national express

Full Year Results

For year ended
31 December 2016

23 February 2017

Cautionary statement

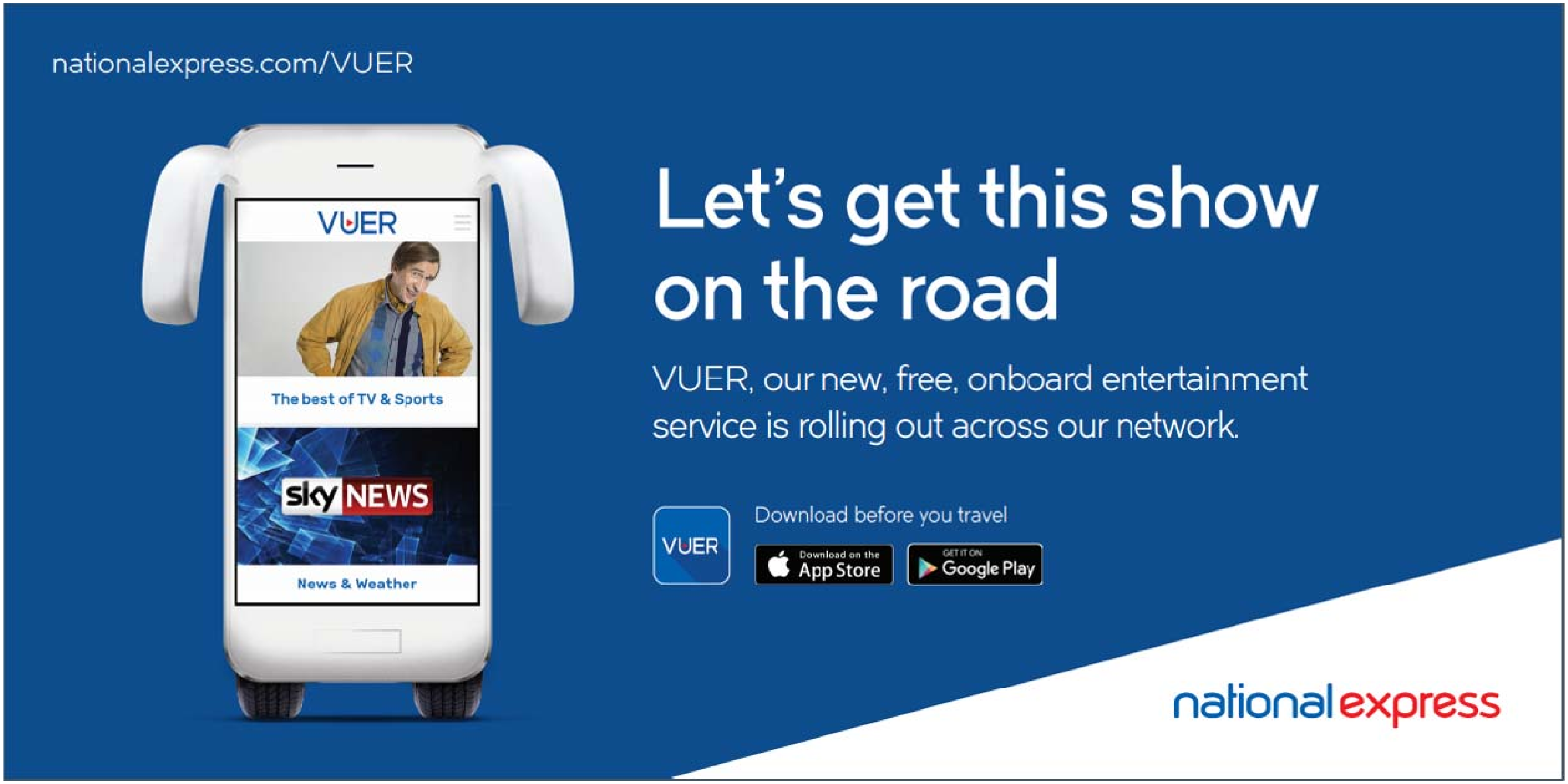
This Review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the Review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements

Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: IFRS result excluding charges for intangible asset amortisation and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

In addition, unless otherwise stated, all pre-tax results and margin data refer to the Group's continuing operations. Further details can be found in note 11 to the Financial Statements.

Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group.



Financial highlights

Matthew Ashley

Group Finance Director

2016 Key highlights

Delivering significant growth in profit and cash

Strong performance from our diverse portfolio of businesses

- Group normalised PBT of £170m, up 14.6%, normalised EPS of 27.3p, up 16.7%
- Statutory profit at a record high of £120m, up 10% and doubling over 2 years
- Particularly strong growth in our overseas businesses, boosted by targeted acquisitions & FX
- Record 921m passenger journeys - growth of 6.3%

Continued strong cash generation – £139m of FCF, well ahead of target of £100m

- Supporting future growth with £122m invested in 11 bolt-on acquisitions
- Increasing our free cash flow target to £120m – disposal of c2c frees up cash

Improving returns – ROCE rises to 11.9% (2015: 11.7%)

Strategic disposal of c2c in February 2017

- Reducing risk & capex commitment
- Focusing capital allocation on higher return markets

Strong cash flow supporting final dividend growth of 10% & total dividend growth of 8.4%

- Long-term dividend policy: 2x Group earnings

2016 Financial Highlights
Strong performance in the continuing business

Continuing operations £m	2016	2015*	Change
Revenue	2,103.7	1,753.8	+20.0%
Group normalised operating profit	219.0	191.8	+14.2%
Group statutory operating profit	185.2	166.1	+11.5%
Group normalised PBT	170.1	148.4	+14.6%
Group statutory PBT	136.3	122.7	+11.1%

