

## Chief Executive's Review

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**Richard Bowker**  
Chief Executive

### Making travel simpler

A year ago, I described National Express as a business in great shape, but with even greater potential.

Our results for the past year confirm that we have begun to realise that potential, for the benefit of all our stakeholders.

As we make further progress in implementing our strategy, customers will see the increasing difference it makes when a transport business becomes truly customer centred. Employees will be energised as the business moves emphatically onto the front foot. And investors will see how these changes fundamentally strengthen our ability to create value.

### Our strategy

Too often, public transport is operationally focused rather than customer led. Passengers are seen in the abstract, rather than as individual consumers who make choices.

This gives us an enormous opportunity to stand out in the marketplace and attract more customers by changing their perceptions of public transport. A company that understands and creates strong relationships with its customers will greatly enhance its value. So if we take the trouble to give people a service they want and will pay for, everyone can be a winner.

This ambition could not be more timely. The whole of society is rightly concerned about congestion, atmospheric pollution and, more than ever, global warming.

Public transport is increasingly recognised as a crucial part of society's response to these challenges. So our social and commercial missions are wholly aligned. But only if people believe that travelling with us will actually improve their quality of life. Only if we can genuinely make travel simpler.

Our strategy for growing the business remains clear and simple:

- ➔ Reorient the Group around a more customer-driven, branded proposition
- ➔ Develop new products and services and grow organically
- ➔ Acquire businesses in markets where we can add value

We have been doing all these things in the past year, and will continue to do them. Our progress so far has convinced us that we are able to deliver this strategy, that it creates value, and that it gives us an edge over other businesses in our sector. Here's how:



**One brand**

Customers tell us that getting from A to B has become increasingly complex over the years. We're focused on making it simpler. By branding all of our UK businesses under the National Express name we are making it easier for customers to recognise our services – whichever mode they travel on.

**Reorient the business around a more customer driven, branded proposition**

If we are going to make travel simpler, we need to be a more joined-up organisation. We have taken the first step, which is to unite all our UK operations as a single division. Now, for the first time, we are able to think in terms of customers and their end-to-end journey requirements, rather than focusing on the operational requirements of this bus route or that train service.

A single, customer focused team is developing innovative ideas for new projects across all our transport modes. Instead of developing separate schemes for West Midlands bus smart cards, East Coast train smart cards and London's Oyster card, we will now be able to drive them all as a single project. When you're thinking about what customers actually want, working in an integrated way is both more exciting and more profitable.

This clear customer focus is reflected in a more coherent brand identity with clearly defined aims and values. The visible sign of this is the new National Express livery. It began appearing on our Dot2Dot vehicles and East Coast trains in 2007. Through the first half of 2008 it will also start to appear on coaches, buses, and our National Express East Anglia train franchise.

But the brand is not just a new paint job. It tells our customers that we are one business. Our common purpose is to improve the quality of life for all through travel. Our promise is to make travel simpler. We will be embedding our new values in the business, to inspire a change that customers will really notice. To ensure this change is felt across all areas of the business we are investing in training that will help our front line staff focus on our customers. Our 'First Level Leaders' training programme is helping them to lead the culture change that moves us from being operationally focused to living and breathing customer service.

We are putting increasing effort into knowing our customers through research and data capture – to better understand who they are, when and where they want to travel, what they want and don't want. This enables us to market more intelligently.

As we become a more joined-up business with an integrated customer base and brand, we are better placed to join forces with other powerful brands. Partnerships with venues such as the O2 Arena, Twickenham and Wembley Stadium mean people can book combined event and travel tickets. We are currently exploring other partnerships to broaden the offer we can make to customers.

We are also working to link our ticketing systems so that customers can book a single ticket for a journey that may involve several different National Express companies. This will take some time to complete. Last year we brought all our websites together behind a single portal – and the next step will be to introduce an integrated online booking engine. Ultimately, we want our web customers to be able to buy a single e-ticket (or m-ticket on their mobile phone) for their entire journey, which all our ticket systems will recognise.

## Chief Executive's Review continued

### Develop new products and services and grow organically

In our UK Rail business there's no doubt that the prize of the year was East Coast, the UK's premier railway. There is a great deal we can do to improve its operating performance and offer customers a significantly more enjoyable experience. We have hit the ground running, with almost £50m to invest and a plan to do this fast so we get maximum impact over the life of the contract.

We are refurbishing trains and refining the timetable to make best use of existing resources until 2010, when we can bring in additional refurbished trains to add 25 new services a day. Then in 2012 we can start introducing the brand new Intercity Express trains currently being designed – so there will be exciting developments throughout the contract.

