national express

Full Year Results

Year ended
ended 31 December 2013

27 February 2014

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, exceptional items, loss on disposal of a business and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

2013 Group Results

Jez Maiden

Group Finance Director

Highlights

- National Express delivering on each of its strategic goals
- Operational Excellence in each business
  - Revenue growth in each division*
  - Cost efficiencies being delivered
  - Record core non-rail operating profit**
- Outstanding cash generation
  - Reducing debt
  - Improving return on capital
- Creating new business opportunities
  - Developing key new markets
  - Bidding in UK and German rail

*adjusted for exit of NXEA in 2012 **excluding German Coach start-up loss*

Highlights:
executing the right strategy for National Express

Delivering operational excellence (1)	Generating superior cash & returns (2)	Creating new business opportunities (3)
o 7% non-rail revenue growth o 10.2% ‘best in class’ Group margin o Core non-rail operating profit up at £185.5m o £30m synergy & cost efficiency delivered	o Operating cash conversion 129% o Over £180m free cash flow o Net debt down >£80m: £746m o Core non-rail ROCE +50bps: 11.1% o Dividend raised 3%	o Growth in established markets o Secured business in 3 new markets: German rail, German coach, US Transit o £1.8bn total contracted revenue secured o £10bn pipeline of opportunities

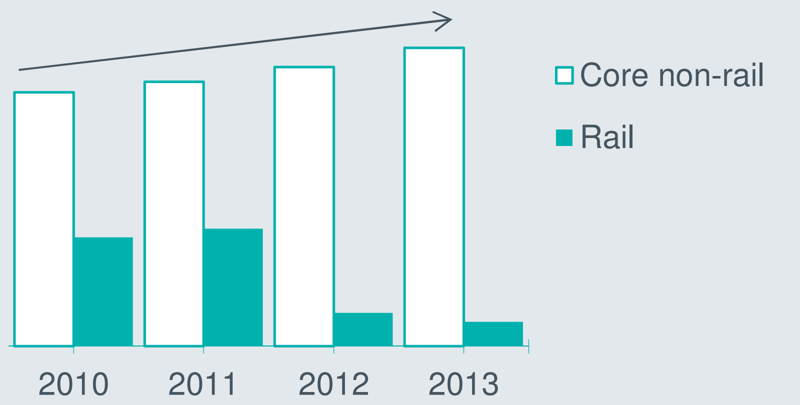
Contract order book £4.6bn
\+ recurring UK passenger revenues over £500m pa

2013:
Profits ahead of target

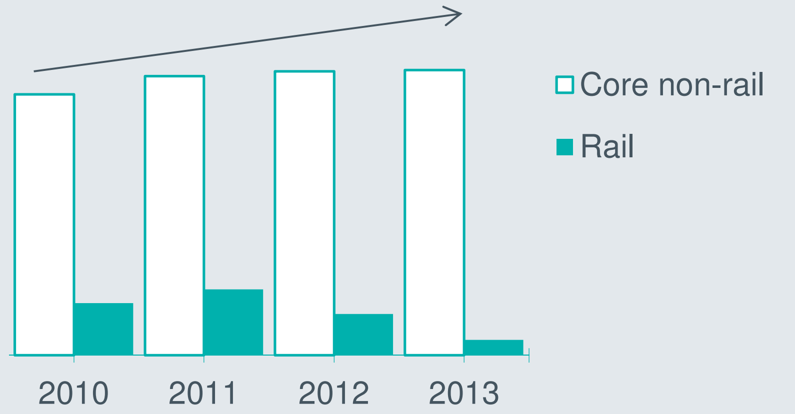
£m		2013	2012
Revenue:	Non-rail	1,748.3	1,636.1
	Rail	143.0	195.1
	Group	**1,891.3**	**1,831.2**
Operating profit:	Core non-rail	185.5	185.2
	German coach	(2.4)	-
	Rail	9.8	26.7
	Group	**192.9**	**211.9**
Net finance costs		(49.8)	(49.2)
Associates		0.6	1.4
Profit before tax		**143.7**	**164.1**
Basic EPS:	Non-rail	20.1p	21.6p
	Rail	1.4p	3.9p
	Group	**21.5p**	**25.5p**