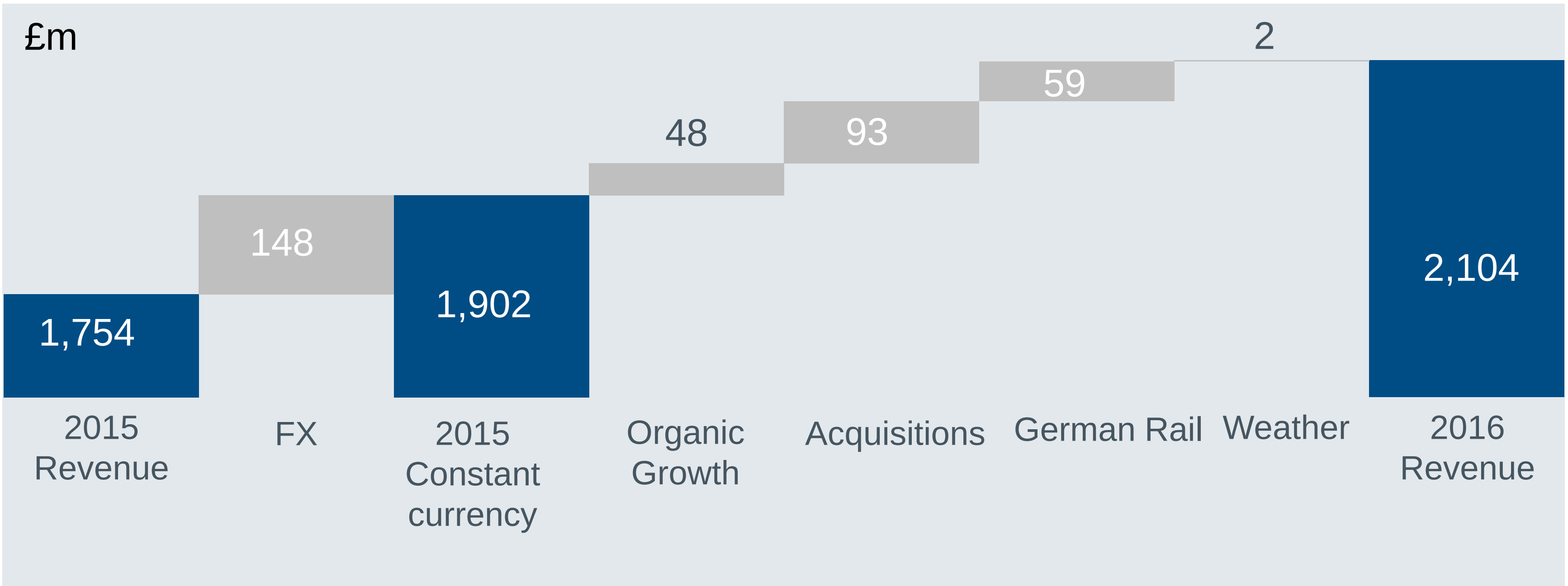
Total operations including UK Rail £m	2016	2015	Change
Normalised PBT	175.0	150.1	+16.6%
Statutory profit for the year	120.0	109.1	+10.0%
Free cash flow	138.6	111.0	+£27.6m
Net debt	878.0	745.5	+£132.5m

Basic EPS:	27.3p	23.4p	+16.7%
Group statutory EPS	23.0p	20.9p	+10.0%
Full year dividend	12.28p	11.33p	+8.4%

*Restated

Revenue from continuing operations

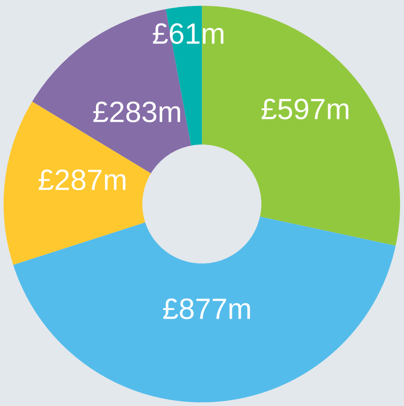
Strong organic growth boosted by acquisitions



- Strong revenue growth, up 10.6% in constant currency
  - Acquisitions and first time contribution from German Rail, together with organic growth of 2.5%
- Significant tailwinds from currency, with GBP weaker versus both the USD and Euro

Operating profit from continuing operations
Strong performance, particularly overseas

Revenue



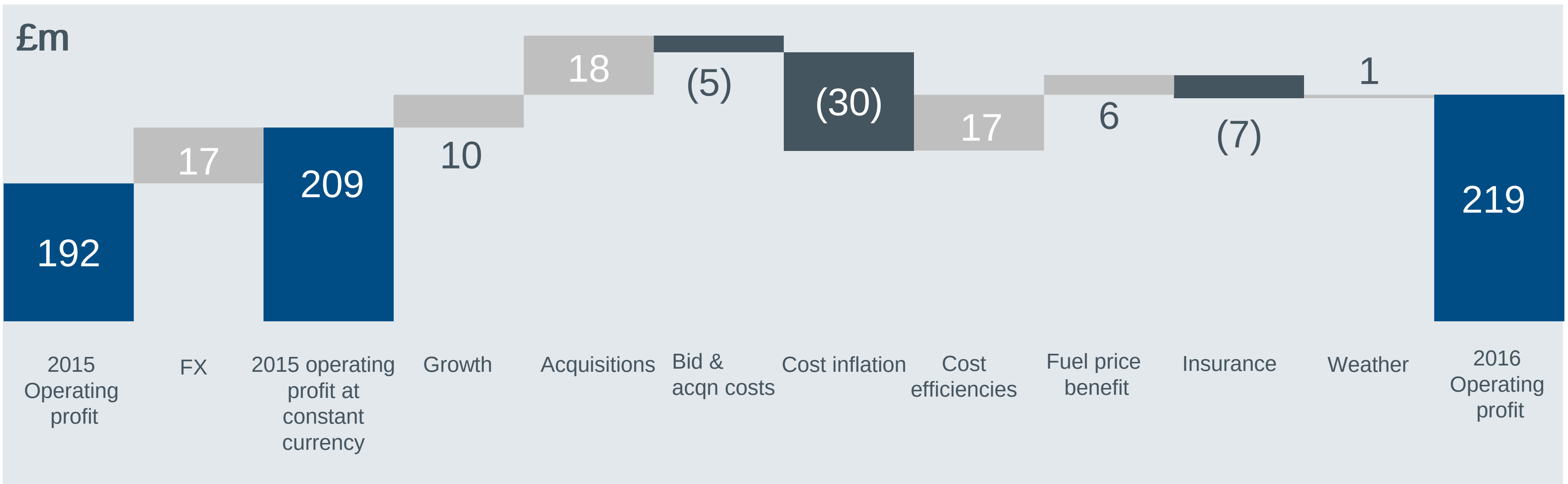
Normalised operating profit

	FY 2016	OPM %	FY 2015	OPM %
Spain & Morocco	€103.7m	14.2	€98.5m	14.2
North America	$113.9m	9.6	$101.8m	9.8
UK Bus	£35.5m	12.4	£37.5m	13.1
UK Coach	£33.3m	11.8	£32.3m	11.5
German Rail	€(1.8)m	-	€(0.1)m	-
Centre	£(17.0)m	-	£(16.2)m	-
Group	**£219.0m**	**10.4**	**£191.8m**	**10.9**

