolling stock. These contracts usually have terms of 8 to 10 years. The total nominal lease payments for non-cancellable operating leases amount to € 25.5 million (2006: € 29.1 million) and can be broken down as follows:

(x € million)	2007	2006
< 1 year	9.4	9.7
1 - 5 years	16.1	19.4
Total operating leases	**25.5**	**29.1**

In 2007 € 11.0 million (2006: € 8.1 million) in operating lease expenses was charged to the income statement.

7.5.32.3 Rent

Future rentals commitments entered into with third parties for real estate total € 58.1 million (2006: € 56.5 million). This amount can be broken down as follows:

(x € million)	2007	2006
< 1 year	15.3	12.2
1 - 5 years	32.6	25.5
> 5 years	10.2	18.8
Total rent	**58.1**	**56.5**

7.5.32.4 Ground leases

Ground leases expire in the period 2007 to 2035 and amount to € 1.2 million (2006: € 1.2 million) which can be broken down as follows:

(x € million)	2007	2006
< 1 year	0.1	0.1
1 - 5 years	0.2	0.1
> 5 years	0.9	1.0
Total ground leases	**1.2**	**1.2**

7.5.32.5 Guarantees

As at 31 December 2007, Connexxion Holding NV has furnished guarantees up to an amount of € 5.9 million (2006: € 1.7 million). This amount can be broken down as follows:

(x € million)	2007	2006
< 1 year	5.9	1.5
1 - 5 years	-	0.2
Total guarantees	**5.9**	**1.7**

7.5.33 Accounting estimates and judgements

Connexxion management discusses with the Audit Committee the developments, the choices and the application of the relevant accounting policies and estimates.

Estimates relative to revenues

In public transport, passenger transport revenue from ticket sales and student travel cards are estimated for the fourth quarter 2007. This estimate is made based on an extrapolation of historical data derived from information received from third parties relative to passenger transport revenue up to and including October 2007.

Government grants are recognised when, with reasonable amount of certainty, the company complies with the conditions and that the grant will be received.

In the past, deviations from these estimates made, proved not to have a significant influence on the prior-year revenues. Any deviation, relative to sales which is recognised in the subsequent year, is however directly taken as profit.

Assumptions relative to provisions

The assumptions relating to provisions are set out in the section on provisions (refer to Section 7.5.25).

Assumptions relative to deferred tax assets

Connexxion has recognised deferred tax assets for tax losses available for carry forward. These tax losses expire as from 2011. Deferred tax assets relative to tax loss carry forward have been recognised because it is probable that these can be offset against future taxable profit.

7.5.34 Financial risk management

It is inherent in the nature of Connexxion's ordinary activities in the field of public and private passenger transport and related services that the Company is exposed to certain financial risks both in the short and the long term. Connexxion's strategy within the alliance focuses on reinforcing its leading position in the Netherlands and an expansion of its activities in Northwest Europe. Connexxion finances her activities in a proper balance between interest bearing facilities and capital.

7.5.34.1 Capital management

Capital of Connexxion consists of equity which can be broken down as follows (refer to Section 7.5.22):
- Share capital;
- Unrealised changes in fair value of financial instruments;
- Statutory and other non-distributable reserves;
- Retained earnings.

Connexxion's objectives when managing capital are:
- To safeguard the entity's ability to continue as a going concern;
- To provide an adequate return on capital by choosing a capital structure in line with business risk;
- Comply with external capital requirements.

Connexxion manages its capital on the long run by forecasting the development of its asset base and using target leverage levels. These forecasts and the underlying capital expenditure budget are an integral part of the business plan, which has a forecast horizon of 2008 until 2012. In the annual plan the most recent information is included on concessions that have been awarded to Connexxion. These awarded concessions determine largely the amount of capital expenditure in the next year.

Connexxion uses a revolving credit facility for funding operations. For further explanation refer to Section 7.5.24.

7.5.34.2 Credit risk

Connexxion management has formulated a credit policy. For each counterparty, including clients, a credit rating is performed and credit limits are set, if relevant. These limits are tested periodically. The credit risk exposure of Connexxion is limited, since over 75% of the revenues is realised with a (local) government authority. Derivative transactions are solely concluded with financial institutions having a credit rating which is equal or higher than an A-credit rating. In addition, Connexxion always requires a settlement agreement with the counterparty. For the hedge policy refer to Section 7.5.26.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2007	2006
Trade receivables	53,802	49,469
Loans and other receivables	63,874	46,373
Available-for-sale financial assets	6,456	7,239
Cash and cash equivalents	85,033	60,868
Derivatives used for cash flow hedging	14,007	971
	223,172	**164,920**

Connexxion did not pledge any financial assets nor received any financial assets as collateral.

Ageing trade receivables

The ageing of trade receivables can be broken down as follow:

	2007		2006	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	29,500	(25)	28,474	(25)
Past due 0 - 30 days	11,166	(6)	8,702	(9)
Past due 31 - 60 days	3,633	(18)	5,455	(13)
Past due 61 - 90 days	2,678	(29)	1,519	(22)
Past due 91 - 180 days	4,545	(621)	1,436	(237)
Due to more than 180 days	6,827	(3,848)	8,869	(4,680)
Total	**58,349**	**(4,547)**	**54,455**	**(4,986)**

Impairment of trade receivables

	2007	2006
Balance at 1 January	(4,986)	(5,828)
Impairment loss recognised	439	842
Balance at 31 December	**(4,547)**	**(4,986)**

7.5.34.3 Liquidity risk

Connexxion's policy is to have adequate access to financial resources at all times in order to fulfill its obligations. In this context, it should be noted that a change of control clause has been included in the agreements with financial institutions. This means that the financing agreements are cancellable if an important change in ownership occurs. For the maturity of the non-current receivables and loans and borrowings refer to respectively Section 7.5.16 and Section 7.5.24.2. Connexxion uses a revolving credit facility for funding operations. For further explanation refer to Section 7.5.24. The undrawn facility amount is € 61 million at 31 December 2007 (2006: € 230 million).

7.5.34.4 Market risk

Market risks exist of:

- Price risk;
- Interest rate risk;
- Liability risk;
- Currency risk;
- Liabilities for subsidiaries;
- Legal proceedings;
- Other risks.