2013:
Fourth year of record core non-rail profit

Revenue £m



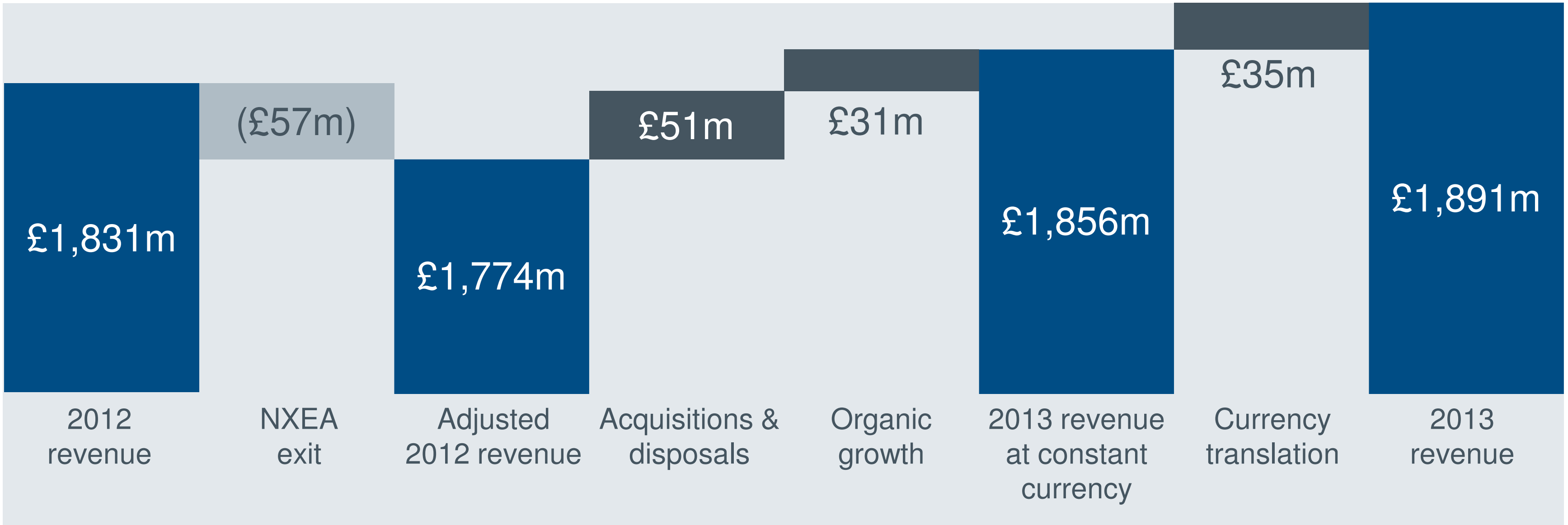
Operating profit £m



- Non-Rail
  - Revenue growth in each division, with strong passenger growth in UK Coach
  - Significant headwinds from pension accounting, BSOG & fuel costs, partly offset by FX
  - Benefits of synergy & cost efficiencies
  - Strong capital deployment discipline
  - Underpins dividend increase

- Rail
  - Extension to flagship franchise, c2c – leader in service, passenger satisfaction & profitability
  - Bid teams delivering:
    - Prequalified & bidding for ET, Crossrail and ScotRail in UK
    - Entry into Germany

❶ Delivering operational excellence:
Acquisition & organic revenue growth offset lower rail



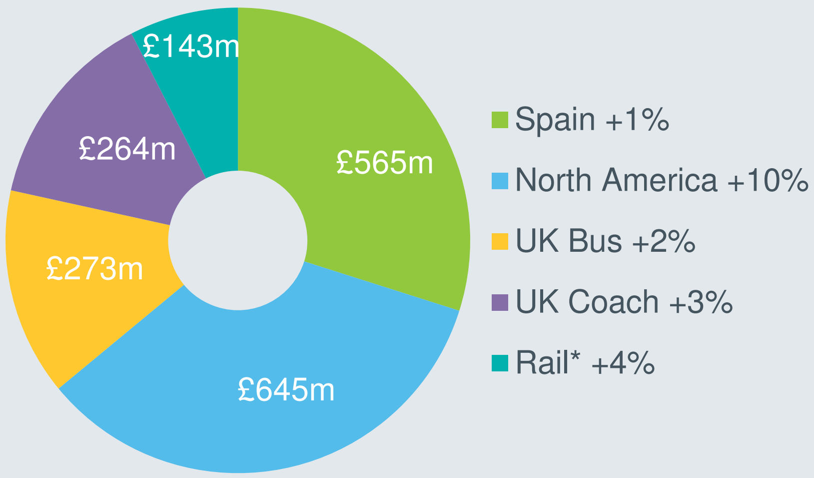
- 3% increase overall
- 5% revenue increase* at constant currency:
  - Petermann acquisition in May 2012 +3%
  - Organic growth +2%
- Currency benefit from weaker Sterling

** Pre NXEA handover*

❶ Delivering operational excellence

Each division has grown revenue*…

Revenue (YOY change [1])