**Underlying year-on-year change shown in constant currency*

Normalised operating profit

Strong performance boosted by acquisitions & FX



- FY 2016 operating profit up 4.8% on a constant currency basis, up 14.2% on a reported basis
  - Growth, acquisitions, cost efficiencies and lower fuel price more than offsetting cost inflation, higher bid & acquisition-related costs & higher insurance costs in North America
- Operating margin down reflecting the higher proportion of profits from North America
- £17m benefit on FX, with significant weakening of GBP versus the USD & Euro

Superior cash and returns

Strong cash flow with £139m of FCF

£m	FY 2016	FY 2015
EBITDA	**344.6**	**298.1**
Working capital	(3.1)	(11.8)
Replacement capex	(134.7)	(111.7)
Pension deficit	(5.5)	(9.7)
Operating cashflow	**201.3**	**164.9**
Tax/interest/other	(62.7)	(53.9)
Free cash flow	**138.6**	**111.0**

Operating cash flow	Operating Profit %
Spain & Morocco	106%
North America	117%
UK Bus	23%
UK Coach	109%
Rail	N/A
Group	90%

- As previously guided, full year net capital expenditure in line with normal levels of 1.1x to 1.2x depreciation
- Free cash flow of £139m, well ahead of target for 2016 of £100m
- Upgrading sustainable free cash flow target generation to £120m p.a. – disposal of c2c frees up cash from capex commitments & no further franchise premium payments
- Generated £1.4bn of operating cash flow over the last 7 years

Superior cash and returns

Focusing on investing for future growth

£m	FY 2016	FY 2015
Free cash flow	**138.6**	**111.0**
UK rail franchise exit outflow	(1.0)	(2.5)
Exceptional cash	(4.9)	(10.0)
Cash flow available for growth & dividends	**132.7**	**98.5**
Net growth capital expenditure	(27.0)	(36.4)
Acquisitions & disposals	(88.8)	(69.4)
Dividends	(58.9)	(54.4)
Other, predominantly forex	(90.5)	(19.5)
Net funds flow	**(132.5)**	**(81.2)**
Net Debt	**878.0**	**745.5**

- FCF of £139m funding investment in acquisitions of £89m & £27m of net growth capital expenditure, together with increased dividend payments of £59m
- Retranslation of foreign debt & maturity of FX contracts resulting in significantly increased outflow of £91m

Growth
Growth capital expenditure

Growth capital expenditure

- Investment made in new or nascent parts of the business to drive enhanced profit growth
- Total spend of £27.0m (2015: £36.4m)
  - New fleet in Morocco to support extension of network
  - Investment in infrastructure & technology to meet our c2c franchise obligations
    - DOO
    - Refurb & refresh vehicles
    - Station upgrades
    - Digital & technology

ROCE rises to 11.9%

Growth
M&A

11 acquisitions in the year

- Combined consideration of £122m at 6x EBITDA
- 8 in North America:
  - 5 school bus businesses, 2 of which include transit operations
  - 2 shuttle, private hire and paratransit businesses
  - Strategic acquisition of Ecolane, a planning and scheduling software provider into the paratransit market – already winning new third party contracts
- ALSA 2 acquisitions:
  - A regional bus company providing entry into Ibiza, and a private hire transfer operator in the ski tourist market in France & Switzerland
- UK Coach acquisition of Clarkes
  - Private hire company in the commuter market and entry into the in-bound tourism market
- Continuing to evaluate further opportunities, applying our disciplined approach

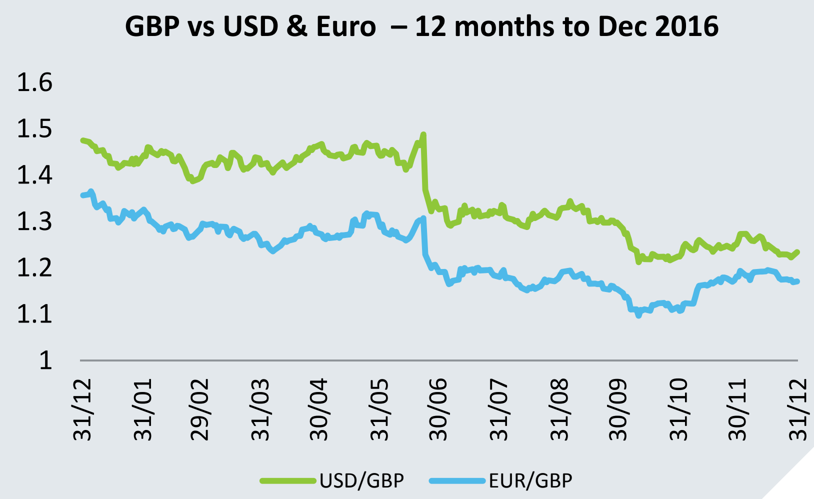
ROIC of 15-20% improving Group returns

Foreign currency effects

Effect of fluctuations on profit and debt

NEX currency profile

- £17m positive PBT impact in 2016
- Hedging achieved by matching local currency debt to EBITDA
- Further Sterling profit gains anticipated in 2017, hedged by increased debt



FY rates versus £

	2016	2015
USD Average	1.36	1.53
USD Year end	1.23	1.47
EUR Average	1.22	1.38
EUR Year end	1.17	1.36

