national express

Half Year Results

For six months ended 30 June 2013

24 July 2013

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: Statutory result excluding charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

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2013 First Half Results

Jez Maiden

Group Finance Director

Highlights

- Record Non-rail operating profit
- Group pre-tax profit £71.8m
- Generated £93 million of free cash flow
- 10% increase in Non-rail revenue
  - Successful integration of Petermann
  - 9% passenger growth in UK Coach*
  - Profitable new contracts in Spain/ Morocco
- Clear progress in expanding new business
  - Bid wins in US Transit & German Rail
  - New business launched in German Coach

* *core Express network*

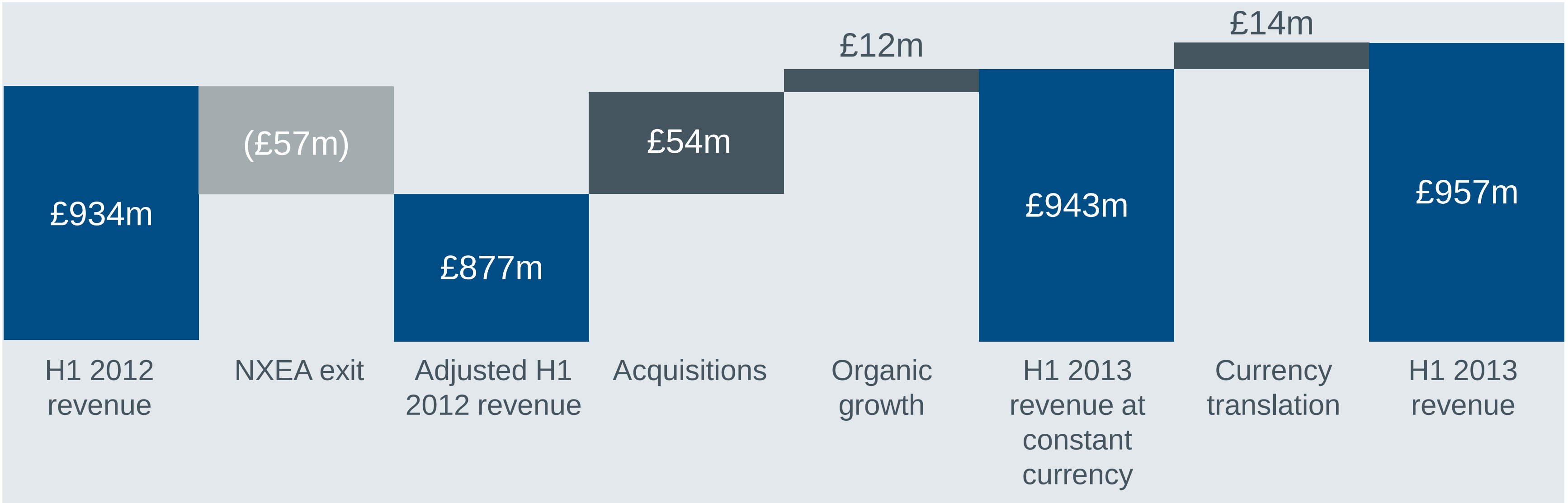
Highlights: delivering our strategy

Delivering operational excellence	Generating superior cash & returns	Creating new business opportunities
o Revenue growth in every business* o £15m synergy & cost efficiency delivered o Non-rail operating profit increased to £92.4m	o Established focus on cash generation – 137% operating cash/profit o Targeted capital spend to improve returns o Increasing free cash target to £150m for next 2 years o Debt lower, gearing 2.5x o Dividend raised 3%	o £1.7bn contracted revenue secured o Winning in established markets o Secured business in 3 new markets