7.5.34.4.1 Price risk

The policy in relation to price risk is to hedge price risks from the purchase of diesel fuel and electricity for current transport concessions, insofar as this price risk has not or insufficiently been hedged by stipulations in the contract for revenue indexation. For 2008 Connexxion has 89% of its price risk on diesel covered through a swap (also refer to Section 7.5.26). A 1 eurocent increase in the fuel price (excluding excise taxes) on 1 January 2008 would have a negative impact of € 0.8 million on the 2008 profit.

7.5.34.4.2 Interest rate risk

With a view on the strategy of the company Connexxion constantly evaluates capital markets for opportunities to adjust her financing. The recent credit crisis in the financial markets has resulted in increased interest-rates for corporate financing. The company therefore sees currently no reason to adjust its financing. Connexxion mainly finances its activities with long-term variable interest-bearing borrowings. At year-end 2007, funds borrowed totalled € 181.2 million (2006: € 85.4 million). For the movements in interest-bearing loans and borrowings, reference is made to Section 7.5.24. Cash and cash equivalents, comprising cash and bank balances, total € 85.0 million at year-end 2007 (2006: € 60.9 million). In managing its interest rate risks, Connexxion aims to restrict the effect of short term fluctuations in its profit or loss. In 2008, Connexxion will switch to interest rate swaps in order to reduce the relevant risk. Waterbus has concluded an interest rate swap agreement. A variable interest-rate is agreed to in the loan agreements (with a principal amount of € 9.0 million); the variable interest rate is changed into a fixed interest rate through the interest rate swap. A 1% increase in the interest rate on 1 January 2008 would affect the Company's results over 2008 by € 1.8 million negative, taking into account a level of financing at year-end 2007 of € 181.2 million.

7.5.34.4.3 Liability risk

Because of its size Connexxion has decided only to insure risks in case there is of an existing legal obligation and / or any risks that may have a material effect on the company. This means that Connexxion is insured for significant third party claims and that assets are insured, with a considerable amount of own risk, against any possible loss or damage. Within Connexxion a procedure to prevent damage to vehicles is in place to allow for a frequent monitoring of the insured risks.

7.5.34.4.4 Currency risk

Connexxion does not run any exchange risk, because nearly all transactions are conducted in euros.

7.5.34.4.5 Liabilities for subsidiaries

The company and its subsidiaries, with the exception of Waterbus BV, form a tax group for corporate income tax and VAT.
As a result, based on the standard conditions for tax groups, the Company is jointly and severally liable for all tax debts originating from the period in which it was a member of that tax group. The list with companies for which declarations of joint and several liability (as referred to in Section 403, Part 9, Book 2 of the Netherlands Civil Code) have been issued, is available for inspection at the offices of the Chamber of Commerce in Hilversum, the Netherlands.

7.5.34.4.6 Legal proceedings

Connexxion has recognised a provision for risks resulting from claims, disputes and legal proceedings. Based on the currently available data, legal advice sought and the amounts provided for, the Company does not expect the outcome of legal proceedings to have a material adverse negative effect on the Group’s financial position.

7.5.34.4.7 Other risks

Personnel expenses are a substantial part of the costs of Connexxion. An audit of the tax authorities regarding wage tax and social security charges may have material impact on the Company's financial statements.

7.5.35 Other revenue

Gains and losses on the sale of assets are disclosed under the line item other revenue. In 2007 the gains on the sale of assets amounted to € 9.6 million (2006: € 21.7 million). Furthermore Connexxion has recognised badwill (€ 2.7 million) incurred with the acquisition of the minority interest in Hermes Group NV in other revenues. In 2007 Connexxion has presented revenues from public transport over water in a separate line item and adjusted the 2006 comparative figures accordingly.

7.5.36 Cost of sales

	2007	2006
Cost of commercial vehicles and spare parts	(18,094)	(18,671)
Cost of work contracted-out	(148,375)	(81,953)
Total cost of sales	**(166,469)**	**(100,624)**

7.5.37 Personnel expenses

	2007	2006
Wages and salaries	(396,301)	(349,648)
Social charges (excluding pension charges)	(48,510)	(43,105)
Pension charges	(53,947)	(49,533)
Hired staff	(51,001)	(36,798)
Allocation to and release from restructuring provisions	(6,676)	(659)
Other personnel expenses	(25,209)	(25,518)
Total personnel expenses	**(581,644)**	**(505,261)**

7.5.37.1 Employee information

The average number of employees of the Group in full-time equivalents during the reporting year was:

	2007	2006
Direct employees	10,274	9,394
Indirect employees	1,297	1,131
Total average number of employees in full-time equivalents	**11,571**	**10,525**

The number of employees of the Group in full-time equivalents at year end was:

	2007	2006
Total number of employees in full-time equivalents at year end	**11,580**	**10,218**

7.5.38 Depreciation, amortisation and impairments

	2007	2006
Depreciation of property, plant and equipment	(62,644)	(56,513)
Amortisation	(6,341)	-
Impairments of property, plant and equipment	(6,981)	(3,131)
Reversal impairment losses of property, plant and equipment	5,800	1,632
Impairments of intangible assets	-	(524)
Total depreciation, amortisation and impairments	**(70,166)**	**(58,536)**

7.5.39 Other operating expenses

The line item ‘other expenses’ contains € 1.0 million of audit fees in 2007 (2006: € 0.9 million). The fee paid for these services is evaluated periodically and is in line with the market. Connexxion has reclassified an amount to personnel costs and fleet costs and has adjusted her 2006 comparative figures accordingly.

7.5.40 Finance income

	2007	2006
Interest income on bank deposits	5,455	4,808
Interest income on other investments measured at amortised cost	283	19
Total finance income	**5,738**	**4,827**

7.5.41 Finance expenses

	2007	2006
Finance expense	(10,576)	(9,101)
Interest expense on financial liabilities measured at amortised cost	-	(26)
Effect of discounting provisions	(1,305)	(2,004)
Total finance expenses	**(11,881)**	**(11,131)**

7.5.42 Share of profit of equity accounted investees (net of income tax)

	2007	2006
Syntus BV	-	284
REISinformatiegroep BV	(251)	185
Trans Link Systems BV	(2,662)	(1,648)
Other	(253)	(59)
Total share of profit of equity accounted investees (net of income tax)	**(3,166)**	**(1,238)**

7.5.43 Income taxes

	As a %		x € 1,000	
Reconciliation of effective tax rate	**2007**	**2006**	**2007**	**2006**
Profit before taxes			9,297	22,952
Income tax using the domestic corporation tax rate	25.5%	29.6%	(2,370)	(6,794)
Adjustment valuation deferred tax asset	-	(12.5)%	-	2,865
Effect of participation exemption	(2.7)%	0.8%	249	(179)
Reduction of tax rate	-	22.7%	-	(5,220)
Released investment grants	-	-	-	1
Non-deductible expenses	8.4%	2.3%	(779)	(535)
Benefits exempted from income taxes	(6.6)%	-	615	-
Settlement of prior periods	45.1%	(11.3)%	(4,195)	2,599
Total income taxes	**69.7%**	**31.6%**	**(6,480)**	**(7,263)**

The settlement of prior periods accounted for in 2007 relates to an exceptional corporate income tax charge over the year 1995. The settlement of prior periods accounted for in 2006 relates to a receipt of corporate income tax over the year 1999.