Effect of a 1% weakening of £

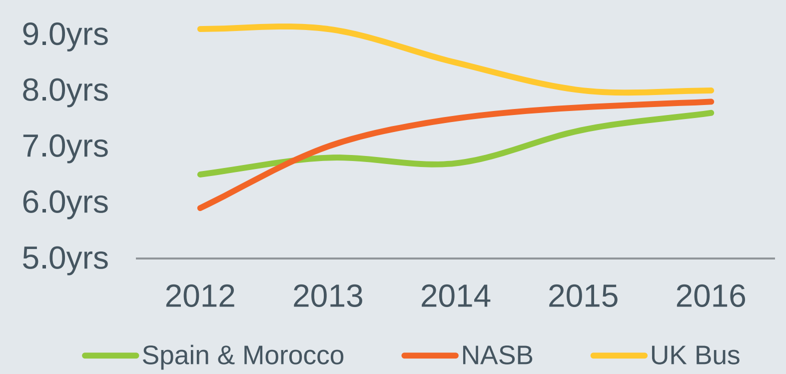
	USD	EUR
Operating profit (£m)	0.8	0.8
EBITDA (£m)	1.5	1.2
Debt	(3.8)	(3.0)

Superior cash and returns

Sustainable capital efficiency is driving better returns

Group ROCE %	
2016	**2015**
11.9%	**11.7%**

Spain, UK & NA School Bus average fleet age



- Group ROCE +20bps to 11.9%
- Ongoing focus on careful targeting of capital investment & more efficient deployment of assets
- Disciplined approach to investment has maintained UK Bus & North America, & increased Spain & Morocco fleet ages to the benefit of Group ROCE

Balance sheet

Rise in net debt reflects investment in growth & FX

Gearing Ratios	2016	2015	Covenant
Net debt/EBITDA	2.5x	2.5x	<3.5x
Interest cover	7.0x	6.6x	>3.5x

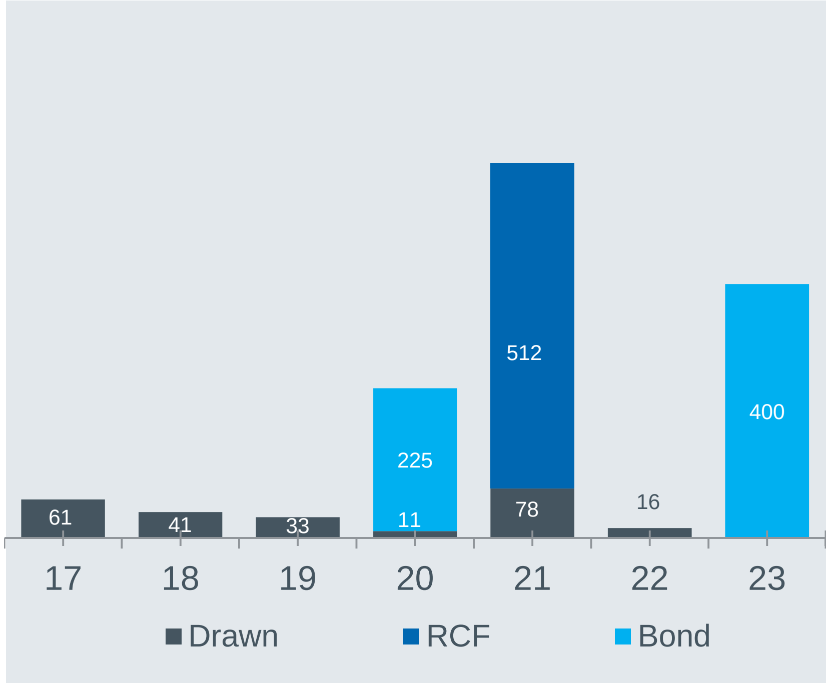
Ratings	Grade	Outlook
Moodys	Baa3	Stable
Fitch	BBB-	Stable

- Net debt increased to £878m, up £133m reflecting £116m investment in acquisitions & growth capital expenditure, & retranslation of debt
- Remain committed to a robust financial strategy:
  - Prudent gearing policy: Approximately 2-2.5x EBITDA
  - Dividend covered 2x by Group earnings
  - Strong commitment to IG debt rating
  - Prudent risk planning – fuel mostly hedged through 2018 and layering 2019
  - Negotiating future DB Pension contributions – guidance of c.£10m p.a.
  - £830m cash & committed headroom*

** Available cash and undrawn committed facilities at 31 December 2016 which included £350m required to repay £350m bond in January 2017*

Balance sheet
Successful refinancing on bond

Strong debt maturity profile



- £400m 7 year 2.5% bond issued in November 2016 replacing £350m Jan 2017 6.25% bond
- Additional liquidity - £96m complementary to RCF
- Significant interest saving in 2017 through to 2023

**Available cash and undrawn committed facilities at 31 December 2016, excluding £350m bond which was repaid in January 2017*

Guidance

2017

- Net capital expenditure of 1.1x to 1.2x depreciation – 2017 target *c.* £160m-£170m
- Effective tax rate of *c*.25% cash tax remaining relatively stable
- Bid costs of *c*.£7-10m in 2017: German Rail & International opportunities
- Progressive dividend policy targeting medium-term div. cover *c*.2.0x Group earnings
- Significant savings *c.*£9m from lower bond interest costs in 2017 & onwards
- Lower fuel costs – savings of £6m in 2017 versus 2016
- Free cash flow generation of £120m

2018

- Lower fuel costs – savings of *c*.£20m versus 2017 national express

Business review

North America
Strong bid season & growth from acquisitions

Delivering operational excellence

- Strong bid season in 2016/17 - 97% contract renewal
- Average price increase +3.7% across portfolio, 7% on re-bid contracts
- Acquisitions delivering ROIC of 15-20%
- Strategic acquisition of Ecolane, planning & scheduling software provider, already seeing new contract wins
- 60% annualised revenue growth in Transit - $200m

Creating new business opportunities

- 8 acquisitions: adding 1,110 school buses & 450 transit vehicles
- 6x EBITDA
- Net consideration £105m

Risks

- Healthcare costs
- Wage pressure
- Rising insurance claims

Generating superior cash & returns

	2016	*2015
Revenue	$1,189.0m	$1,040.6
Op profit	$113.9m	$101.8m
Margin	9.6%	9.8%

* Constant currency at 2016 FX rates

Revenue: +14.3% in constant currency, with successful bidding season, acquisitions and new contract wins

Profit: +11.9% in constant currency. Acquisitions, price rises & cost efficiencies more than offsetting driver wage pressures & higher insurance