Contract order book £5.3bn
+ recurring passenger revenues in UK of over £500m pa

* *Post NXEA handover*

We are growing Non-rail: replacing lower rail revenue



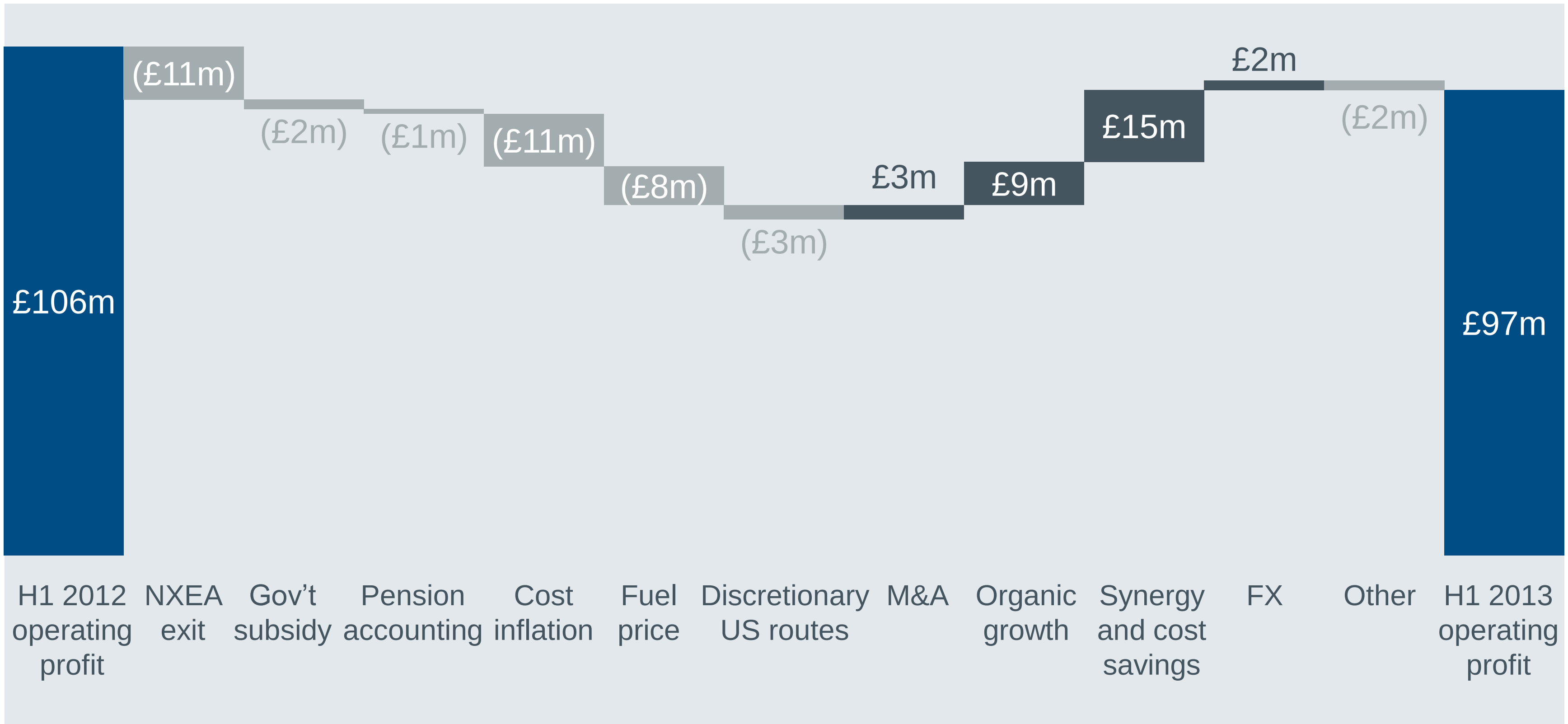
- 2% increase overall
- 7% revenue increase* at constant currency:
  - Petermann acquisition in May 2012 +6%
  - Organic growth +1%
- Currency benefit from weaker Sterling

* *Pre rail handover*

First half 2013 profit
Non-rail continuing to perform well

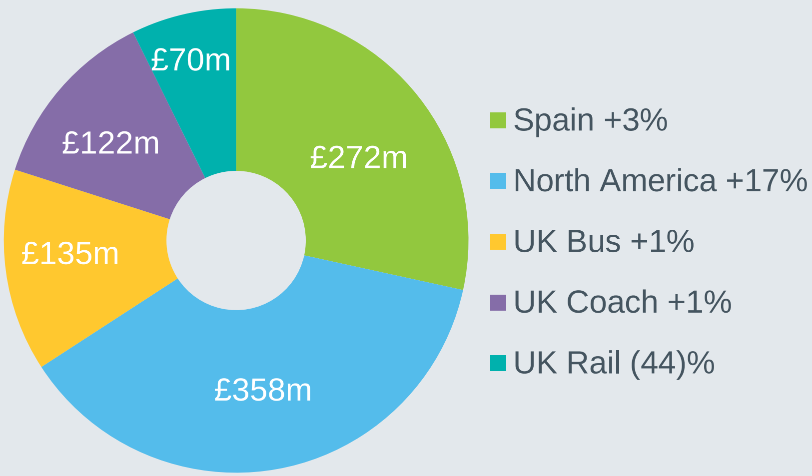
£m		2013	2012	Change
Revenue:	Non-rail	886.8	808.9	10%
	Rail	69.9	125.2	(44)%
	Group	**956.7**	**934.1**	**2%**
~~**Operating profit:**~~	~~Non-rail~~	92.4	90.0	3%
	Rail	4.8	15.5	(69)%
	Group	**97.2**	**105.5**	**(8)%**
Net finance costs		(25.8)	(24.0)	(7)%
Associates		0.4	0.5	(20)%
Profit before tax		**71.8**	**82.0**	**(12)%**
Basic EPS:	Non-rail	10.1p	10.0p	1%
	Rail	0.7p	2.6p	(73)%
	Group	**10.8p**	**12.6p**	**(14)%**

We have offset inflation & subsidy cuts through growth & efficiency



Overall growth in Non-rail profit with revenue growth in each business*

Revenue (YOY change [1])



Operating profit

	2013	2012
Spain	€40.8m	€43.0m
North America	$64.4m	$58.2m
UK Bus	£15.0m	£17.2m
UK Coach	£7.8m	£6.3m
Centre	£(6.6)m	£(5.8)m
Non-rail profit	**£92.4m**	**£90.0m**
UK Rail	£4.8m	£15.5m
Group	**£97.2m**	**£105.5m**

** Post NXEA handover*
[1] *year-on-year change shown in local currency (excludes Corporate)*

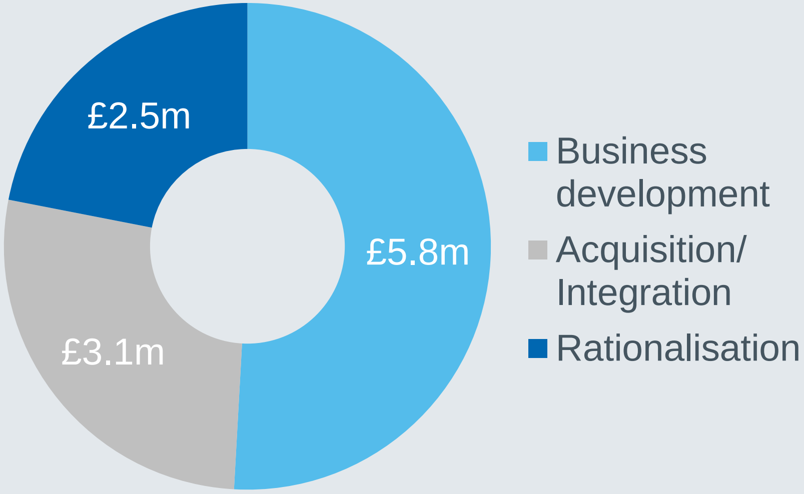
Statutory profit reconciliation and investment in exceptional items