7.5.44 Minority interest

	2007	2006
Waterbus BV	(40)	-
Hermes Groep NV	496	1,109
Total minority interest	**456**	**1,109**

7.5.45 Related-party transactions

The following related parties of the Group can be distinguished: the associates and joint ventures (refer to Section 7.5.6), the Executive Board and Supervisory Board of Connexxion and the Shareholders. More specifically the consortium of Transdev, a French transport company, and Bank Nederlandse Gemeenten (BNG) and the Dutch State. All related-party transactions are conducted at arm's length. The following related-party transactions took place:

2007

	Sold to	Purchased from	Amounts receivable from	Amounts payable of
Name of related party				
Bank Nederlandse Gemeenten [1]	-	-	-	27,498
Syntus BV [3]	3,181	5,206	675	1,469
Arke/TAD BV [4]	129	86	45	24
Schiphol Travel Taxi BV	5,265	-	172	-
Waterbus BV [2]	301	-	23	-
REISinformatiegroep BV	1,375	951	91	-
Other	-	40	-	-
	10,251	**6,283**	**1,006**	**28,991**

2006

	Sold to	Purchased from	Amounts receivable from	Amounts payable of
Name of related party				
Syntus BV [3]	3,870	6,073	295	601
Arke/TAD BV [4]	535	-	58	1
Schiphol Travel Taxi BV	4,782	-	-	-
Waterbus BV [2]	451	-	1,389	-
REISinformatiegroep BV	1,620	912	124	-
EESV De Lijn-VSN	-	-	-	601
Bedrijfsvervoer Limburg BV	-	1,826	-	48
Other	-	328	-	18
	11,258	**9,139**	**1,866**	**1,269**

No transactions took place with the Executive Board or the Supervisory Board of Connexxion, nor Transdev, nor the Dutch State during the reporting year.

[1] On 12 October 2007 two-thirds of the shares in Connexxion Holding NV were acquired by the consortium Transdev and Bank Nederlandse Gemeenten.
[2] Since 27 July 2007 Waterbus is a subsidiary of Connexxion Holding NV.
[3] In 2007 Connexxion Holding NV has disposed of this joint venture.
[4] In 2007 Connexxion Holding NV decided to dispose of this joint venture. The joint venture has been reclassified to assets held for sale.

7.5.45.1 Remuneration and benefits of current and former Board members

Remuneration of the Executive Board

The Remuneration Committee of the Supervisory Board determined the variable remuneration of the members of the Executive Board. The remuneration of the Executive Board totalled € 2.72 million in 2007 (2006: € 1.45 million). The amount can be broken down by individual member of the Executive Board as follows:

	Salaries		Short-term variable remuneration		Long-term variable remuneration		Pension charges		Severance payment	
	2007	2006	2007	2006 *	2007	2006	2007	2006	2007	2006
Name										
P.J.Ph. Kortenhorst, chairman	330	330	102	83	206	99	73	73	-	-
R. van Holten, vice-chairman	295	295	114	74	165	88	65	66	821	-
F.I.G. Janssen, COO	252	234	78	59	158	-	56	52	-	-
	877	**859**	**294**	**216 ***	**529**	**187**	**194**	**191**	**821**	**-**

* In 2006 the members of the Executive Board decided to voluntarily relinquish part of their short-term variable pay. Without this the short-term variable pay would have been € 301,000.

Mr R. van Holten has left the company by the end of the financial year.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board totalled € 0.18 million in 2007 (2006: € 0.20 million).
The amount can be broken down by individual member of the Supervisory Board as follows:

	As member of Supervisory Board	As committee member	Other expense allowance	Total 2007	Total 2006
Name					
C. van Eykelenburg, chairman *	-	-	-	-	-
Th. Walrafen, vice-chairman	5	2	-	7	-
F. Gagey	4	1	-	5	-
M.J.L. Jonkhart	23	4	2	29	27
M.E. van Lier Lels	23	3	1	27	24
N.J. Westdijk, chairman	29	5	2	36	43
R. Pieterse, vice-chairman	23	8	1	32	38
J. den Hoed	6	1	-	7	33
W.A.F.G. Vermeend	19	5	1	25	30
Payments to the members of the Supervisory Board	**132**	**29**	**7**	**168**	**195**
Transferred payments	6	1	-	7	-
Total payments Supervisory Board	**138**	**30**	**7**	**175**	**195**

As at 31 December 2007 the Supervisory Board consists of Messrs Van Eykelenburg, Walrafen, Gagey, Jonkhart and Ms. Van Lier Lels.

* Mr Van Eykelenburg does not want to receive any compensation as a non-executive director of Connexxion. The renumeration is transferred to BNG.

7.6 Company balance sheet as at 31 December 2007

Before proposed profit appropriation

In thousands of euros	Notes	2007	2006
Assets			
Non-current assets			
Investments in equity accounted investees	7.9.2	190,428	151,669
Other investments, including derivatives	7.9.3	4,840	41,784
Deferred tax assets		32,784	25,879
Total non-current assets		**228,052**	**219,332**
Current assets			
Trade and other receivables	7.9.4	151,489	41,382
Cash and cash equivalents		2,119	515
Total current assets		**153,608**	**41,897**
Total assets		**381,660**	**261,229**

The notes on pages 130 to 134 are an integral part of these consolidated financial statements.

