

OPERATIONS



We operate a devolved business with all our operations managed locally. We are committed to constant improvement in our services and track our performance across key areas through independent, industry and in-house monitoring.

We recognise that we need to focus on our customers' needs. As highlighted in our 2004 CR report, we are aware of the key drivers of customer satisfaction by division. Each business sets its own relevant key performance indicators to manage the business. However, quality performance, safety, value for money, comfort, accessibility and integration are common drivers of satisfaction across our operations.

Corporate

Progress in 2005

- ◆ Launch of Group customer service strategy including launch of NXCSI correlation of customer and employee satisfaction scores

Objectives for 2006

- ◆ Further integration of Group initiatives to ensure continued focus on the customer
- ◆ Implementation of structure and processes to deliver improved product delivery and support cultural change within our operations
- ◆ Integration of Alsa customer and employee monitoring into Group format

Coaches

Goals for 2005

- ◆ Further extension of value-for-money fares
- ◆ Further improvement in customer satisfaction scores
- ◆ Continued growth in internet sales
- ◆ Consultation on redevelopment of Digbeth and Heathrow coach stations

Progress in 2005

- ◆ Over 50 value-for-money fares now available on 36% of services operated
- ◆ New NXCI introduced and performance maintained throughout the year
- ◆ Internet sales account for over 20% of sales
- ◆ Opening of Heathrow coach station in December 2005. Ongoing discussions relating to Digbeth coach station.
- ◆ 2% growth in passenger numbers

Objectives for 2006

- ◆ Continued improvement in customer satisfaction scores
- ◆ Trial new methodology for tracking customer satisfaction using SMS text messaging
- ◆ Enhance facilities for customers at Bournemouth, Golders Green and Milton Keynes stops

Buses

Goals for 2005

- ◆ Continued campaigning for Quality Partnerships
- ◆ Improved customer satisfaction scores
- ◆ Greater involvement in Operation Safer Travel (OST)

Progress in 2005

- ◆ Agreement to sign the UK's first Statutory Quality Partnership in Travel Dundee
- ◆ Bus conference for key stakeholders to stimulate growth in bus market
- ◆ NXCSI scores moved 65.5% to 60.8% due to seasonal variations
- ◆ Principles of OST rolled-out across division
- ◆ Reviewed network efficiency
- ◆ AVL introduced into Travel West Midlands (TWM) which has improved accessibility
- ◆ Launched simplified TWM fare structure
- ◆ Bus services in London and Dundee are now 100% low-floor
- ◆ TWM fleet now 76% low-floor
- ◆ Roll-out of ISO9000 (2002) engineering to vehicles

Objectives for 2006

- ◆ Continued campaigning for Quality Partnerships and Punctuality Improvement Partnerships in the West Midlands
- ◆ Achieve the UK's first SQP
- ◆ Implement Punctuality Improvement Partnership in Dundee
- ◆ Implement unified Network West Midlands brand identity for passenger information

Trains

Goals for 2005

- ◆ Increased passenger growth
- ◆ Stabilisation of delays attributable to issues under our control
- ◆ Improved customer satisfaction scores
- ◆ Continued roll-out of Community Rail Partnerships
- ◆ Improved roll-out of customer charters on the back of franchise awards

Progress in 2005

- ◆ Growth achieved
- ◆ Achieved as illustrated within report
- ◆ NXCSI scores improved from 54.7% to 58.2%
- ◆ Community Rail Partnerships launched in Central Trains, 'one' and Wessex Trains
- ◆ New 'one' Delay Repay compensation scheme introduced

Objectives for 2006

- ◆ Increased passenger growth
- ◆ Improved punctuality and reliability
- ◆ Further progress with customer and employee satisfaction

North America

Goals for 2005

- ◆ Greater partnership across division on bus purchasing to achieve savings of over 5%
- ◆ Develop CR KPIs for reporting

Progress in 2005

- ◆ Targeted savings of 5% were achieved
- ◆ Formalised customer/employee satisfaction, safety and service reliability KPIs. The North American re-engineering process will provide additional KPIs and management information