We expect great things from our new partnership with The Football Association and Wembley Stadium. Not just because Wembley is a world-class stadium with capacity for 90,000 people and parking for under 3,000 cars; but more widely because it will help us to raise our profile in the special events market, which is becoming an important part of our business. For example, as coach provider for Glastonbury in 2007, we had coaches leaving at an average of one every 3 minutes on the last day of the festival.

Also, our Spanish coach and bus operation, achieved passenger growth of 4% while maintaining our market leading margins. Like for like revenue growth continues to meet our expectations and we are encouraged by the increasing commercial opportunities that are emerging as the Spanish market liberalises.

In North America we had a very good bidding season, winning 14 new school bus contracts. Having sold Stewart Airport in October for US\$78.5m we are totally focused on school buses. We are now the number two private operator, carrying a million students to school each day, in a market which is still 70% public sector operated. We are already positioned as a high quality operator with an outstanding offer in customer service and quality. Building on a record of steady 16-17% annual growth, our Business Transformation Programme is beginning to make full use of our scale

and technology to offer unbeatable efficiency and value, while developing added-value services that will strongly differentiate us and provide potential new income streams.

As we understand more about people's travel needs, we are able to develop new businesses to satisfy them. Two examples in 2007 were the launches of our dedicated commuter coach services and Dot2Dot – our new airport transfer service.

The traditional downmarket image of coach travel is increasingly out of date. Many of today's coaches compare favourably with aircraft as a place to relax or work. And for sustainability they rate even better than trains. So we are seeking niches where we can attract people who would not normally consider booking a coach ticket.

A model, which has already proved successful in the US, is on-demand transport between airports and individual addresses in town centres. Our new Dot2Dot service, a high-quality, shared ride, linking Heathrow and Gatwick airports with Central London hotels, is designed to offer the convenience of a limo at half the price of a taxi.

Offering simple online booking, Dot2Dot has achieved extremely high customer satisfaction: in our first surveys, 91% said they would recommend it to others. But hotels are just the start, we have already extended the service to London's Canary Wharf, and as part of our joined-up thinking we plan to offer through tickets to Heathrow from East Coast stations, using Dot2Dot from King's Cross.

Another important niche is commuter travel. Last year we began piloting a commuter coach service from Milton Keynes to the Canary Wharf business district. We see coaches as a very viable alternative to rail for commuting: they are cheap and flexible, and allow rapid adjustments in capacity. In 2008 we plan to introduce further new commuter routes.

We are also planning to launch our first premium scheduled service, aimed specifically at business travellers into London. This will be comparable to the Supra premium services that Alsia launched in Spain last year. The new Supra coaches are equipped with leather seats, multi-channel video and audio,

### A clear focus

We carry more than a million children to school every day. Our focus is on getting them there in safety and comfort.



**Our people**

Our people are at the heart of our business and we remain focused on their training and development. Inspiring our people in turn ensures we provide the best customer service for each of our customers.



laptop power sockets at every seat and, for the first time in Spain, onboard wi-fi. Supra passengers also have their own VIP lounges at a number of coach stations.

**Acquire businesses in markets where we can add value**

For both commuter coaches and Dot2Dot we used small acquisitions to build expertise and market presence more quickly.

To gain momentum in the commuter market we acquired the Kings Ferry Travel Group, which runs the largest and most successful commuter coach operation in London and the South East. And to help establish Dot2Dot we bought London's only comparable operation, Hotelink, which gave us a core business and desks in the airport terminals; we also negotiated the European rights to proven management software used successfully in 30 US cities by GO Airport Shuttle.

In Spain, by contrast, we made a very large acquisition that cements our position as the country's dominant player in coach travel by far.

The £459.8m purchase of Continental Auto neatly dovetails with our existing Alsa operation, adding strength in south west and north east Spain to our existing weight in the south east and north west. We now have more than 2,100 coaches and buses in Spain, one of Europe's largest public transport markets. We see great potential for expanding the business, particularly

in urban bus networks. And in the longer term there may also be opportunities to build on our UK experience in rail operations.

**The journey continues...**

We have come a long way in the past year, although there is still further to go. Integrating systems and changing cultures cannot be done overnight. But I am encouraged by our people's increasing eagerness to get there. Their enthusiasm for what we are doing, and their initiative in finding more customer centred ways of working, are building ever greater momentum for change. I thank them for what they've achieved so far, and look forward to what we will accomplish together in 2008.

Last year we benefited from favourable market conditions. The economic environment for transport was good, and, in particular, rail saw a boom in demand. This year will be tougher. But our experience convinces us that if we can continue to offer new and exciting ideas, we will go on attracting more customers despite any downturn.

We launched a lot of good ideas last year. This year we will feel the benefit as they gather momentum. We confidently expect to continue growing our business and the National Express brand as customers discover we really are making travel simpler for them.

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