Spain and Morocco
Record passenger numbers & acquisitions

Delivering operational excellence

- Strong performance with passenger growth of 6%
- RM driving growth in both revenue & passenger journeys, delivering 1% incremental revenue growth
- Record year for passengers with over 307m carried
- Enhanced digital capabilities with new apps & websites, driving sales online and lowering costs
- IZO Best Customer Experience - Transport in Spain

Creating new business opportunities

- Bidding Casablanca Tramway
- 2 acquisitions – Ibiza & Switzerland
- Granada airport contract

Risks

- Further competition from rail
- Intercity concession renewal

Generating superior cash & returns

	2016	2015
Revenue	€731.2m	€691.8m
Op profit	€103.7m	€98.5m
Margin	14.2%	14.2%

Revenue: +5.7% - strong growth in both Morocco & Spain, supported by full year contribution from Herranz and implementation of new RMS

Profit: +5.3% - reflecting revenue growth and positive contribution from Herranz, together with cost efficiencies and lower fuel costs

UK Coach
Robust performance - new RMS starting to deliver

Delivering operational excellence

- Core revenue growth of 1.9%, impacted by terrorist attacks & increased competition from rail
- RM increasing yields & coach occupancy, revenue + *c.*1% since introduced – full benefits to come in 2017
- Building customer loyalty with new apps & websites with personalised content, launch of VUER
- Improved digital capabilities increasing conversion rates

Creating new business opportunities

- New business: Amazon, Expedia & Groupon
- New routes – London Paddington to Stansted
- Acquisition of Clarkes

Risks

- Advanced ticket discounting in rail

Generating superior cash & returns

	2016	2015
Revenue	£282.8m	£281.2m
Op profit	£33.3m	£32.3m
Margin	11.8%	11.5%

Revenue: Core growth +1.9% with new partnership arrangements, new routes, RMS & digital initiatives partially offset by lower revenues in Eurolines

Profit: +3.1% with growth in margin - network optimisation, higher proportion of online sales & cost efficiencies

UK Bus
Robust performance in a challenging market

Delivering operational excellence

- Robust revenue growth, commercial revenue +2%
- Progressing our Alliance with TfWM* with industry leading initiatives e.g. contactless pay & m-ticketing
- New focus on digital marketing:
  - Reducing costs of sale & potential to drive incremental passenger journeys
  - Events-based marketing campaigns, value off-peak fares
- Awarded NTA Bus Operator of the Year

Generating superior cash & returns

	2016	2015
Revenue	£286.8m	£286.4m
Op profit	£35.5m	£37.5m
Margin	12.4%	13.1%

Revenue: Flat growth with second half passenger volumes weakening. 2% growth in commercial revenues offset by a fall in concession income of 4%

Profit: Down £2m - reduction in concession income of £3m

Creating new business opportunities

- Alliance with TfWM*
- Midland Metro extension
- New 'Platinum' routes – 7 added in 2016

Risks

- Buses Bill
- Concession income

*Formerly known as Centro

Rail
Good progress in Germany

Delivering operational excellence

- Significant passenger growth in c2c, +6.7%, well ahead of average for London & SE of +0.3%
  - New timetable introduced in Dec 2015, with new carriages from autumn 2016
- Successful first year of German rail operations
  - Over 20m passenger journeys & with operational improvements versus previous operator
- Strategic disposal of c2c in February 2017

Creating new business opportunities

- German bid pipeline
- Looking at other International rail opportunities e.g. Spain & Northern Europe

Risks

- Failure to win bids in Germany
- Mobilisation on new franchises

Generating superior cash & returns

	2016	2015
Revenue*	€75.0m	€3.3m
Op profit*	€(1.8)m	€(0.1)m
Revenue**	£236.8m	£168.4m
Op profit**	£3.4m	£1.6m
Margin**	1.4%	1.0%

*From continuing operations
**Including c2c

Revenue: +40.6%, with 5.7% revenue growth in c2c,& first full year contribution of €75m from German rail

Profit: £1.8m higher despite significantly higher premium charges (up £9m). Small operating loss of €1.8m in Germany

Strategic focus

Dean Finch

Group Chief Executive

UK Bus
Pursuing passenger growth

Positive findings from early actions…

Passengers responding to price cuts demonstrating high elasticity
- Early results from Dudley trial promising
- Second trial planned

Demand for more granular pricing
- Sensitive approach reflecting local travel patterns

New contactless ticket machines removing barriers
- Already largest smartcard system outside of London
- Evidence that convenient payment stimulates demand
- Enhanced Apps and mobile web capturing fastest growing sales channel

Driving cost savings
- Better demand information highlights network efficiency opportunities

…in our densely populated growing region

Strategic focus

Clear strategy with 4 strategic priorities

1. Delivering operational excellence
2. Deployment of technology throughout our business
3. Growing our business through targeted bolt-on acquisitions
4. Diversification into complementary markets

Delivering operational excellence
Striving for best in class performance

Driving strong passenger growth with 921m passengers…

Great value fares driving underlying passenger growth of 3%

- UK Coach record > 75,000 passengers in 1 day as part of excellent Christmas performance
- Spain & Morocco seeing 6% growth in passenger journeys
- North America customers - 97% retention, 93% satisfaction, 91% recommendation
- UK Coach customers – 88% recommendation, 86% value for money versus 47% in National Rail

Performance recognised with record number of awards including:

- UK Bus – Bus Operator of the Year in National Transport Awards
- All 3 UK businesses awarded British Safety Council Sword of Honour
- Prince Michael International Road Safety Award
- ALSA awarded Best Customer Experience for transport in Spain

New programme driving best practice from within & outside the Group

NTA NATIONAL TRANSPORT AWARDS

Bus Operator of the Year 2016

…delivering superior cash flow generation

Deploying technology
Digitalisation

Raising standards & driving efficiencies, generating sales, margin & cash

Making life easier for our customers through new mobile apps & websites – aspiration of ‘one click’ transactions

