

OPERATING REVIEW

COACHES (UK)



PAUL BUNTING
CHIEF EXECUTIVE,
COACH DIVISION

THE COACH DIVISION PROVIDES BRITAIN'S ONLY SCHEDULED NATIONAL COACH NETWORK AND SERVES MORE THAN 1,000 DESTINATIONS, PROVIDING APPROXIMATELY 19 MILLION CUSTOMER JOURNEYS EACH YEAR. THE AIRPORT SERVICES PROVIDE PREMIER, HIGH FREQUENCY SCHEDULED COACH SERVICES TO ALL THE UK'S MAJOR AIRPORTS. EUROLINES OFFERS VALUE FOR MONEY EUROPEAN TRAVEL BY COACH. THE DIVISION EMPLOYS OVER 1,500 PEOPLE.

REVENUE

£207.3m

(2005: £200.5m)

NORMALISED OPERATING PROFIT

£23.7m

(2005: £21.5m)

Revenue for the year was £207.3m (2005: £200.5m) with a normalised operating profit of £23.7m (2005: £21.5m). Passenger growth of 5.5% in the second half resulted in overall passenger growth of over 4%. Our key corridors have performed well and on some routes such as Bristol and Stansted to London we have seen double digit passenger growth. Our margins have increased above 11%.

Within our core schedule coaching business, the success of yield managed fares which ensure greater efficiency and utilisation of the fleet, helped drive growth. Such products enable us to provide customers with improved value for money fares. Funfares, from just £1, are now offered on 32 popular routes.

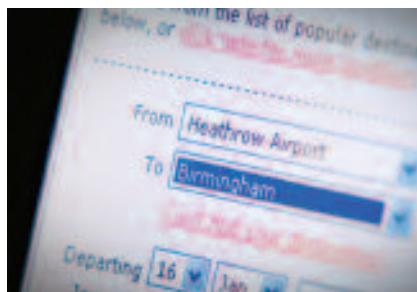
Direct sales accounted for 65% of total sales and internet sales continued to improve with over a quarter of all bookings now made online, of which over 90% of all tickets booked online are distributed either as e- or m-tickets or SMS messages.

New self service touch-screen fast issue ticket and journey planning kiosks have been installed at Heathrow, Gatwick, Birmingham and Manchester coach stations. In September the division scooped the top prize at the National Customer Service Awards winning "Best Use of Technology in Customer Service".

In November, the National Express coach brand was awarded Superbrand status in a poll conducted amongst more than 1,000 business professionals and a select panel of marketing, advertising and branding experts by YouGov. In this prestigious survey National Express was placed in the top 300 brands as well as in the top 10 UK travel brands. We are using this strong position to develop our services to a broader customer base.

We introduced easy access coaches onto a number of routes across the network during 2006. Forty-four of these new style coaches are now operating on some of our busiest routes including East Midlands to Stansted Airport, Brighton to London and Yorkshire to Heathrow and Gatwick. Our new wheelchair accessible Levante coach won two awards this year, "Top Dual-Purpose Vehicle" and the "Clarks Trophy" for a coach offering the best access for the disabled. We are committed to making the whole network fully accessible by the 2012 Olympics representing a £100m investment.

During the year we worked closely with BAA at Heathrow to redevelop the new £2.5m Central Bus Station terminal. This includes investment in the infrastructure and taking on the responsibility of operating the facility on behalf of BAA. We are working closely with BAA on the provision of coach services for Heathrow Terminal 5 which opens in 2008. Discussions regarding the redevelopment of Digbeth coach station are ongoing and we expect work to commence later this year.



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