

RESOURCES

The Group has a range of resources that it uses to deliver its strategies and service its stakeholders.

Our Employees – The Group's most important resource is its employees. We believe there is a strong correlation between employee satisfaction and customer satisfaction, which means that our employees are vital to achieving the Group's objectives.

Our Brand – Market surveys consistently demonstrate that the National Express brand is the most recognised brand amongst the UK transport groups. This gives us an advantage that, going forward, we are looking to utilise through a wider range of sales channels than previously.

Our Customers – Every year, passengers make almost 900 million journeys with us. This gives the Group a significant opportunity to market itself, open new sales channels and achieve incremental sales.

Our Reputation – The Group has a strong reputation as a reliable operator across all its divisions. This reputation enables us to bid for contracts safe in the knowledge that our customers know we can deliver.

Our Contracts – Our existing portfolio of contracts, including London Bus contracts, UK Train franchises, North American school bus contracts, Alsa long distance concessions and regional and urban contracts, provides assurance in those Divisions over the delivery of shareholder value in the short and medium term.

DESCRIPTION OF THE BUSINESS

National Express Group is a leading transport group with operations in Europe and North America. These operations are reported in five divisions: Alsa, UK Coach, UK Trains, UK Bus, and North America, reflecting the management responsibilities, operations and geographic characteristics of each activity. Narrative describing how the Group manages its operations is contained in the Corporate Governance report.

EUROPEAN COACH AND BUS (ALSA)

Alsa is Spain's leading private operator of coach and bus services, employing over 3,500 people.

The coach business operates long distance coach concessions in Spain and international coach routes across Europe. The long distance concessions are granted on an exclusive basis by the national government for each route with an average duration of 15 years. In addition, the business operates regional coach routes in Spain awarded by regional government. In the coach businesses, revenue is principally generated by the sale of tickets to passengers, some of which are subject to regulated price increases.

In addition to its coach businesses, Alsa operates urban networks in 19 cities in Spain, Portugal and Morocco. Urban contracts are awarded by city councils and revenue is principally generated by the operation of these contracted services. We do not retain any of the revenue from ticket sales, all revenue passes to the councils.

UK COACH

The UK Coach division operates a national integrated network of scheduled coach services under the National Express brand. This network operates to more than 1,000 destinations within the UK including all of the major UK airports.

Revenue is primarily generated through ticket sales to passengers with the development of yield management revenue systems used to maximise revenue in off peak periods. Fare increases are unregulated. The majority of vehicles used by the business are contracted from third parties who employ the drivers. Two businesses in the division, Eurolines and Airlinks, operate coach services to Europe and coach services at Gatwick Airport respectively. In total the division employs over 1,500 people.

UK TRAINS

The UK Trains division operates a range of inter-city, commuter, rural and airport passenger train services under franchise agreements with DfT Rail. The franchises we currently operate are: c2c, Central Trains, Gatwick Express, Midland Mainline, 'one' and Silverlink. The division employs 9,500 people.

Franchises are awarded following a tender process managed by the Department for Transport, in which applicants are required to prequalify for the main franchise bid process. Following a successful bid, the franchises generally last for a period of seven years, with the possibility of short-term extensions. Our Central Trains, Midland Mainline and Silverlink franchises finish in November 2007; Gatwick Express and c2c finish in 2010 and 'one' in 2011.

We have recently submitted our bids for the East Midlands and New Cross Country franchises. We have prequalified for the Inter City East Coast franchise. The outcome of these bid processes is expected to be known in 2007.

Revenue is generated from the sale of tickets to passengers and through other income such as catering services and car park income. Increases in certain ticket prices are regulated. In addition, government funding is received in certain franchises in the form of franchise support.

UK BUS

The UK Bus division operates high frequency urban bus services in the West Midlands, London and Dundee. In the West Midlands and Dundee revenue is generated by the sale of tickets to our passengers. Fare increases are unregulated and we work in partnership with local authorities to grow the business.

In London our services are operated under contracts with TfL, that normally last for five years, with two year extensions. We are constantly bidding for new contracts and no one contract is material to the business. We do not retain any of the revenue from ticket sales in London with all revenue passing to TfL.

The division also operates Midland Metro, the light rail service in Birmingham, which generates revenue by the sale of tickets to passengers.

The division employs 7,000 people.

NORTH AMERICA

Our North American division is the second largest operator of private school bus services in both the United States and Canada, employing over 18,300 people and operating over 14,000 buses. With locations in 25 US states and 2 Canadian provinces, this division primarily earns revenue by operating contracts on behalf of school boards to transport children from home to school with additional revenue earned from ad hoc field trip and vehicle charter activity.

The North American student market is highly fragmented. Local school boards operate around 300,000 to 350,000 vehicles in house, with the balance being operated by private companies.

The disposal of Stewart Airport planned for later in 2007 means the North American division can now focus solely on student transportation.

OPERATIONAL REVIEW

GROUP RESULTS

We have achieved another strong set of results, increasing profit before tax by 17% to £104.1m (2005: £89.3m), driven by a 29% increase in operating profit to £141.6m (2005: £109.5m). Diluted earnings per share from continuing operations improved 18% to 52.5p (2005: 44.5p).

Our financial key performance indicators are based on normalised results, which we feel reflect the performance of the business more appropriately. Normalised results are defined as the statutory result before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on the disposal of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon as appropriate.

The Group's Key Performance Indicators ("KPIs") for profitability are normalised operating profit, normalised profit before tax and normalised diluted earnings per share, which are calculated as per the notes to the accounts.

Normalised Group operating profit was up by 19% to £184.8m (2005: £155.5m), on revenue of £2,525.5m (2005: £2,216.0m) resulting in an increased operating margin of 7.3% (2005: 7.0%). Normalised profit before tax increased by 15% to £156.1m (2005: £135.3m). With an increase in the effective tax rate from 21.8% to 25.1% and the loss of rail profits, normalised diluted earnings per share from continuing operations marginally increased to 76.5p (2005: 76.3p). Net debt decreased by £125.0m to £438.4m. The proposed full year dividend per share will be increased by 8% to 34.75p (2005: 32.25p).