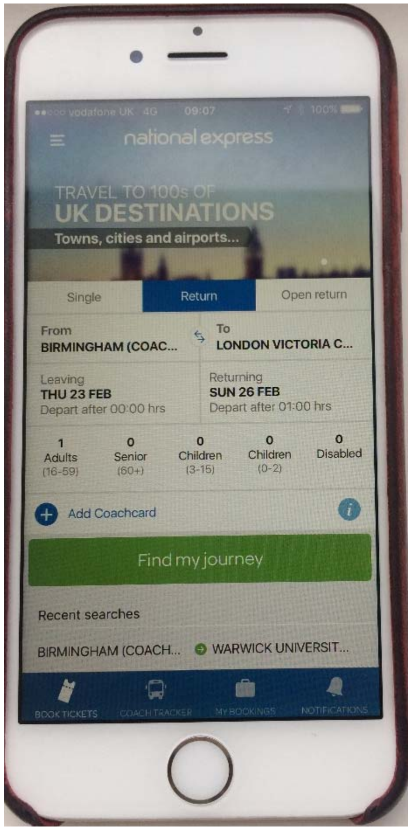
- Providing enhanced journey planners, personalised travel information, easier & faster ways to book & pay
- Mobile ticketing proving popular in UK Bus; contactless payment successful on Midland Metro & extending to UK Bus in H1 2017

Driving strong growth in online sales, improving conversion rates, reducing costs & generating revenue

- 15% growth in online sales, 40% growth from app in Spain
- 27% increase in sales from mobile web & 67% from app in UK Coach

Digitalisation raising standards, driving operational efficiencies

- Lytx DriveCam fully in UK Coach, rolling out across the Group; reducing collisions & associated insurance costs
- Helping to drive reductions in fuel consumption
- Strategic acquisition of Ecolane, to enhance Group-wide planning & scheduling capability & enter new market



Deploying our cash

Driving growth through targeted bolt-on acquisitions…

- 11 acquisitions in 2016 in our core markets, all earnings accretive within the first 12 months (5 acquisitions in 2015)
- Strong track record with these acquisitions delivering a high level of return in both profit & cash, with ROIC of 15-20%
- Disposal of c2c – de-risks future earnings
- Firepower for more deals from free cash flow & proceeds from c2c
- Strong pipeline of further acquisition opportunities with annualised revenues of $750m in North America alone

…with disciplined capital allocation delivering shareholder value

International development
Growth from further diversification

Building on our success in Germany & Bahrain…

Bahrain – now carrying 12m passengers a year
- Successful launch of Go Card smartcard with 45% of passenger journeys now transacted this way

German Rail carrying 20m passengers in its first year
- Better punctuality versus DB
- RRX mobilisation underway, benefitting from RME experience
- Several bidding opportunities - but we will remain disciplined e.g. withdrawal from Nuremberg

Pursuing attractive opportunities
- e.g. AlpyBus in the lucrative ski & alpine tourist market, Casablanca Tramway, urban bus in Singapore

Maintaining our disciplined approach to capital allocation & ROIC

…to grow in new markets

Delivering our strategy
Outlook for 2017 & beyond

Diverse portfolio & strong cash flows generating growth…

- Spanish concession renewals - €0-3m 2018
- Full year benefit of acquisitions transacted in 2016
- Fuel benefits – 2017 £6m, 2018 *c*.£20m
- Lower interest costs - £9m
- FX - £11m at current rates
- M&A, proceeds from c2c and FCF of £120m p.a.

…more growth to come


London
national express
CAETANO
national express
FJ09 DXR

Q&A

Appendix

2016 Underlying revenue growth

	Yield	Volume	Revenue	Network Efficiency*	LFL growth
Spain					
Transport Spain	2%	5%	7%	(3%)	4%
Transport Morocco	-	6%	6%	(3%)	3%
Non-passenger			(8)%		
Total[1]			**6%**		
North America[1]			**14%**		
UK Bus					
Commercial	3%	(1)%	2%	(1%)	1%
Concession/other			(4)%		
Total			**0%**		
UK Coach					
Core NE network	-	2%	2%	(2%)	-
Other			(4)%		
Total			**1%**		
c2c	(1)%	7%	**6%**		

** Decrease / (increase) in mileage operated, includes acquisition in Spain*
[1] Reported revenue in local currency

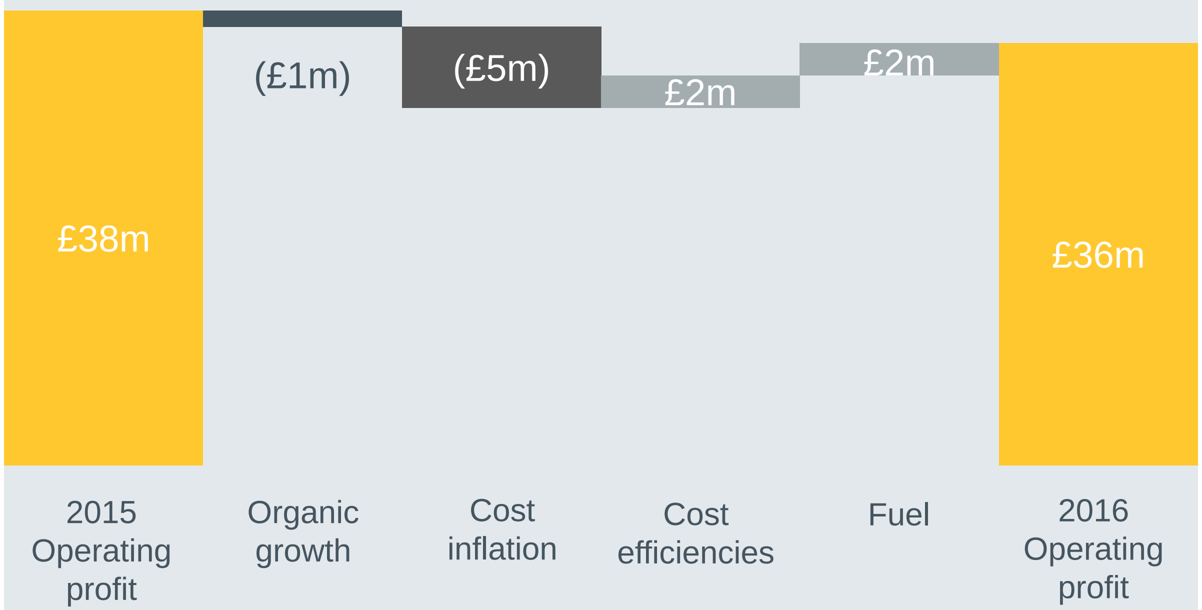
Full year
Summary divisional figures

2016 (£m)	Spain	N America	UK Bus	UK Coach	German Rail
Revenue	597.3	877.2	286.8	282.8	61.3
Depreciation	36	66	17	3	-
Capex	46	71	32	-	5
Vehicle age (years)	7.6	7.8	8.0	n/a	n/a
Normalised op. profit	84.7	84.0	35.5	33.3	(1.5)
Driver wages(1)	28%	48%	38%	8%	6%
Fuel(1)	13%	5%	12%	3%†	9%