In thousands of euros	Notes	2007	2006
Equity and liabilities			
Equity	7.9.5	198,727	215,830
Liabilities			
Loans and borrowings	7.9.6	177,500	40,000
Provisions	7.9.7	806	1,006
Deferred tax liabilities		556	556
Total non-current liabilities		178,862	41,562
Trade and other payables, including derivatives	7.9.8	3,971	3,251
Provisions	7.9.7	100	586
Total current liabilities		4,071	3,837
Total liabilities		182,933	45,399
Total equity and liabilities		381,660	261,229

The notes on pages 130 to 134 are an integral part of these consolidated financial statements.

7.7 Company income statement for the year 2007

In thousands of euros		2007		2006
Revenue		**2,738**		**162**
Operating expenses				
Personnel expenses	(7,580)		(3,856)	
Other costs of rolling and floating stock	172		701	
Other operating expenses	(11,624)		36	
Total operating expenses		**(19,032)**		**(3,119)**
Results from operating activities		**(16,294)**		**(2,957)**
Finance income	3,488		1,844	
Finance expenses	(3,856)		(85)	
Net finance expense		**(368)**		**1,759**
Share in profit or loss of subsidiaries		21,462		15,768
Share in profit or loss of associates and joint ventures		(2,662)		(1,648)
Profit before income tax		**2,138**		**12,922**
Income tax expense		223		1,658
Profit for the period		**2,361**		**14,580**

The notes on pages 130 to 134 are an integral part of these consolidated financial statements.

7.8 Company statement of recognised income and expense for 2007

In thousands of euros	2007	2006
Income and expenses recognised in equity:		
Effective portion of changes in fair value of cash flow hedges	9,671	(3,186)
Net change in fair value of available-for-sale financial assets	(583)	(33)
Total income and expenses recognised in equity	**9,088**	**(3,219)**
Profit for the period	**2,361**	**14,580**
Total recognised income and expense for the period	**11,449**	**11,361**

The notes on pages 130 to 134 are an integral part of these consolidated financial statements.

7.9 Notes to the Company financial statement

7.9.1 Accounting policies

Introduction

A condensed company income statement has been drafted as permitted by Section 402, Part 9, Book 2 of the Netherlands Civil Code.

Accounting policies

The company financial statements of Connexxion Holding NV as at 31 December 2007 have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code, using the option to apply the valuation principles of the consolidated financial statements (Section 362 (8)). The investments are accounted for using the equity method, taking into account any impairments. For the policies of the company financial statements, reference is made to the notes to the consolidated financial statements.

The share of profit or loss of subsidiaries comprises the share of Connexxion Holding in the profits or losses of these subsidiaries. Gains or losses on transactions in which assets and liabilities were transferred between Connexxion Holding NV and its subsidiaries and among its subsidiaries, have not been recognised insofar as they can be qualified as unrealised.

Tax group

Connexxion Holding NV is the ultimate parent company in the tax group for corporate income tax and VAT purposes. By virtue of the standard conditions, the Company is therefore jointly and severally liable for all tax liabilities of the subsidiaries being members of the tax group.

7.9.2 Investments in equity accounted investees

	Notes	2007	2006
Subsidiaries	7.9.2.1	190,428	149,007
Associates and joint ventures		-	2,662
Total investments in equity accounted investees		**190,428**	**151,669**

7.9.2.1 Subsidiaries

	2007	2006
Balance at 1 January	149,007	142,631
Profit for the period	21,462	15,768
Direct changes in equity	11,374	(3,219)
Effective portion of changes in fair value of financial instruments	-	578
Dividends received	(4,078)	(6,751)
Effect of acquisitions	12,663	-
Balance at 31 December	**190,428**	**149,007**

7.9.2.2 Equity and profit/loss of subsidiaries

Equity and profit/loss of subsidiaries as at 31 December can be broken down as follows:

	% of share capital		Equity		Profit/loss	
	2007	2006	2007	2006	2007	2006
Subsidiaries						
Connexxion Nederland NV,						
Utrecht, the Netherlands	100	100	110,320	97,239	13,962	(5,059)
Connexxion Vastgoed BV,						
Hilversum, the Netherlands	100	100	53,349	45,609	8,760	16,217
Connexxion Facilitair Bedrijf BV,						
Hilversum, the Netherlands	100	100	(12,418)	(9,577)	(2,841)	(2,379)
Connexxion Vloot BV,						
Hilversum, the Netherlands	100	100	(43,783)	(38,413)	(5,370)	(1,284)
Other			82,960	54,149	6,951	8,273
Total subsidiaries			**190,428**	**149,007**	**21,462**	**15,768**

Other subsidiaries comprises of Connexxion Participaties BV, Hermes Groep NV, Connexxion Finance BV and Connexxion International NV.

7.9.3 Other investments, including derivatives

	2007	2006
Receivables from subsidiaries	-	384
Receivables from associates	4,840	-
Prepayments refer to acquisitions	-	41,400
Total other investments, including derivatives	**4,840**	**41,784**

7.9.4 Trade and other receivables

	2007	2006
Trade receivables	53	5
Receivables from subsidiaries	150,439	40,915
Other receivables, prepayments and accrued income	997	462
Total trade and other receivables	**151,489**	**41,382**

7.9.5 Equity

For the notes to equity, reference is made to the notes to equity in the consolidated financial statements (refer to Section 7.5.22).

7.9.6 Loans and borrowings

	2007	2006
Non-current loans and borrowings		
Subsidiaries	36,500	-
Loans from financial institutions	141,000	40,000
Total non-current loans and borrowings	**177,500**	**40,000**

	2007	2006
Balance at 1 January	40,000	-
Loans granted	269,500	40,000
Repayments	(132,000)	-
Balance at 31 December	**177,500**	**40,000**

7.9.7 Provisions

	Carrying amount 01-01-2006	With-drawals	Release	Effect of amortisation	Carrying amount 31-12-2006
Pending damage claims	2,238	-	(701)	55	1,592
Total provisions	**2,238**	**-**	**(701)**	**55**	**1,592**

	Carrying amount 01-01-2007	With-drawals	Release	Effect of amortisation	Carrying amount 31-12-2007
Pending damage claims	1,592	(619)	(172)	105	906
Total provisions	**1,592**	**(619)**	**(172)**	**105**	**906**

7.9.7.1 Breakdown of provisions based on their term

	2007		2006	
Term:	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Pending damage claims	100	806	586	1,006
Total provisions	**100**	**806**	**586**	**1,006**

Provisions with terms of less than one year have been classified under the line item 'current liabilities'. For a description of the above provisions, reference is made to the accounting principles (refer to Section 7.5.9.13) and the notes to the provisions in the consolidated financial statements (refer to Section 7.5.25).