Profit

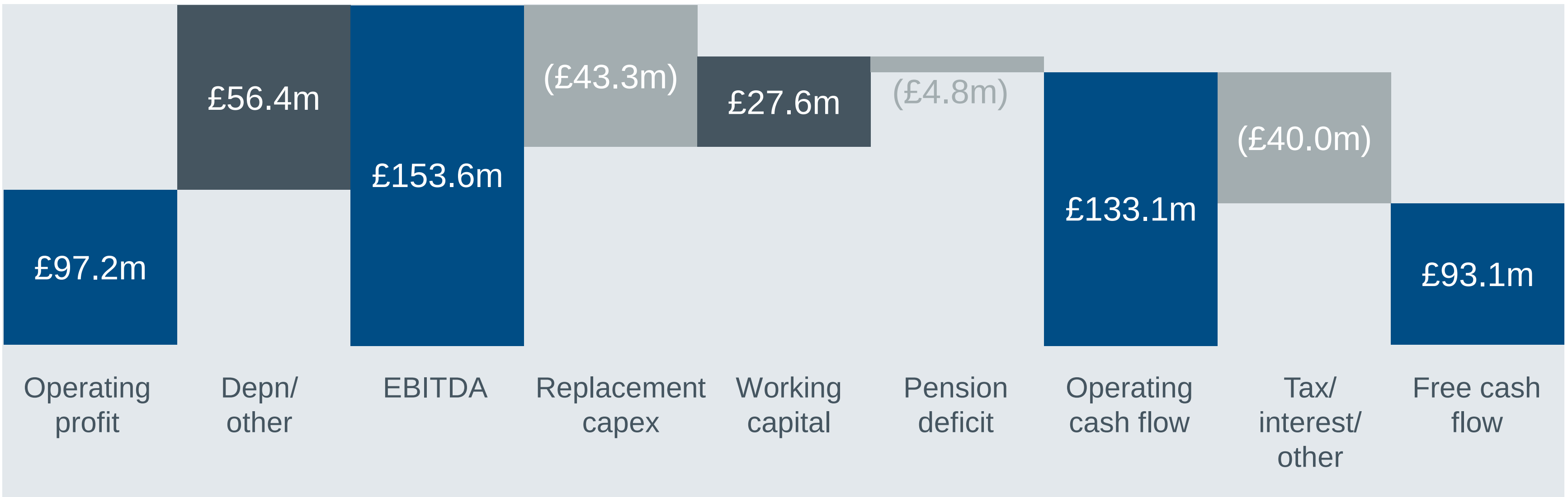
	2013	2012
Normalised PBT	£71.8m	£82.0m
Exceptional items	£(11.4)m	£(16.3)m
Intangible amort.	£(26.1)m	£(25.9)m
PBT	**£34.3m**	**£39.8m**
Tax charge	£(5.6)m	£(7.7)m
Profit for the period	**£28.7m**	**£32.1m**

- Business development investment:
  - New bus & coach opportunities internationally
  - UK & German Rail
  - Exceptional until revenue stream created
  - Thereafter BD costs are charged to normalised profit

Exceptional cost breakdown



We are focused on cash generation and targeted deployment of capital



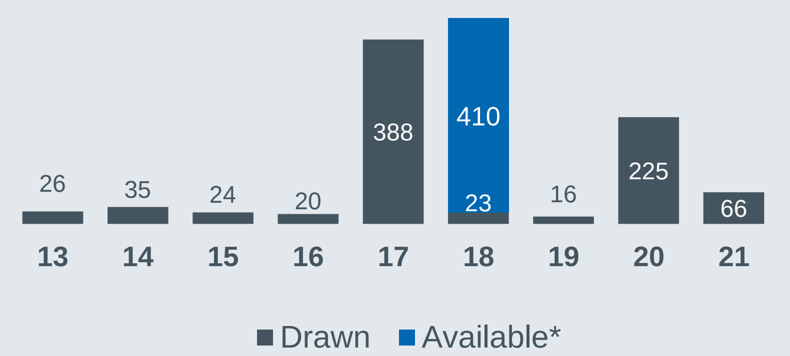
- Over 300 vehicles replaced to maintain fleet
- Significant working capital improvement:
  - Public body debt in Spain down €13m to €22m
  - Improved cash collection in North America
- Operating cash generation at 137% of operating profit
- Free cash flow over £93m

And we retain a secure, strong financial position

Gearing Ratios	2013	2012	Covenant
Net debt/EBITDA	2.5x	2.5x	<3.5x
Interest cover	6.3x	6.9x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa3	Positive
Fitch	BBB-	Stable

Strong debt maturity profile



- Net debt reduced to £809.4m
- Clear financial strategy underpins future:
  - Prudent gearing & dividend policies
  - Commitment to IG rating
  - Strong risk planning – most fuel hedged to 2015 & pension deficit plan in place
  - £499m committed headroom*
- New £410m RCF in place – better pricing