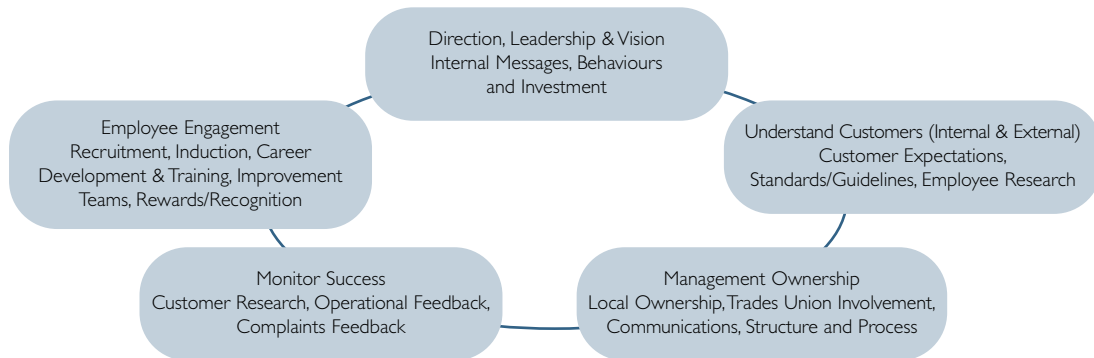
Objectives for 2006

- ◆ Adopting the Group's customer satisfaction survey process
- ◆ Continued roll-out of the re-engineering project



Our management systems are built on the basic principles of Plan-Do-Check-Review (see page 8). Whilst we have a number of workstreams focused on improving the quality of the business, this year we are joining up cross-functional initiatives to drive through a more customer focused culture across all our businesses.

A CUSTOMER FOCUSED CULTURE



Monitoring standards

Following the launch of our UK Group customer service strategy in 2005, we have developed a customer service model.

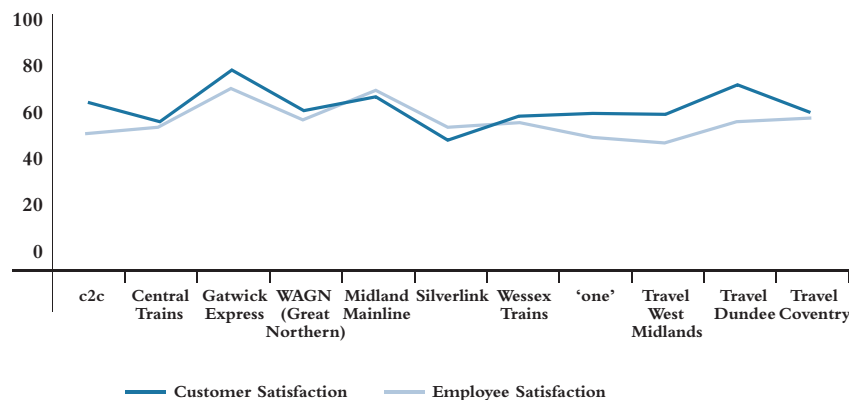
We do not operate a one-size-fits-all approach. We tailor each decision and stage in the above model to suit the needs of each of our businesses. However, where there are common themes such as leadership style and development, employee engagement and customer service, we roll-out a consistent model. Where applicable, we ensure shared experiences and learnings are communicated across our companies.

Following the launch of our UK Group customer service strategy in 2005, we have launched the National Express Customer Satisfaction Index (NXCSI), which monitors progress across all our divisions. NXCSI provides customer feedback on the service, sets directional priorities and provides output measurement of management actions.

Customer Service and Employee Satisfaction

There is a strong correlation between customer service and employee satisfaction as the graph below demonstrates. We believe that this correlation extends to financial performance through revenue growth and profitability. Consequently, we now set management objectives around improving customer and employee satisfaction.

2005 CUSTOMER AND EMPLOYEE SATISFACTION INDICES FOR TRAINS AND BUSES



This proven link leads us to an improved understanding of the relationship between customer service, loyalty, revenue growth and profitability. In the future it will enable us to predict changes in financial performance in advance of the outcome. Management objectives and targets have been set to ensure continual improvement in both customer and employee satisfaction.

In addition, mystery shopping has been launched providing a detailed understanding of actual delivery against standards, ensuring appropriate operational management focus. The NXCSI reports three times a year, whilst mystery shopping is undertaken on an ongoing basis. During this year, Alsa's customer and employee satisfaction processes will be integrated into the Group framework.