7.9.8 Trade and other payables, including derivatives

	2007	2006
Trade payables	360	-
Liabilities to subsidiaries	782	752
Personnel expenses	1,284	1,200
Accruals and deferred income	392	1,029
Other liabilities	1,153	270
Total trade and other payables, including derivatives	**3,971**	**3,251**

7.9.9 Off-balance sheet commitments

For the off-balance sheet commitments, including legal proceedings and events after the balance sheet date, reference is made to the notes to the consolidated financial statements and other information.

Hilversum, The Netherlands, 21 January 2008

Executive Board Connexxion Holding NV

Peter Kortenhorst
Chairman

Frank Janssen
COO

8.1 Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2007 of Connexxion Holding NV, Utrecht as set out on page 65 to 134. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the profit and loss account, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Connexxion Holding NV as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Connexxion Holding NV as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Executive Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, The Netherlands, 21 January 2008

KPMG ACCOUNTANTS NV
J.C.M. van Rooijen RA

8.2 Appropriation of 2007 profit

Provisions in the Articles of Association on profit appropriation

Article 10 of the Articles of Association provides that the Annual General Meeting of Shareholders shall decide on the appropriation of the profit of Connexxion Holding NV.

Proposed profit appropriation

The Executive Board proposes to add the profit for 2007 attributable to equity holders of the company, in an amount of € 2,361,000, to the other reserves.

9.1 Scope

This review covers all majority shareholdings owned by Connexxion Holding NV. As compared with last year's Annual Report, the scope of this Annual Review of Safety, Health and Environmental Policy has been extended to include Novio and GVU. Where index numbers are quoted, these are based on the assumption that 2002 is the baseline year (i.e. the index for 2002 is 100).

9.2 Policy and management system

Connexxion is committed to pursuing a proactive safety- and environmental protection policy that assumes we comply with all our statutory obligations under law as a minimum requirement, and also to improving our safety- and environmental performance and avoiding environmental risks. The underlying assumptions are as follows:

- Continuous improvement of safety levels for passengers and other road users, improvement of the health and safety at work and reduction of emissions;
- An environmental management system certified as meeting the NEN-EN-ISO 14001:2004 standards for all divisions;
- A health and safety at work management system for all divisions as per the OHSAS 18001 standards.

In 2007, the GVU and Novio divisions were brought under Connexxion's management system which is certified as operating in accordance with the NEN-EN-ISO 14001:2004 standards. The health and safety at work management system was implemented at Connexxion in 2007. It has been integrated with the other management systems as per the standards of NEN-EN-ISO 9001, NEN-EN-ISO 14001 and quality marks. Connexxion now has integrated processes in place in the fields of quality, health and safety at work and environmental protection.

Audits

Audits are performed in order to ascertain whether our operational management meets the internal requirements we have set ourselves for the purpose of complying with ISO and OHSAS standards, as well as legal requirements.

Thanks to an organisation-wide procurement process, we were able to reduce the number of certifying agencies active within our organisation. Connexxion now works with one certifying agency, which allows for an improved audit of the coherence between the various systems and an enhanced insight into the improvement potential. This forms part of our strategy to strive for continuous improvement. From October to December 2007, the first overall external audits were conducted by Lloyd's Register. This led to the re-certification for NEN-EN-ISO 14001:2004 and a (re)certification for NEN-EN-ISO 9001:2000. Connexxion Taxi Services is OHSAS 18001 certificate.

Sequential liability

Connexxion also expects its suppliers to contribute to the realisation of its safety and environmental policy. Major suppliers are included in the audit programme. Connexxion outsourced 5.8% of its public transport timetable hours. Outsourced services accounted for 37.9% of the revenue of Connexxion Taxi Services.

9.3 Compliance

Permits

Every facility where activities are performed needs to be in possession either of an environmental permit or of a notice issued under an order in council and/or an occupancy permit. As a result of changes in concessions and takeovers, the number of Connexxion facilities rose to 124 on balance (2006: 123). The amount of permits and notices decreased on balance to 140.

The permits under the Pollution of Surface Waters Act and the occupancy permits have been obtained only for those facilities in respect of which such permits are statutorily required. Last year, we have asked the competent authorities to impose less stringent noise standards on our facilities in Hilversum and Arnhem. In Hilversum we are still waiting for the local authority to take a decision on the easing of the noise requirements. The authority did pledge its cooperation.

Inspections

By definition, inspections of the health, safety and environmental aspects tend to be unpredictable and therefore can vary in number from year to year. A total of 36 environmental inspections were carried out in 2007 (2006: 57). In relation to 33 of these, we have already implemented the recommendations made by the inspectors. As regards the other remaining inspections, we will be making the necessary improvements in 2008.

The fire brigade carried out 3 fire prevention checks in 2007. This is the same number as in 2006.

Eight facilities were visited by inspectors from the Transport and Water Management Inspectorate. An official report was drawn up in one instance due to technical defects in vehicles.

The Health and Safety Inspectorate carried out five inspections at Techno Service Nederland. All recommendations were carried out. One inspections has take place at Connexxion Water, there were no comments.

Inspections

Unit: number	2007	2006	2005
Environmental inspections	36	57	46
Fire prevention inspections	3	3	8
Health and safety inspections	6	10	-
Inspections by Transport and Water Management Inspectorate	8	3	-
Official reports, administrative orders	1	6	-

Complaints

An environmental complaint is caused by non-compliance with ambient requirements and standards, especially with regard to noise and smell. We actively seek to reduce the number of environmental complaints that are made about us. The number of environmental complaints rose from 195 in 2006 to 295 in 2007. Two spots in the transport area causes 25% of the complaints. Several measurements were taken but unfortunately they had insufficient effect. The increase was also caused by the expansion of our transport services and the beating of the waves as a result of the water transportation.

