

IT'S ABOUT WHAT WE DO AND HOW WE DO IT

▼ **ENGINEERS PROVIDE
COMPREHENSIVE AND
REGULAR VEHICLE
MAINTENANCE TO ENSURE
THE HIGHEST EFFICIENCY
AND SAFETY STANDARDS**

▼ **LISTENING AND
RESPONDING TO OUR
CUSTOMERS NEEDS**



CORPORATE RESPONSIBILITY

National Express Group's commitment to corporate responsibility goes far beyond a passing acknowledgement. We believe that corporate responsibility is about what we do and how we do it.

Corporate responsibility is at the heart of what we do. We report more fully on our initiatives through our dedicated Corporate Responsibility ("CR") Report which is published each year. This year the CR report will be published at the time of our Annual General Meeting. Our profile in the CR area has also been evidenced through our involvement with key organisations in the field and our inclusion in a number of key CR indices; the Dow Jones Sustainability and the FTSE4Good.

With the forecasted increase in leisure travel and greater wealth enabling more time spent travelling, public transport has a key role to play in improving our quality of life. Our 2006 CR report will focus specifically on highlighting to policymakers the contribution that public transport can make to the economic, social and environmental landscape and the overall quality of life.

CLIMATE CHANGE

This year has seen the increased profile of climate change. The environmental benefits of public transport have been very much at the forefront following the publication of the Department for Transport's Eddington Transport Study and the Stern Review on the Economics of Climate Change. As operators we are already providing additional capacity through growth in our coach services, longer trains, rail platform extensions, and greater usage of buses for journeys where cars have

historically been used. The Stern Review highlighted the important role that transport can play in tackling climate change and this is supported by Transport 2000, a leading non government transport organisation, which has highlighted that there are large net savings to be made when customers use public transport services instead of a car. It is the role of public transport operators to make their services attractive to encourage car users to use public transport services.

We know from our own research that there are net savings from customers using our services instead of the car with coach travel being the most efficient of all modes. This is highlighted on page 11. With the coach being the most environmentally friendly mode, during 2007, we will be promoting the environmental benefits of travelling by coach.

At National Express we have been leading the industry in driving forward the national environmental agenda by heading up forums in the sectors where we operate. We chair and guide much of the debate amongst rail operators at the Rail Sustainability Group and participation in this forum has led to the rail industry's commitment to reduce carbon emissions by 5% over the next ten years.

In 2007 we have shown our commitment to reducing emissions by joining the Climate Group, an independent, non profit organisation dedicated to advancing business and government leadership on climate change. We are one of the founding members and will be developing practical promotions and initiatives as part of the "We're In This Together" campaign to encourage changes in individual behaviour which reduce carbon emissions. As part of this Group

we believe that by making it easier for individuals to change their behaviour through our products, services and communications we can, step-by-step, change public attitudes from concern to focus on positive action. By signing up to this initiative we have committed to the development of a consumer proposition which will make a difference. In addition we are participating in the WWF "One Planet Business" discussion forum where companies with an interest in sustainability will develop longer term initiatives to reduce CO₂ emissions.

Within our operation we have trialled alternative fuels such as biodiesel in a fleet of 40 buses within the Alsa fleet. Within our Trains division we undertook a detailed review of energy consumption. This identified a number of engineering and operational measures we can take to improve energy efficiency and we are now focused on delivering these. We have also implemented regenerative braking across the division's electric-powered fleet. Most significantly we have reduced site energy usage at our train depots by 17% during the year.

In addition, safety and development of our people are key to the success of our business as well as our contribution and reputation in those communities where we operate. The Group's overall vision is for continuous improvement in health, safety and environmental management and practice and, where appropriate, continuous improvement in health, safety and environmental performance. In 2006 we continued to reduce the risk of customer and employee injuries across our operations and are pleased to report that our signals passed at danger level is at its lowest ever at 0.76 signals passed at danger per million miles compared to 0.79 in 2005. We look forward to continuing this improvement.

FUTURE LEADERS

During 2006 the Group has developed a comprehensive leadership development strategy on the back of the Group Employee Survey which highlighted that a leader's performance has a big impact, both good and bad, on those around them. This strategy ensures that as we grow our business, we develop those who will lead the business in the future. The three year leadership development plan has ten joined up projects including personal and skills development, talent and succession planning, performance management, reward and recognition, in addition to graduate and non

graduate recruitment. Through focus groups we have identified seven leadership capabilities to drive our business success. Over the coming year all our leaders, about 4,000 of them, will be involved from the frontline to the boardroom.

STAKEHOLDER RECOGNITION

We are also focused on the requirements of our external stakeholders, many of whom are key for the development of our operations. Our stakeholders range from those who award us contracts such as the Department for Transport, local authorities, transport bodies and school boards to our customers who use our services each day. In addition there are numerous other stakeholders such as non government organisations, Trades Unions, suppliers and user groups with whom we have a constant dialogue.

Working with our stakeholders we believe the biggest challenge for public transport in the future is to make its use easy and simple whether it be planning journeys or the actual experience. To make this a reality during 2007, our commitment to our customers will be focused on "Making Travel Simpler".

UNDERSTANDING THE OFR

STATEMENT OF COMPLIANCE

This OFR is intended to develop the Group's narrative reporting to meet many of the requirements of the statutory OFR as laid out in the Accounting Standards Board's 'Reporting Statement of Best Practice on the OFR'. This OFR ensures compliance with the legal requirement under the Companies Act to provide a Business Review and is referenced from the Director's Report.

We note that this is the first year that UK companies have been required to produce a Business Review and therefore best practice is still emerging. We will continue to review the narrative disclosure we provide in the Annual Report and Accounts to ensure that the disclosures provided meet the requirements of our stakeholders.

CAUTIONARY STATEMENT

The OFR focuses on matters that are relevant to the interests of the shareholders of the Company. The purpose of the OFR is to assist the shareholders of the Company in assessing the strategies adopted by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Where this OFR contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Shareholders will understand that these statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information