** Available cash and undrawn committed facilities at 30 June 2013*

national express

Delivering our strategy

Dean Finch

Group Chief Executive

Highlights: delivering our strategy

Delivering operational excellence	Generating superior cash & returns	Creating new business opportunities

o Operating safe, punctual and frequent services at excellent prices
o High performing services drive organic growth and new business
o We continually improve our performance
	o Very focused on:
	  o Deployment of capital
	  o Driving cash flow
	  o Reducing debt
	  o Improving returns
		o Performance is driving growth through referrals and wins
		o Delivering a pipeline of new contract opportunities & services
		o Capital light in nature

Exciting growth, cash generation & meaningful new business pipeline

Spain continues to be resilient to austerity pressures whilst growing new opportunities

2013 Objectives and progress

- Protect Alsa's revenue & profitability in challenging markets
- Secure growth from new concessions in Spain, Morocco & internationally
- Progress: overall revenue +3%, profit -€2.2m
- Some margin pressure - fuel

Achievements

- Offset 3% intercity revenue decline by managing mileage
- Flat urban performance in Spain; 17% LFL growth in Morocco
- Start-up of Guadalajara contract; preferred bidder for Tangiers
- Successful turnaround of recent Bilbao acquisition
- 4% payroll efficiency

Prospects

- Morocco: Tangiers start-up, other potential contracts
- Urban Spain: Protect services, extend asset lives
- Intercity: Renew concessions, grow revenue
- Other: rail liberalisation, international opportunities
- Costs: continued efficiency, flat/lower fuel costs, technology

First half performance

	2013	2012
Revenue	€321.2m	€312.4m
Op profit	€40.8m	€43.0m
Margin	12.7%	13.8%

Risks

- Transport law changes – structure maintained, no incumbent advantage (no impact before 2015)
- Concession renewal: margin pressure, offset by lower capital requirement
- Rail pricing
- Madrid consortium budget pressures

Spain - our local management team drives value from a focus on operational excellence

Bilbao case study

Acquisition

April 2012 ALSA takes over loss-making contract in Bilbao

Operational excellence applied

- Social issue management
- Procurement leverage
- Staffing adjustments
- Cost efficiencies
- Bonus delivery
- Stakeholder management

Outcome

12 months on…

Contract fully integrated and performing ahead of expectations

North America has successfully integrated Petermann and is growing Transit

2013 Objectives and progress

- Maintain margin leadership in School Bus
- Progressively reshape School Bus to drive return on capital
- Grow Transit profitably
- Progress: 17% revenue growth, 2% underlying in School Bus
- Margin pressure in 2013 from fuel price & discretionary routes

First half performance

	2013	2012
Revenue	$554.5m	$473.1m
Op profit	$64.4m	$58.2m
Margin	11.6%	12.3%

Achievements

- Over $125m operating cash flow generated in H1
- Petermann: >$10m synergies; acquisition funded in just two years
- Improved pricing on contract renewal, 96% retention, 8 conversions
- 92% customer satisfaction, 86% employee satisfaction
- 4 contracts won and mobilised in Transit

Prospects

- Efficient capital focus in School Bus:
  - Primarily conversion, charter – controlled growth
  - Reposition portfolio: capital returns and cash generation
  - Retain existing customers
- Efficiency through technology, standardisation and safety
- Transit - $200m active pipeline to build on initial success
- Lower priced fuel hedging in place for 2014/15

Risks

- School district budget pressures
- Marketplace pricing
- “Obamacare” impact in 2015
- External labour pressures
- Distance learning

UK Bus now showing good progress having suffered lower margin from headwinds

2013 Objectives and progress

- Offset headwinds from lower BSOG, pension accounting changes & higher fuel costs
- Grow patronage in commercial & concession revenues
- Progress: strong commercial & concession passenger growth in Q2 after slow start to year (weather-related)

Achievements

- LFL commercial revenue +2%; turnaround in passenger volumes:
  - Commercial -3% Q1, +3% Q2
  - Concession -10% Q1, 0% Q2
- Q2 margin up on prior year
- 90 new buses added

Prospects

- Fleet & technology investment : real time info, mobile, smartcards
- Operational excellence through punctuality improvement & working practices
- No further BSOG risk in short term
- Better fuel price outlook
- New Centro partnership: market-leading in ambition & opportunity

First half performance

	2013	2012
Revenue	£134.8m	£133.5m
Op profit	£15.0m	£17.2m
Margin	11.1%	12.9%

Risks

- Regional economic recovery remains fragile
- Local authority funding risk

UK Coach is making excellent progress rebuilding margin and revenue

2013 Objectives and progress

- Restore positive momentum
- Focus on revenue and margin initiatives
- Progress: excellent margin improvement
  - Sharp rise in passenger volume
  - Delivery of cost efficiencies

Achievements

- Core express coaches – volume up 9%, revenue up 3%
- Consumer responding to better pricing and service improvements
- New contracts with Luton Airport & Ryanair
- Cost efficiencies from depot rationalisation & partner cost savings
- Good support from Airlinks, Festivals & Kings Ferry

Prospects

- New partnerships to improve sales channels to customer
- Filling the coach
- Continued cost reduction from efficiency programmes
- Operational focus: changes to network, faster routes, greater productivity
- Attracting customers: loyalty pilot, senior/young person cards, partnerships

First half performance

	2013	2012
Revenue	£121.7m	£120.0m
Op profit	£7.8m	£6.3m
Margin	6.4%	5.3%

Risks

- Competition – rail
- Challenge of replacing Olympic profits in H2

Rail has secured its future with long-term German contracts & franchise extension in the UK