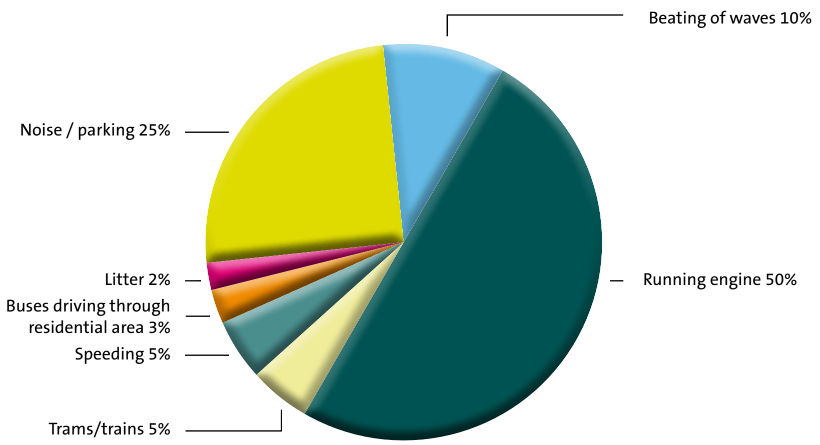
Environmental complaints

Unit: number	2007	2006	2005
Total	295	195	245

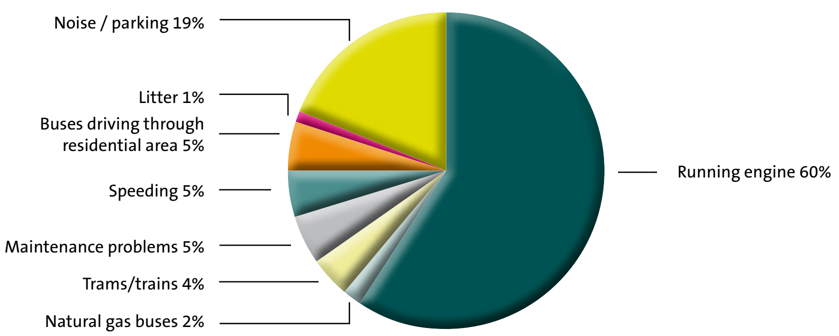
Figure 17: **Causes of environmental complaints**

(in %)

2007



2006



9.4 Accidents

We signed the European Road Safety Charter with EU Commissioner for Transport Barrot in 2006. By signing this Charter, we at Connexxion undertake to put forth our best efforts to reduce the number of traffic casualties in Europe. Connexxion's objective relative to the number of fatal road or work-related accidents is of course nil.

Accidents

	Unit	2007	2006
Fatal road accidents	Number	5	9
Fatal work-related accidents	Number	0	0
Work-related accidents	% of number of staff	1%	1%
Accidents resulting in injuries by third parties	Number per million kms	1.0	0.7

Of the 143 occupational injuries to employees recorded in 2007 22% fell in the category 'injury resulting in absence'. In two instances serious injuries to employees occurred in workshops. Both incidents were reported to the proper authority. All other incidents were categorised as minor injury without absence. On 56 occasions employees were the victims of violence. This implies that over 2007 1% of our employees suffered from occupational injuries (2006: 1%).

In 2007 a total of 344 injuries to other parties were recorded. About 90% were minor injuries suffered by other parties in road accidents or otherwise. Minor injuries to passengers are often the result of sudden manoeuvres (accelerating, braking, evading) by the vehicles in which they are travelling, or by operating failures by drivers. About 8% of the serious injuries (fractures, head injuries) were the result of road accidents. In road accidents bus passengers apparently rarely suffer serious injuries. Most serious injuries to passengers are unfortunately the result of operating failures. Particularly passengers with a mobility disability appear to run a higher than average risk in these instances.

The increase in comparison with 2006 fell in the category minor injury but there is also an increase in the category major injury. This is caused by Public Transport (mainly urban transport), Taxi Services and a regrettable incident namely the collision by a fast ferry with another ship on the Noordzee canal near Amsterdam, when 31 passengers suffered minor injuries and two had to be removed to hospital.

The year also saw five road deaths. Contrary to last year, however, when all victims were in a high-risk category (pedestrians, cyclists, mopeds), four out of five victims were now motorists. In addition, the Valleilijn (train) was confronted with one suicide. With the reduction from nine (2006) to five road deaths, Connexxion is in compliance with its European Road Safety Charter commitment.

9.5 Personal security and safety

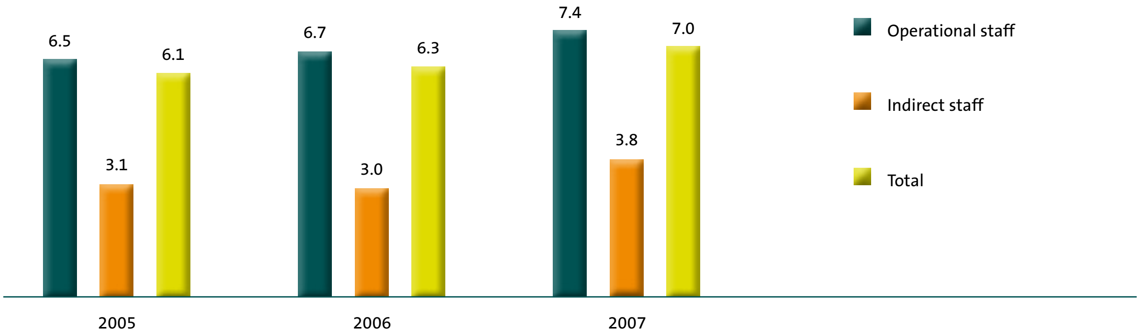
In the autumn of 2007, the Ministry of Transport, Public Works and Water Management presented its annual monitor reports on perceptions of personal security and safety. The sense of personal security and safety felt by our staff was more or less equal to last year. Our staff awarded an average score of 6.4 to their sense of security and safety in and around their vehicles (2005: 6.5). This is in line with the national trend. Passengers scored their sense of safety during journeys with an average of 8.0 (2005: 7.9) Safety at bus stops was awarded by passengers 7.7 (2005: 7.6). There was also a further decline in the number of incidents in 2006. Our drivers reported 15% fewer incidents to the Traffic Control Centre in 2006 than they did in 2005.

9.6 Health

The rate of absenteeism at Connexxion has risen. The figure for 2007 was 7.0%, compared 6.3% in 2006. The rate of absenteeism of operational staff was 7.4% (2006: 6.7%), and of indirect staff 3.8% (2006: 3.0%).