We have also developed a customer service model which demonstrates how improved customer satisfaction can be achieved through improvements in employee satisfaction. As the chart opposite demonstrates, employee and customer satisfaction track each other and we have calculated that, across our businesses, a one percentage improvement in employee satisfaction will increase customer satisfaction by 0.8 percentage points.

Joining up transport – integration

The Group has been actively involved in the Journey Solutions Project (JSP). This initiative is aimed at improving integration between transport modes. PlusBus is a scheme to link bus travel at either end of a train journey. Furthermore, the PlusBus scheme enables passengers to switch between rail and bus travel using a single ticket at 270 stations across the country, of which 105 are operated by National Express subsidiaries. In addition, our trains call at a further 43 stations that are also served by at least one other mode of transport.

Recognition

We are pleased that our progress in performance was recognised during the year through a series of external awards, a selection of which are highlighted below:

Coaches

2005 National Customer Service Awards

- ◆ Best Customer Service Team in the transport and distribution sector
- ◆ 2005 RNIB 'Simply the Best' Customer Service Awards Best Disabled Helpline Team
- ◆ Invitation to participate in 'The Best of British Tour' 2005 – discover the service excellence strategies behind Britain's most successful companies. Sponsored by Eaga Partnerships, who run service excellence tours to the United States.

Buses

2005 Scottish Transport Awards

- ◆ Scottish Public Transport Operator of the Year

2005 UK Bus Awards

- ◆ Highly Commended in the Claudia Flanders Award for Accessibility

Trains

National Rail Awards – c2c

- ◆ Best Suburban London Operator
- ◆ East Ham depot – Maintenance Team of the Year

2005 ACoRP Awards – 'one'

- ◆ Best Integrated Transport Initiative

2005 National Community Rail Awards

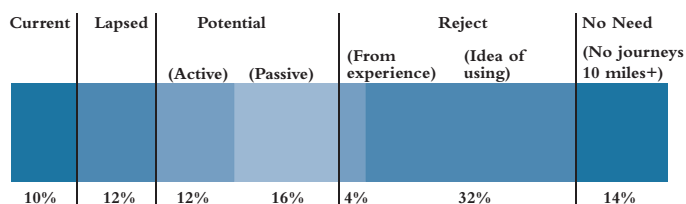
- ◆ Outstanding Railway Staff Contribution

Coaches

Attracting more customers

Whilst we operate the UK's only national scheduled coach operation, many of our services are local, providing vital links between regional locations. Our classless, flexible, value-for-money services have become increasingly popular through the increased roll-out of competitive fares. Our research, as illustrated below, indicates that coach travel has great potential within the UK. In fact over 50% of the adult population are potential customers. During 2005 we worked hard to win these new customers through new marketing and the roll-out of best value fares.

THE MARKET OPPORTUNITY



We continue to develop our coach network. Journeys of up to 2.5 hours are the most popular, in particular routes to London from areas such as the South Coast, Bristol and Birmingham. There continues to be increased demand for airport services from major conurbations and we are continuing to work with BAA to develop our future network. Increased passenger growth is assisted through the concessionary fares scheme for the over 60s offering reduced travel promotions.

Tackling congestion

The reliability of our services is heavily influenced by traffic conditions and we continually lobby for increased priorities for coaches on the road network. Due to its capacity, coach travel is the most efficient way of bringing passengers into a city centre using the existing road network. With many local authorities reviewing the accessibility of city centres, we are campaigning for greater access to city centres such as Cambridge.

Simple, convenient travel

We aim to make coach travel as easy as possible, both before and after ticket purchase. We focus on providing value-for-money fares and employ internet technology to reduce transaction costs whilst providing greater customer benefit. Customers can now generate e-tickets or m-tickets through their mobile phones. Our Funfares, which provide travel for £1, have grown by 30% during the year and we are introducing more yield managed fares on the network. Self-service ticket kiosks are now being installed at all major locations.

On-time performance will be further enhanced through the introduction of CoachCom, a GPS system which enables a driver to communicate with the Control Centre throughout the journey. CoachCom also provides real-time departure and arrival information. At coach stations we are investing in new facilities such as DDA-compliant information screens.