2013 Objectives and progress

- To extend c2c franchise profitably
- Secure first rail contract in Germany
- Bid for new long-term UK franchises
- Progress: success achieved in UK & Germany

Achievements

- c2c extended to Sept 2014
- c2c continuing to grow; remains the top performing UK franchise
- Shortlisted for TfL Crossrail tender
- Secured and begun mobilising 2 rail contracts in Germany

Prospects

- Bidding for long-term Essex Thameside franchise once called later in 2013
- Further opportunities in UK Rail
- German regional rail: large market, good customers seeking new international entrants, creating a lower risk portfolio, focused bidding strategy
- Other potential markets from European liberalisation

First half performance

	2013	2012
Revenue	£69.9m	£125.2m
Op profit	£4.8m	£15.5m
Margin	6.9%	12.4%

Risks

- Department for Transport bid delays
- London/City employment trends

Over the last 12 months we have built a pipeline of new contract and business opportunities

Existing Markets

- Major new contracts in US, UK Coach, Spain & Morocco – including Luton Airport & Tangiers
- Active development in Rail with DfT and TfL

Germany

- 2 rail contracts won until 2030 – mobilisation underway, bidding on active pipeline
- German Coach services launched in April – 5 routes operational, passenger volume building

US Transit

- 3 small acquisitions integrated – capability established in Para Transit, Shuttle & Fixed Route
- 4 contracts won & mobilised; promising pipeline of opportunities

International Opportunities

- Exploring opportunities in selected new markets - leverage our international capability

Focus on capital-light opportunities

National Express is focused on driving cash and shareholder returns

- Outlook for second half year
  - Passenger demand showing positive trends
  - Continuing to strengthen pipeline of new opportunities
  - Launching new services & contracts
- On course to deliver £150m of free cash flow in 2013 and 2014
- Targeting to reduce debt to 2x gearing by end 2014
- Focus on ROCE, especially in North America & new business areas
- Good business development opportunities into the medium term

Driving cash & returns and delivering growth

Appendix

H1 2013 underlying revenue growth

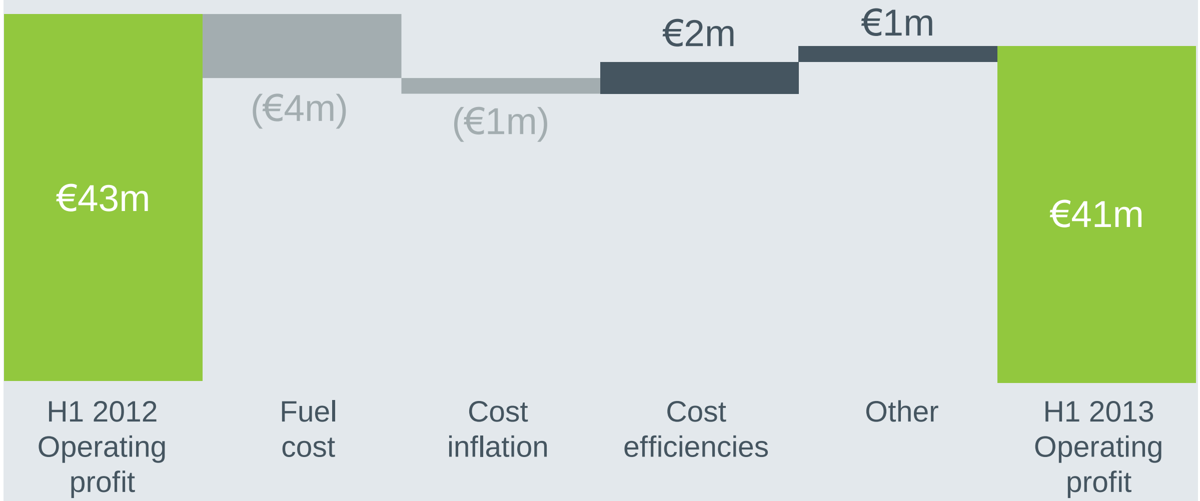
	Yield	Volume	Revenue	Network Efficiency*	LFL growth
Spain					
Urban – Spain			(4)%	3%	(1)%
Urban – Morocco	8%	15%	23%	(7)%	17%
Intercity	2%	(5)%	(3)%	6%	3%
Non-passenger			(9)%		
Total[1]			**3%**		
North America[1]			**17%**		
UK Bus					
Commercial	3%	(1)%	2%	0%	2%
Concession/other			(1)%		
Total[1]			**1%**		
UK Coach					
Core NE network	(6)%	9%	3%	(3)%	0%
Other			(3)%		
Total[1]			**1%**		
c2c			**3%**		