Figure 18: **Absenteeism**

(as a %)



9.7 Emissions, effluent and waste

Our main impact on the environment is caused by air emissions. We seek to reduce our CO_2 footprint and improve the air quality by reducing the other emissions by 60% in 2009. We plan to achieve this by making our existing fleet of vehicles cleaner, purchasing new cleaner and more fuel-efficient vehicles, researching alternative transmission and fuel options and continuously re-adjusting our production and planning relative to fuel consumption.

Air emissions

In absolute terms, there was a increase in CO_2 emissions caused directly by transport activities compared with the previous year, due to several business acquisitions and the increased output (number of kilometres clocked up). In relative terms, there was an increase as well as a result of the lager share of urban transport.

CO_2-emission

	Unit	2007	2006	2005
CO_2	kilotons	246	237	236
	kg/km	0.70	0.69	0.70

Air emissions as a result of vehicle activities (excluding trams, trolley buses and trains) are calculated on the basis of exhaust emission standards for the various vehicle categories. We use the ETC test cycle.

The direct air emissions as those caused by our vehicles are decreased. This is the result of the use of cleaner vehicles and cleaner fuels. A number of vehicles were either passed on or decommissioned. Vehicles that are sold find a new lease of life in foreign countries. 62 percent of the vehicles used for public transport have now been fitted with either CRT filters or engines that comply with the euro 4 or 5 or EEV standard.

Air emissions by vehicles

	Unit (2002=100)	2007	2006	2005
Output by km	Index	96	94	93
Output per litre	Index	86	82	80
Carbon monoxide (CO)	Index	42	48	55
Hydrocarbons (HC)	Index	43	50	56
Nitrogen oxides (NO_x)	Index	48	52	55
Particle mass (PM)	Index	38	48	53

Indirect emissions are caused, for instance, in the output of fuels, electricity and buses.

Waste water

Connexxion's wastewater is first purified before it is discharged into the local sewage system. The waste water meets the prevailing discharge standards. Regular inspections are carried out by government authorities to ensure that this is the case.

Waste

Connexxion aims to minimise the volume of waste and to collect it separately. At Connexxion, we produce three types of waste: residual waste, paper and hazardous waste. Residual waste is burned, paper is recycled and hazardous waste is processed in special installations. This is done by recognised waste processing firms that possess the requisite permits. In absolute terms, the volume of waste at Connexxion was increased by 10% in 2007 as a result of several business acquisitions. The waste production per kilometre has also increased. This is caused by a lager share of urban transport. Although scrap iron is recycled, the amounts are not recorded as the waste is not weighed and it is not possible to calculate the amounts concerned on the basis of the average weight.

Waste

	Unit	2007	2006	2005
Residual waste	Tonne	1,886	1,395	1,407
Paper	Tonne	176	229	210
Hazardous waste	Tonne	2,314	2,265	2,327
Total	**Tonne**	**4,376**	**3,889**	**3,944**
Waste indicator	Gramme/km	12.5	11.4	11.8

9.8 Soil and incidents

Connexxion seeks to prevent soil contamination. A total of 20 cases of contaminated land were still outstanding on 31 December 2007 (2006: 22). The decline in the number is the result of soil remediation operations and property sales. At year-end 2007, three on-site soil remediation operations are in progress (viz. in Hilversum, Enschede and Doetinchem). Environmental incidents are in particular caused by diesel or oil leaking from motor vehicles. All environmental incidents were cleaned up in cooperation with the local authorities. Contaminated land at the Zwartsluis site was remediated where the contamination had been caused by a faulty connection to the local sewage system. In Hoogeveen an incident has occurred as a result of a crash with the filling station.

9.9 Energy, water and raw materials

Connexxion seeks to increase the average fuel efficiency of its vehicles by 1% per year. The average fuel consumption by diesel- and LPG powered buses to operate public transport services was increased as a result of a lager share of urban transport. In the meantime, 2,323 drivers have now attended a course in new-style driving techniques.

Fuel consumption

	Unit	2007	2006	2005
Diesel-powered public transport buses	Km / litre	2.90	2.92	2.87
LPG-powered public transport buses	Km / litre	1.02	1.36	1.50
Natural gas-powered public transport buses	Km / m^3	1.67	1.59	-
Public transport trams	Km / kWh	0.21	0.23	0.22
Public transport trolley buses	Km / kWh	0.45	0.54	0.56
Public transport trains	Km / kWh	0.17	-	-
Diesel-powered coaches	Km / litre	3.13	3.08	3.14
Diesel-powered taxis	Km / litre	10.45	9.97	10.13
Natural gas-powered taxis	Km / m^3	13.50	14.00	-
Vessels	Min / litre	1.64	1.49	1.45

Indirect energy consumption is caused, for instance, in the output of fuels, electricity and buses.

(Amounts in millions of euros, unless stated otherwise)

	2007	2006	2005	2004	2004 [1) 2)]
Balance sheet					
Total assets	788	661	674	587	578
Average capital employed	484	443	408	423	385
Equity	198	228	222	211	242
Income statement					
Revenue	1,050	884	881	918	918
Operating expenses	(1,031)	(854)	(853)	(881)	(878)
As a % of revenue	98.2%	96.6%	96.8%	95.9%	95.6%
Wages, salaries and social charges	(499)	(442)	(453)	(480)	(482)
As a % of revenue	47.5%	50.0%	51.4%	52.3%	52.5%
Results from operating activities	19	30	28	38	40
As a % of revenue	1.8%	3.4%	3.2%	4.1%	4.4%
Profit for the period	3	16	19	24	26
As a % of revenue	0.3%	1.8%	2.2%	2.6%	2.9%
Financial position					
EBITDA	89	89	85	92	91
Net cash from operating activities	61	35	66	84	87
Net cash used in investing activities	(74)	(41)	(114)	(32)	(35)
Financing deficit/surplus	(13)	(6)	(48)	52	52
Ratios					
Equity	198	228	222	211	242
Interest coverage ratio [3)]	1.8	3.1	[4)]	[4)]	[4)]
Net Debt to EBITDA [3)]	2.4	1.7	[4)]	[4)]	[4)]
Solvency (based on equity)	25.2%	34.5%	33.0%	35.9%	41.9%
Operating profit/average capital employed (ROACE)	3.8%	6.9%	6.9%	8.9%	10.4%
Workforce					
Number of employees (at year-end/nominal)	14,634	13,009	13,302	14,160	14,160
Number of employees (average FTEs)	11,571	10,525	11,000	11,898	11,898
Number of indirect employees (average FTEs)	1,297	1,131	1,264	1,336	1,336
% indirect of total number of employees	11.2%	10.7%	11.5%	11.2%	11.2%

1) The figures were adjusted for a change in the accounting policies.
2) These figures were prepared on the basis of Dutch GAAP.
3) These figures were adjusted to comply with bank covenants.
4) Relevant data not available.