Operating profit

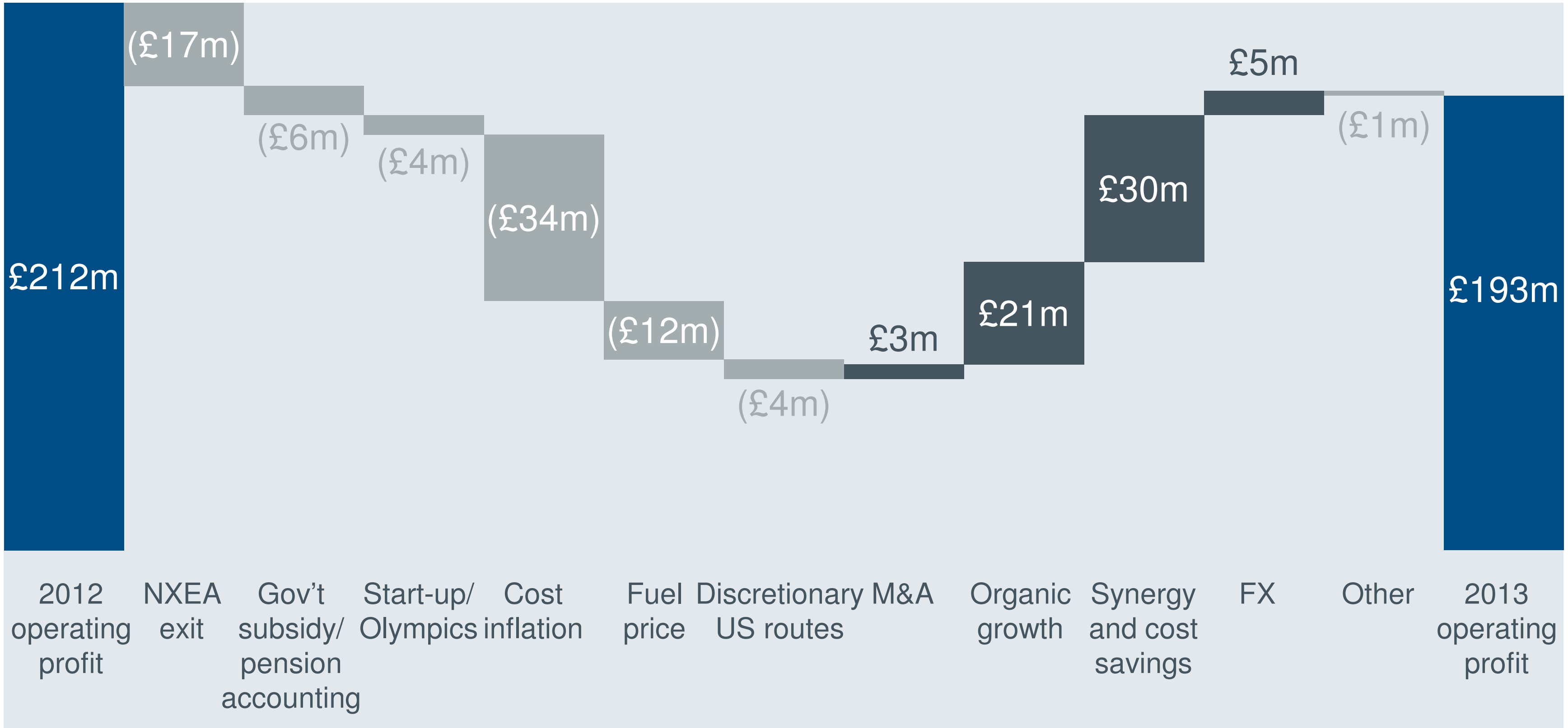
	2013	2012
Spain	€96.0m	€103.3m
North America	$97.9m	$94.0m
UK Bus	£31.2m	£34.1m
UK Coach	£24.5m	£20.6m
Centre	£(14.3)m	£(12.4)m
Core non-rail profit	**£185.5m**	**£185.2m**
German coach	£(2.4)m	-
UK Rail	£9.8m	£26.7m
Group	**£192.9m**	**£211.9m**

** Post NXEA handover*

[1] year-on-year change shown in local currency (excludes German coach)

❶ Delivering operational excellence

… and growth & cost efficiency have offset inflation



❷ Superior cash and returns

Operating profit turned into excellent free cash flow

£m	2013	2012
EBITDA	**301.1**	**321.2**
Working capital	30.5	6.7
Replacement capex	(74.9)	(108.6)
Pension deficit	(8.7)	(9.7)
Operating cashflow	**248.0**	**209.6**
Tax/interest/other	(65.2)	(68.8)
Free cash flow	**182.8**	**140.8**

Operating cash flow*	Operating Profit %
Spain	110%
North America	200%
UK Bus	61%
UK Coach	140%
Rail	154%
Group	129%

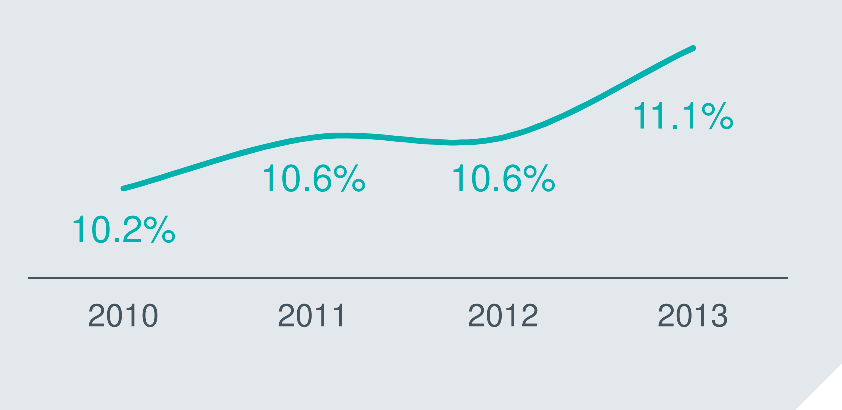
- Targeted fleet investment: nearly 900 vehicles replaced
- Improved capital efficiency
- Significant working capital improvement - public body debt in Spain down €16m
- Operating cash generation at 129% of operating profit – North America stand-out success: almost $200m
- Free cash flow over £180m