** Decrease / (increase) in mileage operated*

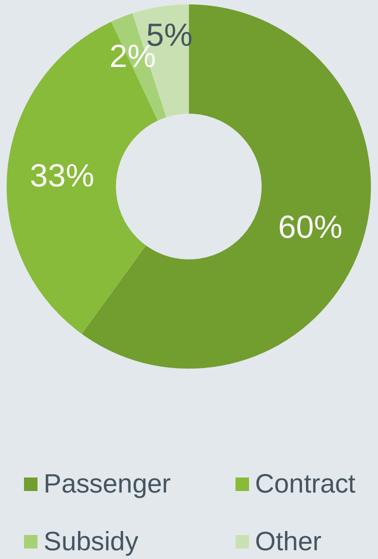
[1] Reported revenue

Spain – operating profit bridge

Spain

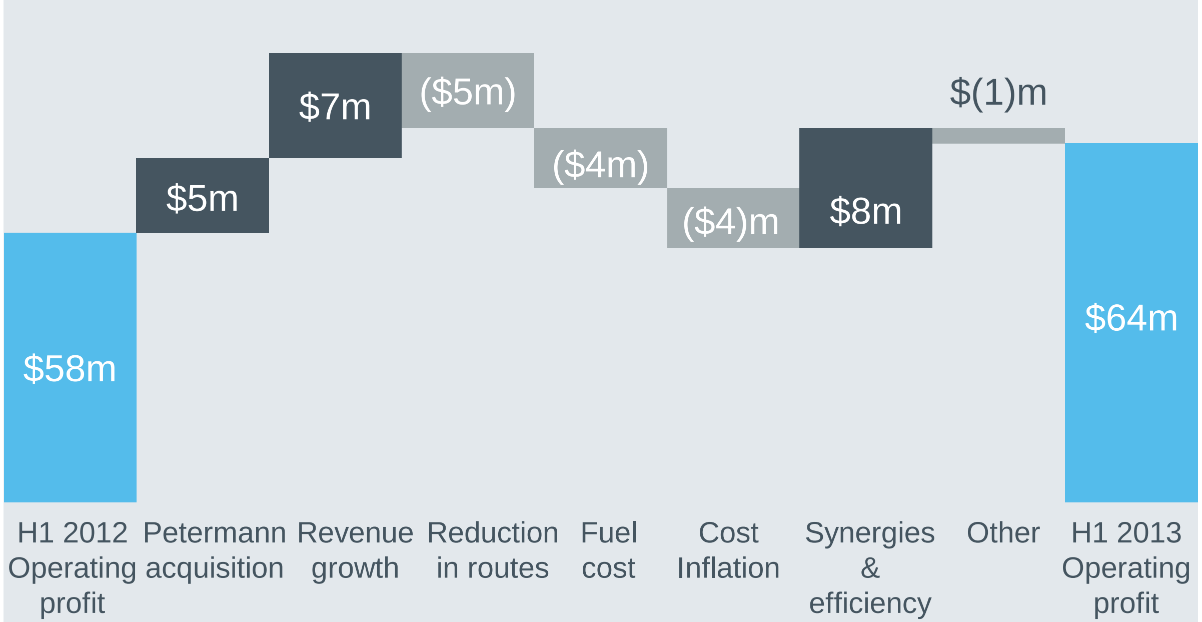


Revenue H1 2013

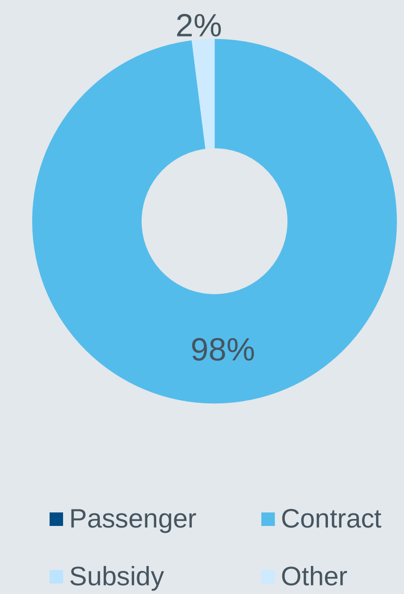


North America – operating profit bridge

North America

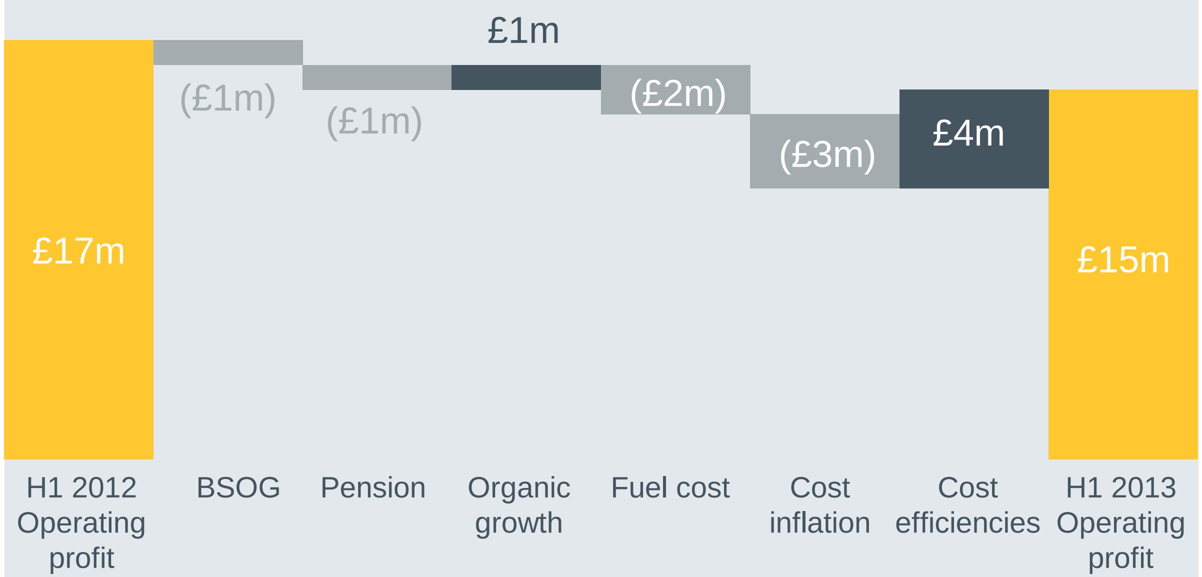


Revenue H1 2013

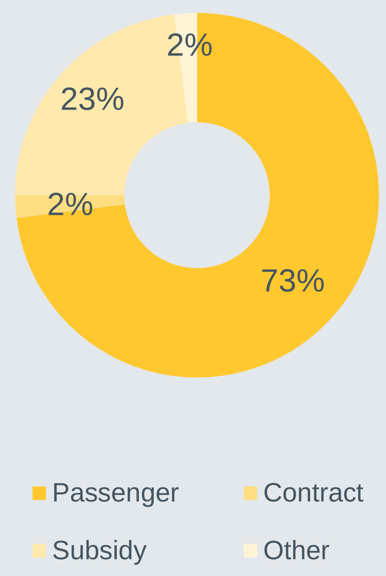


UK Bus – operating profit bridge

Bus

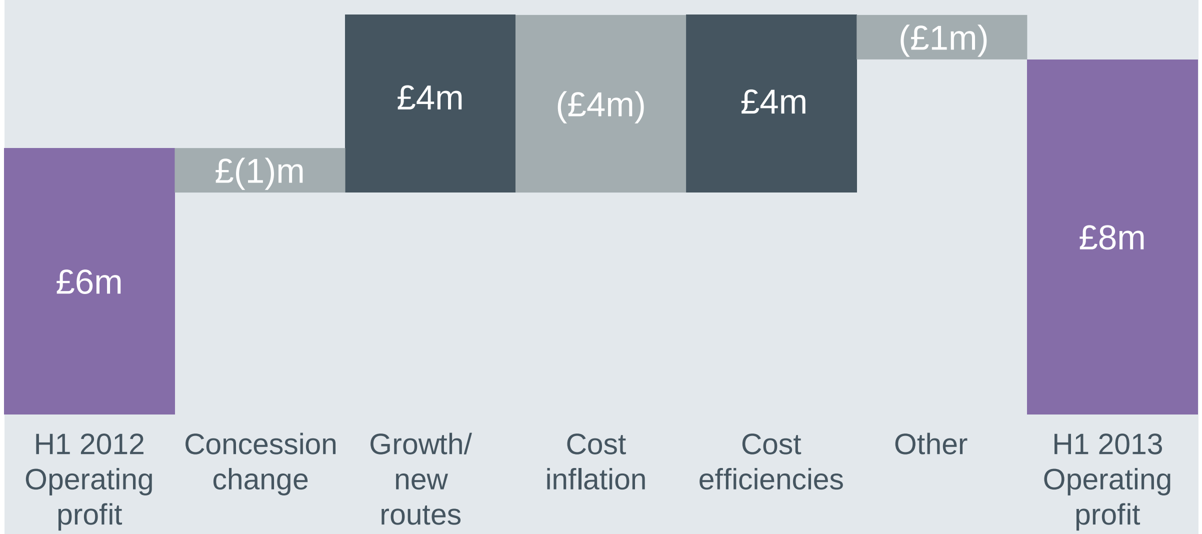


Revenue H1 2013

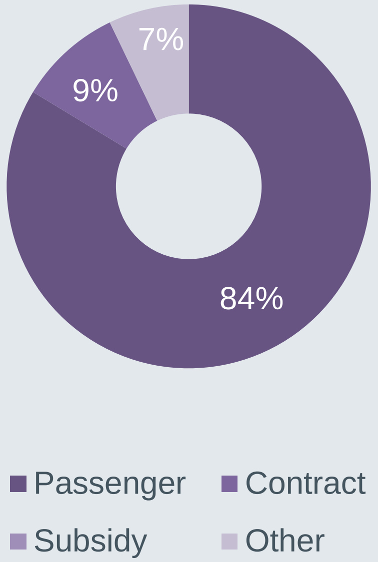