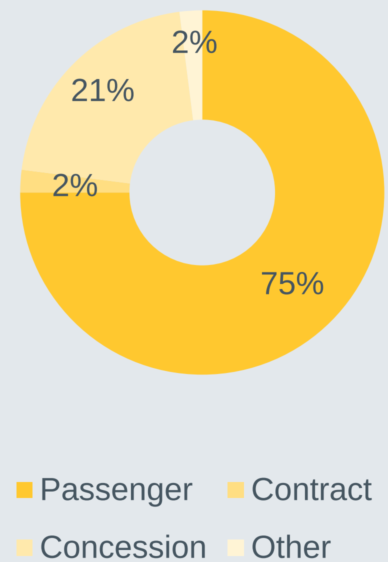
1 As a percentage of revenue
† Excludes Third Party operators

UK Bus – operating profit bridge

Bus



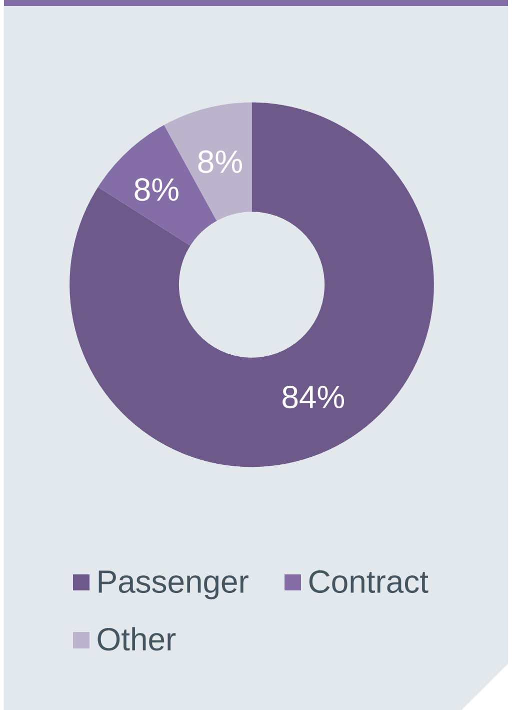
Revenue 2016



UK Coach

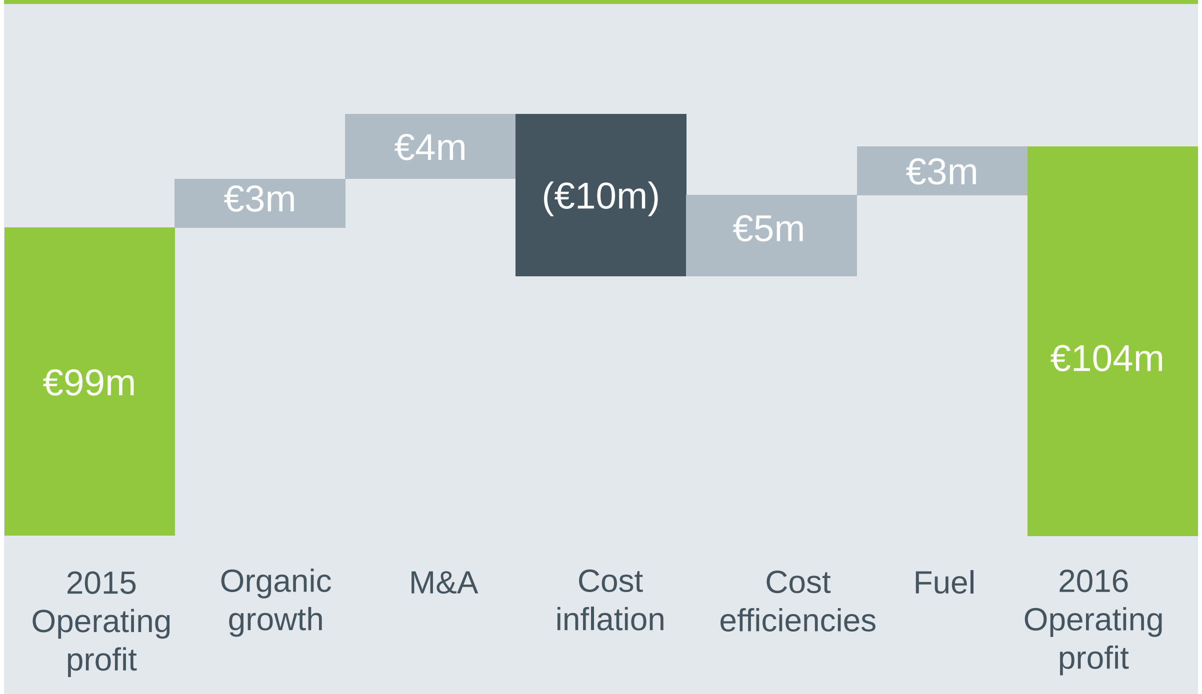
Coach

Revenue 2016

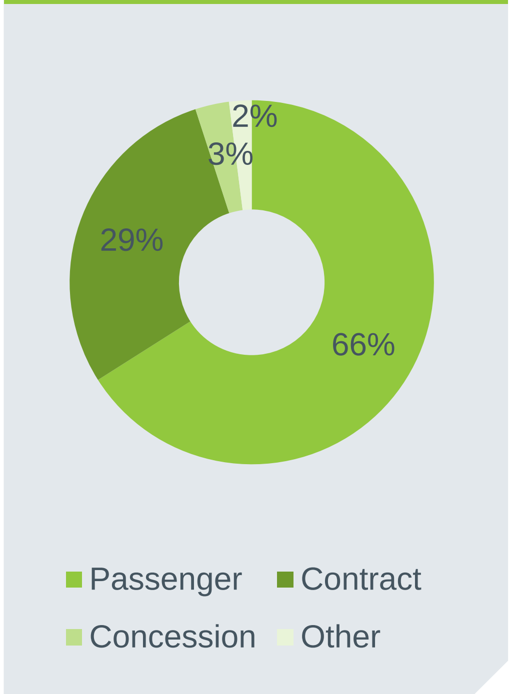


Spain & Morocco – operating profit bridge

Spain & Morocco

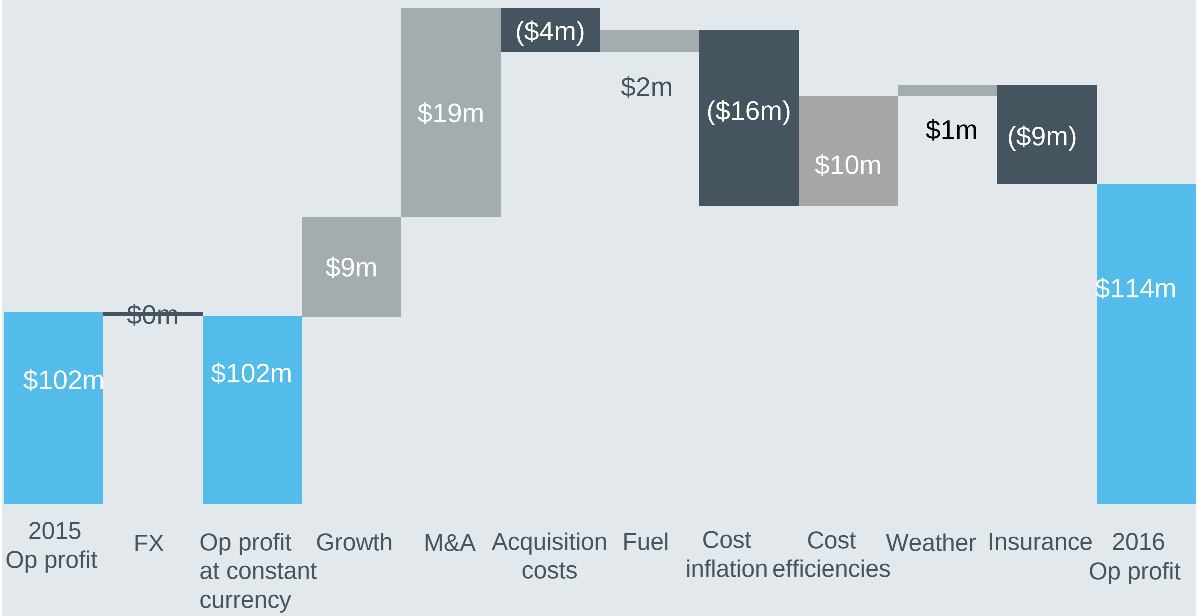


Revenue 2016



North America – operating profit bridge

North America



Revenue 2016

Risk management

Fuel risk largely fixed until 2018

Fuel Hedging

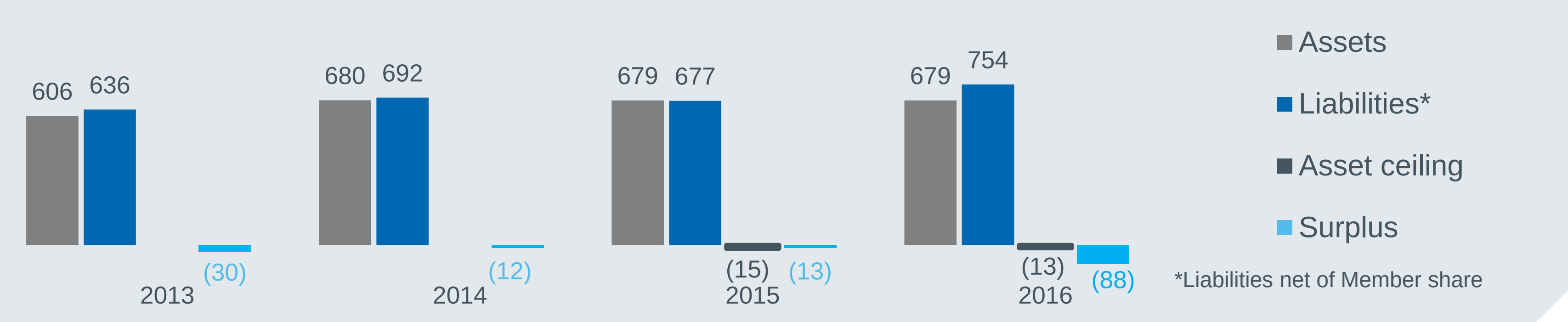
	2017	2018	2019
% hedged*	100%	89%	50%
Price per litre	42.6p	33p	33p

- Future year on year savings locked in (2016: 45.4p)
- Contracted revenue policy:
  - Extend cover for a minimum of 2 years
  - Longer hedging considered, subject to market liquidity & contract life
- Commercial revenue policy:
  - Minimum 15 months cover - provides a buffer for retail fare increases

** Of addressable volume (c225 million litres) in 2017 & 2018; c.200m in 2019*

Risk management
Triennial actuarial valuations in progress