** Operating cash flow is intended as the cash equivalent of normalised operating profit*

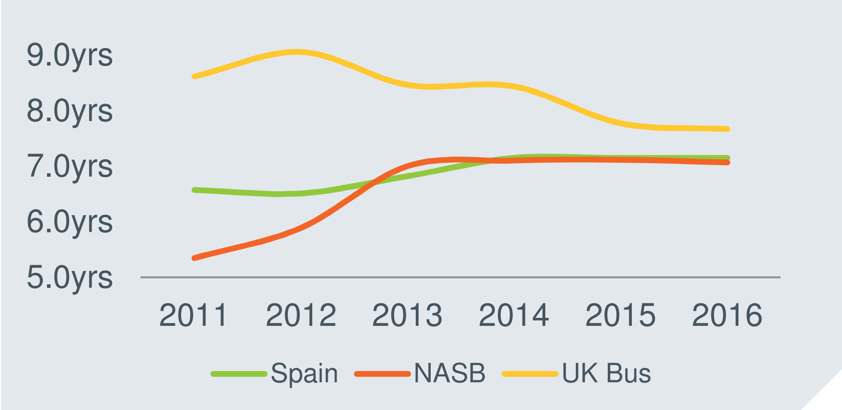
❷ Superior cash and returns

Sustainable capital efficiency is driving better returns

Core non-rail ROCE*



Spain, UK & NA School Bus average fleet



- Non-rail pre-tax ROCE +50bps to 11.1%
- Reflects careful targeting of capital investment:
  - UK Bus investment > 1.5x depreciation - drive patronage
  - Spain ~1x depreciation – extending urban bus lives
  - North America – growth through conversions; clear return requirements for capex

- Improved capital efficiency in North America & Spain is sustainable
- Replacement capital spend will return to normal in 2015 & 2016
- Appropriate fleet age – UK Bus continuing to improve

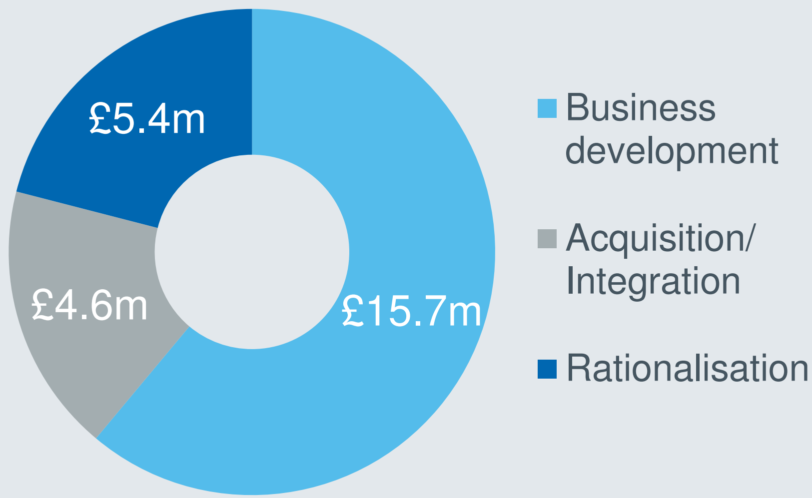
** Core non-rail normalised operating profit /capital employed excluding Rail*

❸ Creating new growth opportunities

Investing in bid costs for future new market growth

- Acquisition integration now complete:
  - Petermann plus bolt-on school bus contracts
  - Selective disposal of low return business
- Rationalisation driving cost efficiency
- Investment in new market opportunities:
  - Prequalified & bid for Essex Thameside & Crossrail
  - Prequalified for ScotRail
  - German rail – won 2 contracts, prequalified for Berlin Ringbahn
  - Start up phase of German coach (normalised from Q2/13)
  - Identified selected international opportunities

Exceptional cost breakdown



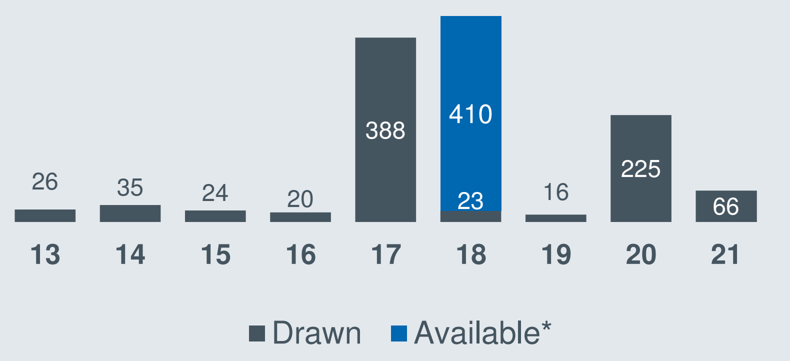
A strong & flexible balance sheet

Net debt reduced to £746m, funded by non-bank debt

Gearing Ratios	2013	2012	Covenant
Net debt/EBITDA	2.5x	2.5x	<3.5x
Interest cover	6.1x	6.7x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa3	Positive
Fitch	BBB-	Stable

Good debt maturity profile



- Net debt reduced by £82m to £746m
- Robust financial strategy:
  - Prudent gearing policy: 2-2.5x EBITDA
  - Target to reduce gearing to around 2x in 2014
  - Regular dividend covered 2x non-rail EPS
  - Strong commitment to IG debt rating
  - Strong risk planning – fuel mostly hedged to 2016 & pension deficit plan in place
  - £434m committed headroom*
- New £410m RCF in place – lower pricing

** Available cash and undrawn committed facilities at 31 December 2013* national express

Building for the future

Dean Finch

Group Chief Executive

Spain
Growing revenue & underpinning profit

Operating excellence

- Service: best rated transport company; 87% customer recommendation
- Revenue: Urban resilient; new contracts in Spain/Morocco
- Profit: Intercity network model flexed with demand; €6m cost saving from technology and processes

Superior cash and returns

- Good operating cash flow - 110% profit conversion
- Working capital improvement – public body debt down by €16m
- Capital efficiency – Tangiers savings, urban fleet extension
- Good return from successful turnaround of Bilbao acquisition