UK Coach – operating profit bridge

Coach



Revenue H1 2013



Risk management
Fuel fully hedged through 2014

Fuel Hedging

	2013	2014	2015
% hedged*	100%	100%	70%
Price per litre	50p	50p	48p

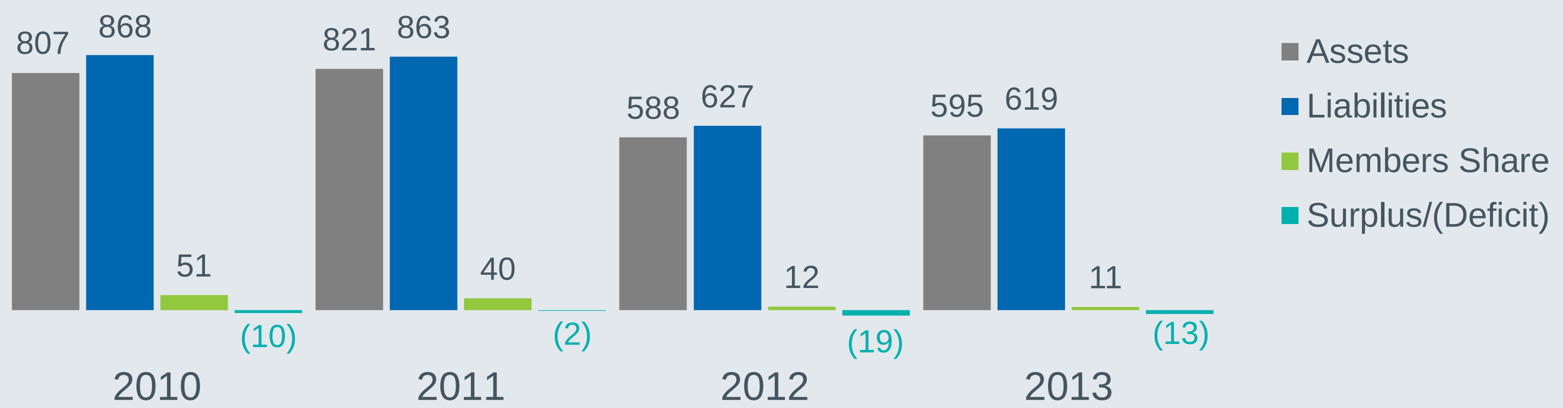
- Contracted revenue policy:
  - Extend cover for a minimum of 2 years
  - Longer hedging considered, subject to market liquidity & contract life
- Commercial revenue policy:
  - Minimum 15 months cover - provides a buffer for retail fare increases
- 2014 price broadly flat, with 2015 lower

