

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited accounts for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

National Express Group PLC is the holding company of the National Express Group of companies. Its subsidiary companies provide mass passenger transport services in the UK and overseas.

BUSINESS REVIEW

The information that fulfils the requirements of Section 234ZZB of the Companies Act 1985 can be found in the Chairman's statement, Chief Executive's Review and the Operating and Financial Review on pages 4 to 27, which are incorporated into this report by reference.

RESULTS AND DIVIDENDS

The profit on ordinary activities before tax for the year ended 31 December 2006 was £104.1m. (2005: £89.3m) and a profit attributable to equity shareholders of £76.5m (2005: £2.8m (loss)) was transferred to reserves.

The Directors recommend a final net dividend of 24.0p per share which, together with the interim net dividend of 10.75p per share paid on 20 October 2006, gives a total net dividend for the year of 34.75p per share (2005: 32.25p). If approved by shareholders, the final dividend will be paid on 4 May 2007 to shareholders on the register at 27 April 2007.

DIRECTORS

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

David Ross
Richard Bowker (appointed 12 September 2006)
Jorge Cosmen
Sir Andrew Foster
Barry Gibson
Sue Lyons
Ray O'Toole
Tim Score
Adam Walker
Phil White (resigned 11 September 2006)

David Ross and Barry Gibson will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Richard Bowker will stand for election at the Annual General Meeting following his appointment to the Board on 12 September 2006. Phil White resigned as Chief Executive and a Director of the Company on 11 September 2006.

The names and biographies of the current Directors appear on pages 28 and 29. Details of the remuneration of the Directors, their interests in shares of the Company and service contracts are contained in the Report on Directors' Remuneration on pages 38 to 44.

DIRECTORS' INTERESTS IN CONTRACTS

Except as stated in note 37 on page 93, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

DIRECTORS' LIABILITY INSURANCE

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors. Under the Company's Articles of Association the Company may indemnify its Directors and Officers in accordance with the provisions of Section 309A of the Companies Act 1985. In addition indemnities have been provided by the Company to Ray O'Toole and Phil White who have been joined as defendants in proceedings being brought before the Supreme Court of New South Wales. These proceedings relate to a period of time when Ray O'Toole and Phil White were Directors of Bosnjak Holdings Pty Ltd, which was a subsidiary of the Group. Copies of the Articles of Association and the indemnities for Ray O'Toole and Phil White are available for inspection at the Company's registered office.

EMPLOYMENT POLICIES

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and continually improve operational performance. The Group is committed to providing equality of opportunity to employees and potential employees. This applies to appropriate training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion, age or ethnic origin. All UK businesses report diversity data and are responsible for benchmarking against their local population.

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

EMPLOYEE INVOLVEMENT

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. In addition, the Group-wide *express* magazine is aimed at keeping employees in touch with the worldwide activities of the Group and regular reviews of the Group's financial performance appear in this publication. Senior management within the Group meets regularly to review strategic developments and a group senior leadership conference is planned for 2007. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues. Employees are able to share in the Group's results through various employee share schemes.

Employee satisfaction is tracked through an annual employee survey. Results from the 2006 survey have been fed back to employees and action plans at local level rolled out. A number of Group initiatives launched in 2005 for frontline staff were continued in 2006. For example, the 'Express Awards' reward outstanding employee activities in and out of the workplace and the 'Express Benefits' package gives UK employees competitive discounts with leading retailers.

ENVIRONMENTAL POLICY

Details of the Group's environment policy and environmental initiatives are to be found in the Corporate Responsibility review on pages 26 to 27 and in the separate Corporate Responsibility Report issued to shareholders.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made during the year totalled £296,000 (2005: £286,000). It is the Group's policy not to make political donations and accordingly none were made in the year. However the Company did attend and sponsor various political events during the year for which total expenditure was £19,500 (2005: nil).

CREDITORS' PAYMENT POLICY AND PRACTICE

It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of satisfactory invoices.

Trade creditor days of the Company for the year ended 31 December 2006 were 21 days (2005: 24 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

FINANCIAL INSTRUMENTS

Details of the use by the Company and its subsidiaries of financial instruments can be found in the Notes to the Consolidated Accounts on pages 81 to 83.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of the following holders of 3% or more of its issued share capital (excluding treasury shares) for the purpose of Section 198 of the Companies Act 1985, as at 26 February 2007:

European Express Enterprises Ltd	19,976,298	13.08%*
Newton Investment Management Ltd	15,320,955	10.09%*
Standard Life Group	6,696,605	4.40%*
Aegon Asset Management UK plc	6,425,409	4.23%*
Barclays Bank PLC	5,116,365	3.37%*
Legal & General Group Plc	5,070,738	3.33%*

*Percentages as at date of notification.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 1 May 2007. Shareholders will be asked to approve five items of special business, details of which are given in the Notice of Meeting accompanying this report.

PURCHASE OF OWN SHARES

The Company was granted authority at the Annual General Meeting in 2006 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

The share buy back programme initiated by the Company in 2005, as part of its overall finance strategy, continued in 2006. During the period 10 May 2006 to 15 June 2006 the Company made the following purchases of its ordinary 5p shares:

	Number of shares	Percentage of issued share capital	Nominal value	Average purchase price
Shares purchased	1,425,000	0.93%	£71,250	£8.11
Shares cancelled	—	—	—	—
Shares put into treasury	1,425,000	0.93%	£71,250	—

As at 26 February 2007 the Company held a total of 1,825,000 ordinary 5p shares (nominal value £91,250) in treasury equal to 1.2% of the issued share capital.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of the Directors' Report confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

GOING CONCERN

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

By order of the Board

Tony McDonald

Secretary
1 March 2007