2003 [2]	2002 [2]	2001 [2]	2000 [2]	1999 [2]	
					Balance sheet
643	591	604	657	686	Total assets
437	411	409	466	534	Average capital employed
242	219	229	249	255	Equity
					Income statement
948	945	910	905	860	Revenue
(915)	(948)	(937)	(879)	(796)	Operating expenses
96.6%	100.3%	103.0%	97.1%	92.6%	As a % of revenue
(491)	(501)	(471)	(455)	(436)	Wages, salaries and social charges
51.8%	53.0%	51.8%	50.3%	50.7%	As a % of revenue
33	(3)	(27)	26	64	Results from operating activities
3.4%	(0.3%)	(3.0%)	2.9%	7.4%	As a % of revenue
22	(5)	(20)	9	38	Profit for the period
2.4%	(0.5%)	(2.2%)	1.0%	4.4%	As a % of revenue
					Financial position
87	47	24	82	120	EBITDA
117	9	4	67	41	Net cash from operating activities
(97)	(51)	1	(67)	(51)	Net cash used in investing activities
20	(42)	5	0	(10)	Financing deficit/surplus
					Ratios
242	219	229	249	255	Equity
[4]	[4]	[4]	[4]	[4]	Interest coverage ratio [3]
[4]	[4]	[4]	[4]	[4]	Net Debt to EBITDA [3]
37.6%	37.1%	37.9%	37.9%	37.1%	Solvency (based on equity)
7.5%	(0.7%)	(6.6%)	5.6%	11.9%	Operating profit/average capital employed (ROACE)
					Workforce
15,383	15,259	[4]	[4]	[4]	Number of employees (at year-end/nominal)
12,451	12,786	12,706	12,739	12,879	Number of employees (average FTEs)
1,469	1,662	2,150	2,299	2,082	Number of indirect employees (average FTEs)
11.8%	13.0%	16.9%	18.0%	16.2%	% indirect of total number of employees

A

Average capital employed
Arithmetic average of balance sheet total less non-interest bearing current liabilities as at the end of the current financial year and the previous financial year.

C

Concession
By virtue of the 2000 Passenger Transport Act, the exclusive right (a concession) is granted by an authorised local authority to a transport company to operate the public transport in a certain area.

D

Demand-driven group transport
Passenger transport by car available to all and not based on a schedule, but available on demand, i.e. based on a prior request made of the transport company.

E

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)
Operating profit before deduction of interest on borrowed capital, taxes, depreciation and amortisation.

EDP audit
An EDP audit is an independent assessment of the reliability, security, effectiveness and efficiency of the automated information systems, the organisation of the IT department and the technical and organisational infrastructure of automated data processing.

EU-IFRS
IFRSs as endorsed by the European Union.

European Road Safety Charter (ERSC)
This Charter is an EU initiative to drastically reduce the number of traffic casualties in Europe. Connexxion is the first Dutch public transport operator to sign this ERSC, thereby committing itself to concrete efforts to improve road safety.

F

Framework Act areas
A regional public body, as referred to in the Framework Act, being a legally regulated form of collaboration among a major municipality and its surrounding municipalities. The Netherlands has seven Framework Act areas, which also grant public transport concessions.

G

Group passenger transport
All types of passenger transport (both public and private) with the exception of transport by taxi and train.

I

Infotin
A system for supplying dynamic travel information at bus stops.

Infoxx
A system providing real-time travel information to both passengers and drivers.

ISO 9001
Internationally accepted standard for quality management systems.

ISO 14001
Internationally accepted standard for environmental management systems.

M

Multi-modal transport

Public transport based on a concession granted for various types of transport.

O

OHSAS 18001 (Occupational Health and Safety Assessment Series 18001)

International standard for occupational health and safety management systems.

P

Private passenger transport

Passenger transport not being public transport.

Public transport smartcard

Electronic ticketing system in public transport replacing the paper ticket.

R

Return on average capital employed (ROACE)

Operating profit for the financial year divided by the arithmetic mean of the assets less non-interest bearing current liabilities of year n and n-1.

ROVER

Association of Dutch Public Transport Users.

S

Safety Board

Body within Connexxion, comprised of managers and security experts, chaired by the Vice-chairman of the Executive Board, whose task it is to sensitise staff to safety issues and to investigate any major safety related incidents. whose main purpose is to investigate any major safety-related incidents (or have these investigated), to draw lessons from these incidents and to further sensitise staff to safety issues.

Small-scale transport services

Passenger transport by cars and minibuses, i.e. vehicles fitted to transport up to eight persons.

Solvency

Group equity divided by total assets.

Subsidiary

An investment in which Connexxion Holding exercises decisive control.

Superbus

A very fast bus developed by Connexxion in association with Delft University of Technology and Dutch astronaut Wubbo Ockels.

V

Valleilijn

The Ede/Wageningen-Amersfoort rail service.

Abbreviations

CRT	Continuously Regenerating Trap (roetfilter)
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EDP	Electronic Data Processing
EEV	Enhanced Environmentally friendly Vehicle
FTE	Fulltime equivalent
HRM	Human Resources Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IT	Information technology
NCC	National Customer Contact Centre
SER	The Social and Economic Council of the Netherlands

O

P

Q

R

S

Indicators on safety, health and environment

HRM indicators

Calendar

Annual General Meeting of Shareholders
The AGM will be held in at the Company's offices in Hilversum on
Tuesday, 19 February 2008. The Meeting will commence at 12.00 am.

Important dates

Press conference on the Annual Report 2007:	23 January 2008
Press conference on the Annual Report 2008:	21 January 2009*
Annual General Meeting of Shareholders 2008:	17 February 2009*

* these dates may be subject to change

Colophon

February 2008

Idea, realisation and editing
Connexxion, Hilversum
Veronica Concept Design, Hilversum

Design
Veronica Concept Design, Hilversum

Photography
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The information from this Annual Report can be accessed on the website of Connexxion: www.connexxion.com.

This is the English translation of the original Dutch Annual Report 2007. In the event of any dispute, the original Dutch-language version of the report shall prevail.