** Of addressable volume (c240 million litres)*

Risk management

Pension deficit plan in place through 2017

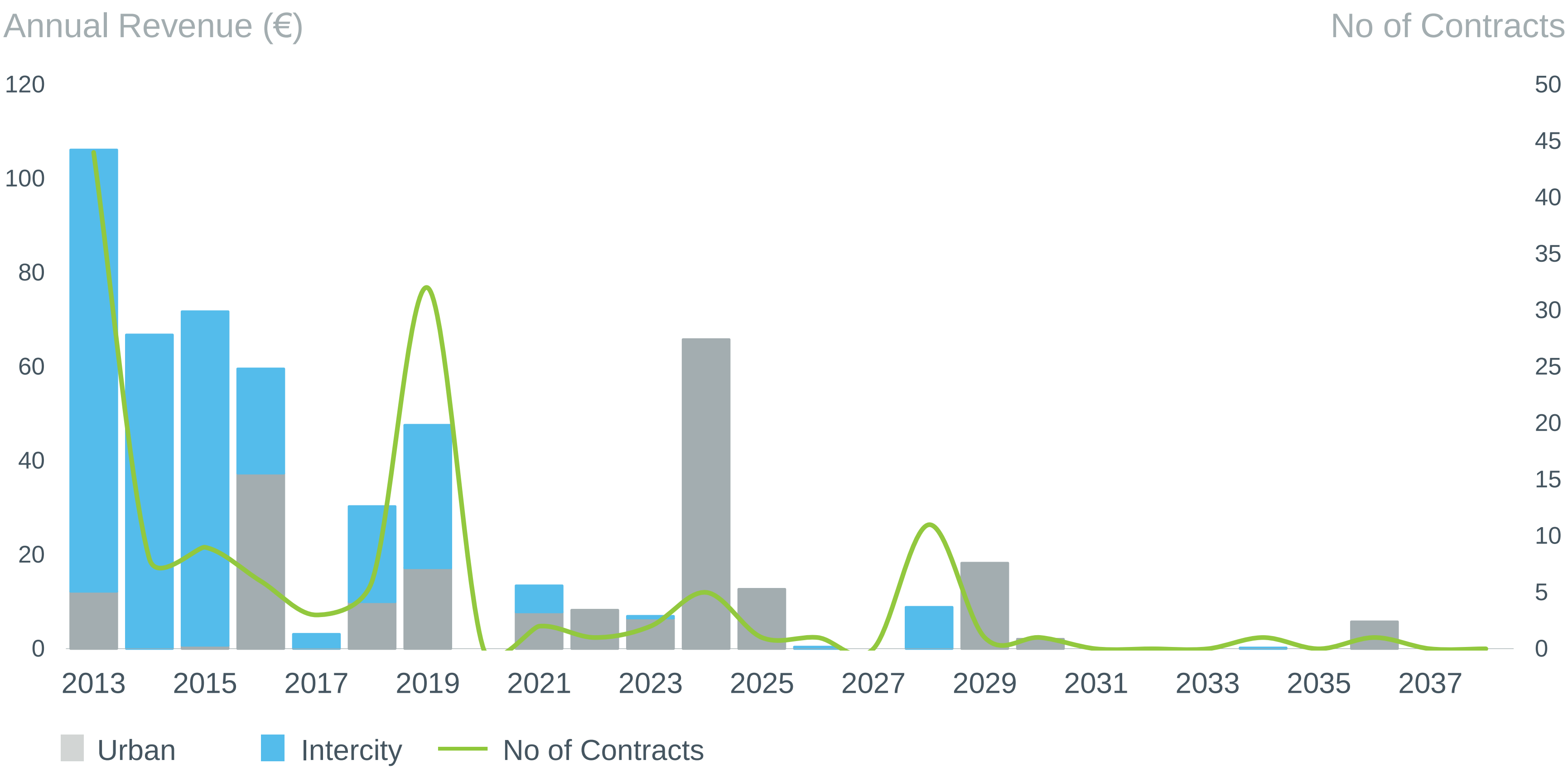
Pensions £m (IAS19)



£m	Surplus /(Deficit) 2013	Surplus /(Deficit) 2012	Op. profit (charge)/credit H1 2013	Op. profit (charge)/credit H1 2012
UK Bus	(29.0)	(32.9)	(1.7)	(1.3)
UK Coach	17.1	16.6	-	-
UK Rail	-	(1.8)	(1.3)	(1.1)
Other	(1.4)	(1.2)	-	(0.1)

Spain
Concession renewal profile

Concessions due for renewal in Spain by quantity and annual revenue (based on regulatory timetable)



National Express Group PLC