Opportunities

- Morocco: Tangiers, other cities and services, intercity market
- Urban Spain: contract opportunities
- Intercity: dynamic pricing/yield management, stronger marketing, service improvement, regulatory changes (safety)
- New business: rail liberalisation, international opportunities
- Costs: continued efficiency, fuel costs hedged

2013 performance

	2013	2012
Revenue	€665.0m	€659.1m
Op profit	€96.0m	€103.3m
Margin	14.4%	15.7%

- **Revenue growth**: overall +1%, intercity -1%, urban -3%, Morocco +14%
- **Profit**: margin best in class

Risks

- Intercity concession renewal
- Rail competition
- Austerity impact on urban budgets

Revenue growth is underlying except 'overall'

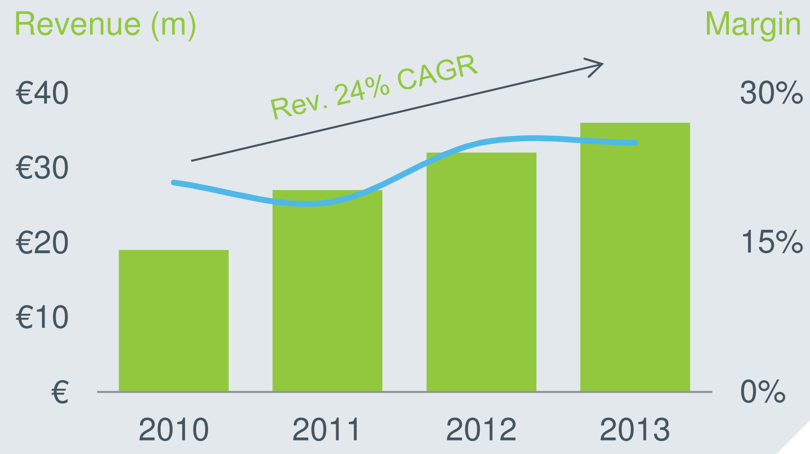
Spain: case study

Developing new markets – Morocco

Opportunities

- Tangiers scale-up – from 65 to 250 bus potential
- New opportunities:
  - Urban services in Rabat & Casablanca
  - Tourist services
  - Private contracts
- Intercity coach market: legal framework changes and public incentives for private sector operators
- BRT developments in Marrakech, Agadir and Tangier
- Costs: continued efficiency, economies of scale

2013 performance



Building the business

	Marrakech: urban	Marrakech: regional	Marrakech: sightseeing	Agadir: urban & regional	Tangiers: urban
Start	1999	2001	2005	2010	2013
Contract to:	2019	2021	2015	2025	2025

North America: Record profit, successful Petermann integration & Transit growth

Operating excellence

- Service delivery: 97% contract retention, 92% customer satisfaction
- 10% revenue growth - Petermann integrated, $10m synergy
- Record profit delivered:
  - Negative impact of austerity on discretionary routes
  - Improved pricing on renewal, 9% charter growth
  - $80m annualised Transit revenue
  - Cost efficiency: Compass $3m, 'safety dividend' $3m

Superior cash and returns

- 200% profit conversion to operating cash - equivalent to paying for Petermann in 1 year
- Efficient capital deployment – low return contracts exited & fleet cascaded; selective bolt on acquisitions & disposals
- Return on assets up to 22%

Opportunities

- Organic growth: Strong customer relationships; disciplined pricing
- Efficient capital focus
  - Repositioning - minimum return criteria
  - Bolt-on acquisitions at attractive values
  - Transit wins - $200m pipeline
- Cost efficiency: technology, process standardisation, safety

2013 performance

	2013	2012
Revenue	$1,009.4m	$919.4m
Op profit	$97.9m	$94.0m
Margin	9.7%	10.2%

- **Revenue**: 10% overall, 3% underlying
- **Profit**: margin best in class, fuel headwind

Risks

- Further healthcare & social security taxes
- External labour pressure
- Severe weather
- Transit contract churn

North America: case study

Improving cash and capital returns in School Bus

OBJECTIVE

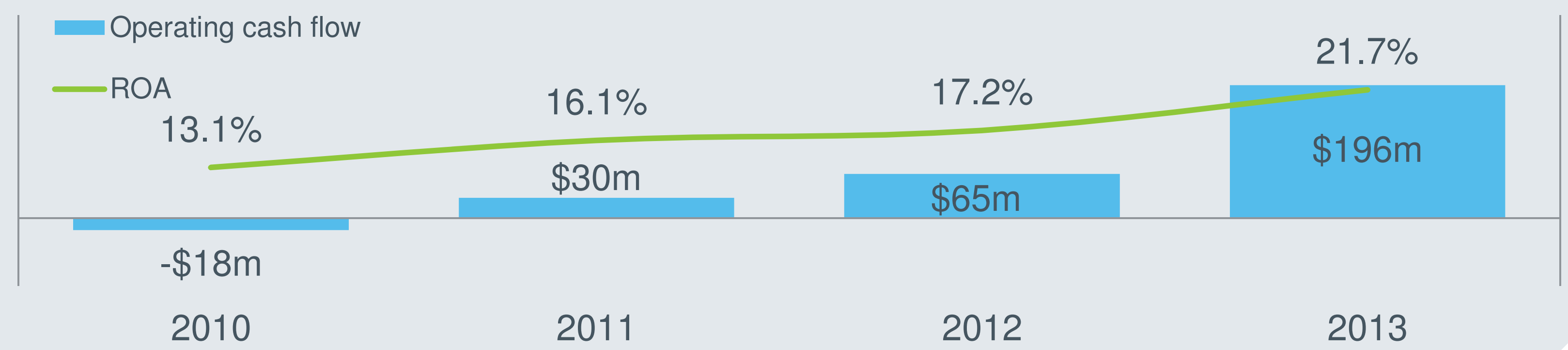
- Revenue growth & profits need to be cash backed
- Historically, School Bus generated revenue growth but not cash
- Returns on capital have been low