Pensions £m (IAS19)



£m	Surplus /(Deficit) 31 Dec 2016	Surplus /(Deficit) 31 Dec 2015	Profit /(charge) FY 2016	Profit /(charge) FY 2015
UK Bus	(128.5)	(60.4)	(3.4)	(3.8)
PLC	44.5	34.9	-	(0.2)

- Currently in negotiations with Trustees of each scheme
- Anticipate overall level of contribution to remain *c.*£10m

Pipeline of opportunities remains exciting

	North America	German Rail	International
Target market	$25bn Transit, *c.*1/3 outsourced $24bn School Bus *c.*1/3 outsourced Contracts $5-100m 3-5 year life	€10bn annual revenues in regional rail market DB main operator Pro-competition €20-100m each	Selected geography Bus, coach & rail Liberalisation trend New public transport models
Revenue risk	Contracted/ Some risk	Gross cost/ Net cost mix	Mix
Attractiveness*:	Transit / School Bus		
Revenue growth	H / H	L	H
Margin	L / M	L	L
Capital req'd	L / H	L	L
ROCE	H / M	H	H
Active pipeline	**$750m+ total revenue in live bid processes** Transit wins + School Bus wins	**€3.3bn total revenue for 4 contracts**	**£60m total annual revenue in live bid processes**

** H – High; M- Medium; L- Low*

National Express Group PLC