APPROACH

- Identify low return contracts – price up or exit
- Focus on conversions – 13 contracts won in 2013
- Spare fleet reduced from 18% to 11% over 3 years
- Cascade spare fleet (770 buses to new contracts & replacement)

OUTCOME

- Nearly $200m operating cash generated in 2013
- Reduced fleet capex will continue in 2014; 'normal' investment from 2015
- Lower growth but better quality business
- Focus on customers who value service & quality
- Return on assets +9% points over 3 years



** ROA is Return on Assets: normalised operating profit / tangible fixed assets & working capital*

UK Bus

Positive progress after first half headwinds

Operational excellence

- Service: customer satisfaction growing strongly. Punctuality +7%, complaints -20%; investments in fleet, network, turnaround cleaning, mobile app & real time info
- Revenue: 1% commercial passenger growth & improved commercial revenue (+3% H2*), after weak Q1; smartcard introduced
- Profit: cost efficiencies offset £7m BSOG headwind, pension accounting & fuel

Superior cash and returns

- Reinvesting in fleet to drive passenger growth
- Steady cash generation (61% of profit)
- Strong return on assets

Opportunities

- Growth momentum, supported by fleet, real time & smartcard investments
- Centro partnership: market leading in ambition & opportunity
- Cost efficiency to drive margin (technology & structural cost change)
- Government austerity not expected to impact 2014
- Lower fuel price outlook

*Revenue growth is like-for-like except 'overall'   *adjusted for Olympics in 2012*

2013 performance

	2013	2012
Revenue	£273.4m	£269.0m
Op profit	£31.2m	£34.1m
Margin	11.4%	12.7%

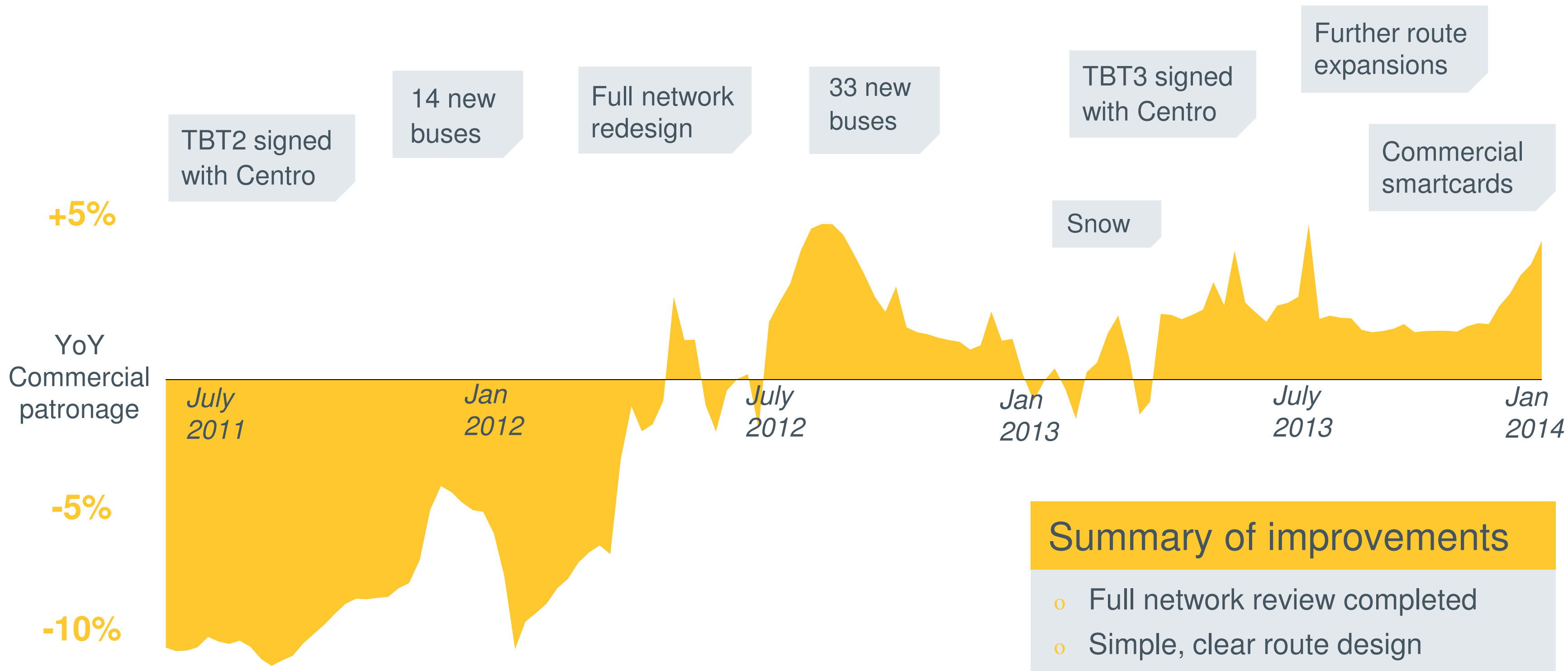
- **Revenue**: overall revenue +2%, commercial +2%, concessions 0%.
- **Profit**: efficient cost base; good returns

Risks

- Fragile economic recovery
- Concession income pressure beyond 2014
- Student and college funding

UK Bus: case study

Driving profitable growth in Coventry



Comm. pax:	Revenue:	Profit:	Punctuality
2011: -6% 2012: +2% 2013: +4%	2012: +1% 2013: +5%	2012: -8% 2013: +14%	2012: +4% 2013: +3%

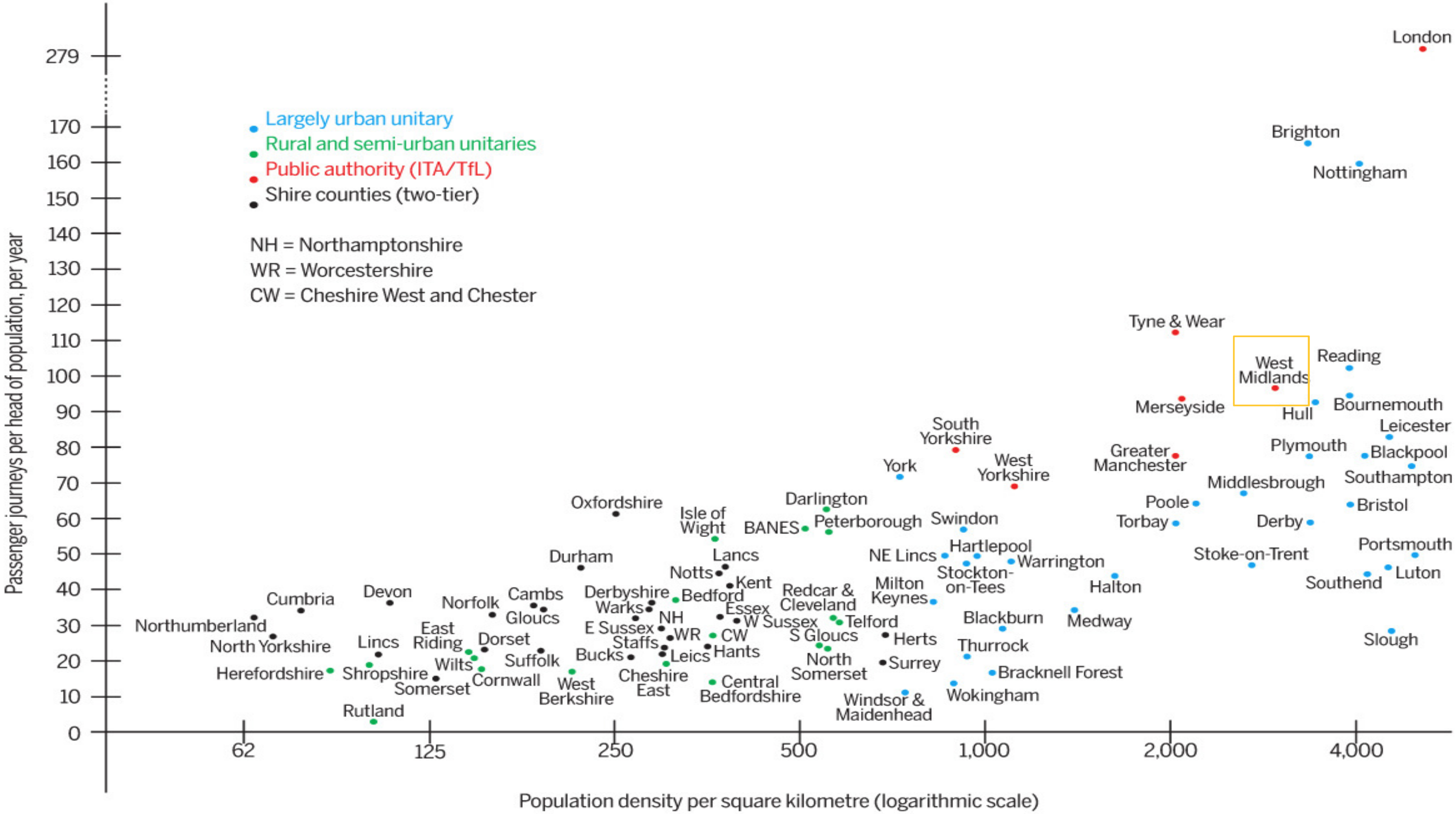
Summary of improvements

- Full network review completed
- Simple, clear route design
- Extensive marketing
- Telematics improving driving
- AVL improving punctuality
- First smartcards in West Midlands
- Strong Centro relationship

Graph shows rolling 8 week average commercial patronage compared to prior year
Statistics use Q4 for each year, and show change versus the same quarter in prior year

UK Bus: case study
Driving long term ridership

Annual bus usage/population density by English Local Authority



Source: Passenger Transport; Stuart Linn of Réseaulutions

UK Coach

Stand out success in growing revenue and profit

Operational excellence

- Service: good value, fast, frequent and punctual; retailed through more accessible and relevant channels (eg Ryanair, Post Office)
- Revenue: core express growth +7% - passenger volume up in all segments, improved yield management, new routes (eg Luton)
- Profit*: up 30% - £7m cost savings through route consolidation, depot productivity & streamlining 3rd party operations

Superior cash and returns

- Unique business model drives high cash flow & returns
- Operating cash generation >100%
- Investment through 3rd parties in modern fleet

Opportunities

- Further volume opportunity – filling the coach
- New distribution partnerships to improve access to customers
- Improved yield and revenue management opportunities
- Operational focus: changes to network, faster routes, cost efficiency
- Attracting customers: loyalty, senior/young person cards

2013 performance

	2013	2012
Revenue	£263.5m	£255.1m
Op profit	£24.5m	£20.6m
Margin	9.3%	8.1%

- **Revenue**: 3% overall growth – strong core growth offset Olympics and reduced rail replacement
- **Profit**: best in class margin

Risks

- Competition
  - Rail

**adjusted for Olympics in 2012*

UK Coach: case study

Pricing and partnerships driving airport growth

Driving revenue

Faster journeys: West Country to Heathrow and the Airports up to 15% quicker

Attractive fares: overall yield decrease of 7% across all airport routes

New contracts and partnerships: low cost carriers (Ryanair) and Luton airport contract

30% passenger volume increase from Stansted to London

Innovation: Christmas Day services; support for weather-affected rail travellers. December revenue 18% higher

Airports revenue up 9% overall in 2013

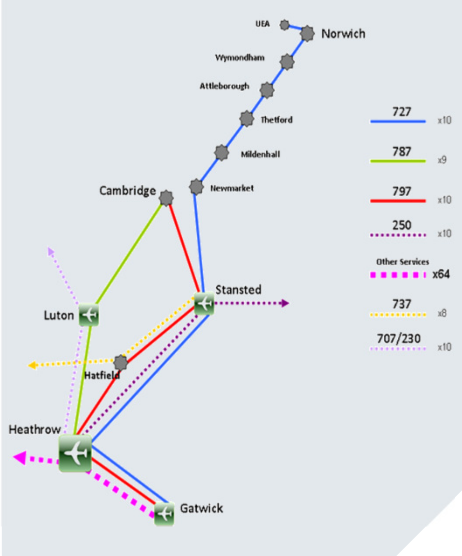
Cost efficiency

Removing 1 million miles delivered a £1.5m cost saving on East Anglia airport flows

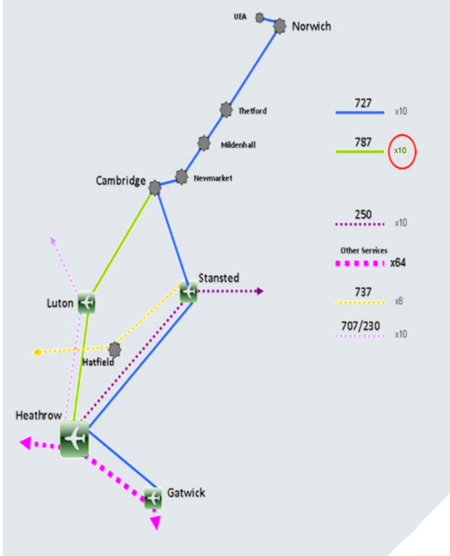
Significant load factor increase - +46% volumes on 727 service

East Anglia – smart network changes to drive profit

Old network



New network



Rail

Leveraging c2c success to enter German market

Operational excellence

- Service: UK's best performing franchise for 2 years – 96.9% PPM in 2013; best DfT franchise for customer service
- Stakeholder: secured c2c franchise extension to September 2014
- 5 star EFQM quality standard secured
- Profit: Significant reduction following NXEA exit in 2012

Superior cash and returns

- Capital light model drives strong cash conversion & excellent returns
- Risk capital carefully assessed for bids

2013 performance

	2013	2012
Revenue	£143.0m	£195.1m
Op profit	£9.8m	£26.7m
Margin	6.9%	13.7%

- **Revenue***: 4% overall increase
- **Profit**: best in class margin; reached 100% profit share by end of 2013 (reset for 2014)

Opportunities

- Retention of Essex Thameside franchise
- New bids for Crossrail and ScotRail, with future UK bid pipeline beyond
- Successful entry into German regional market
- Liberalisation in other markets

Risks

- Loss of c2c
  - Potential cash outflow £22m

** c2c only*

Pipeline of exciting opportunities in new markets

	UK Rail	US Transit	German Rail	International
Target market	£8.5bn – franchised £150-600m each 7-15 year life	Outsourced $3bn Contracts $10-40m 5 year life	€6bn regional DB main operator Pro-competition €20-100m each	Selected geography Bus, coach & rail Liberalisation trend New public transport models
Revenue risk	Yes/ Possible underpin	Contracted/ Some risk	Gross cost/ Net cost mix	Mix
Attractiveness*: **Revenue growth** **Margin** **Capital req'd** **ROCE**	 H L L H	 H L L H	 L L L H	 H L L H
3 year target opportunity	£4bn	$0.3bn	€1.2bn	£0.6bn
Active pipeline	3 franchises £1.0bn (incl. 1 renewal)	26 contracts $200m (plus renewals)	18 contracts €1bn	5+ opportunities £500m

** H – High; L- Low*

Our strategy to create long term value

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

2014

- Target growth in each non-rail business
- Develop UK Rail business through success in bidding
- Contract & concession wins in existing operations
- Improve NA contract portfolio; drive ROCE
- Free cash flow of £150m; net debt:EBITDA of c.2.0x

Medium term

- Embed operational excellence
  - Drive growth
  - 1% annual cost efficiency
- Targeted capital deployment
  - Reduce debt
  - Improve ROCE
- Scale achieved in 3 new markets
- High shareholder returns
- World class transport operator

National Express Group PLC