national express

Full Year Results

For the year ended
31 December 2017

1 March 2018

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

Normalised operating profit, margin and EPS data, as referenced in this report, can be found on the face of the Group Income Statement in the first column. Normalised profit is defined as being statutory profit before intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures.

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 6 to the financial statements.

Underlying revenue compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency.

Constant currency basis compares 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.

Full year dividend comprises interim dividend of 4.26 pence per share and proposed final dividend of 9.25 pence per share.

Financial highlights

Chris Davies

Group Finance Director

2017 Key highlights

Strong financial results accelerating growth

Strong revenue growth	Record profits	Converted to cash	Reinvested and returned
○ Revenue up 6.1% at constant FX ○ Robust organic growth boosted by bolt-on acquisitions ○ Growth in every division	○ PBT up 11.7% at constant FX ○ Operating margin - 10.4% ○ Growth in every division ○ EPS up 10.6%	○ Generated £146m of free cash ○ Gearing reduced to 2.3x	○ Invested in 9 bolt-on acquisitions ○ Acquisitions delivering returns of 15% ○ ROCE 11.9% ○ 10% increase in full year dividend

2017 Financial highlights
Strong performance for the year

Continuing operations £m	2017	*2016	Change	Change in Constant FX
Revenue	2,321.2	2,093.7	+10.9%	**+6.1%**
Group normalised operating profit	241.5	217.5	+11.0%	**+6.0%**
Group normalised PBT	200.0	168.6	+18.6%	**+11.7%**
Normalised EPS	29.1p	26.3p	+10.6%	

Statutory £m	2017	2016	Change
Group statutory operating profit	197.9	183.7	+7.7%
Group statutory PBT	156.4	134.8	+16.0%
Group PAT from continuing operations	128.4	114.9	+11.7%
Statutory EPS	25.7p	23.0p	+11.7%

Free cash flow	£146.4m	£138.6m	+£7.8m
Net debt	£887.9m	£878.0m	+£9.9m
Full year dividend	13.51p	12.28p	+10.0%

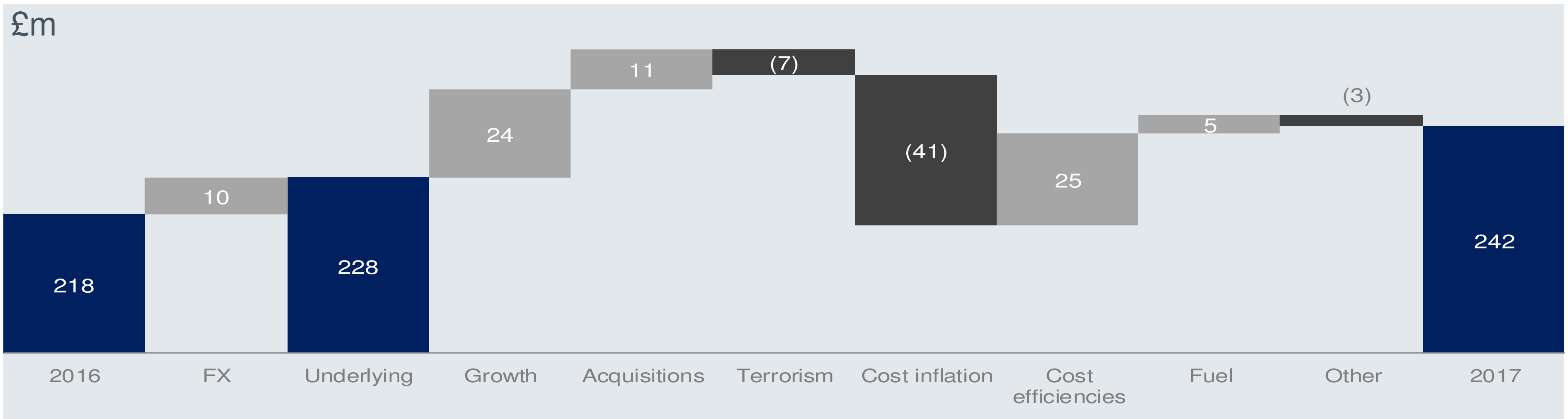
*Restated in relation to the exit from UK rail

Revenue
Growth driven organically & by acquisitions

- Strong revenue increase, up 6.1% in constant currency
- Organic growth of 2.5% boosted by acquisitions in North America & Spain
- Positive impact from currency, with £ weaker versus both the US $ and €

Operating profit

Strong growth at constant currency

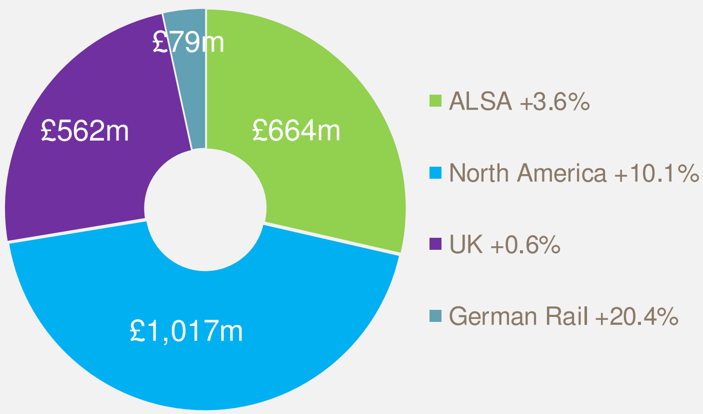


- Operating profit up 6.0% on a constant currency basis
- Strong organic growth in our overseas businesses boosted by acquisitions
- Significant Group-wide efficiency programmes partially offsetting inflation
- £10m benefit on FX, with the weakening of £ versus the US $ & €

Divisional summary

Strong performance with growth across all our businesses

Revenue (YOY change*)



Underlying year-on-year change shown in constant currency

Operating profit

	FY 2017	Change	Op profit Margin
ALSA	€108.3m	€4.6m	14.3%
North America	$121.6m	$7.5m	9.3%
UK	£70.9m	£3.6m	12.6%
Other	£(18.6)m	£(0.1)m	
Group	**£241.5m**	**£217.5m**	**10.4%**

Income statement
Strong double digit PBT growth

£m	FY 2017	FY 2016*	Change
Operating profit	**241.5**	**217.5**	**+11.0%**
Share of results of associates & JVs	(3.5)	1.1	£(4.6)m
Net finance costs	(38.0)	(50.0)	£12.0m
Profit before tax	**200.0**	**168.6**	**+18.6%**
Tax (ETR 24%)	(48.0)	(31.4)	
Profit after tax	**152.0**	**137.2**	**+10.8%**
EPS	**29.1p**	**26.3p**	**+10.6%**

- PBT up 11.7% in constant currency, up 18.6% on a reported basis
- Write down of investment in minority stake in Deutsche Touring Group
- Finance costs down following 2016 & 2017 refinancing
- 10.6% EPS growth

*Restated in relation to the exit from UK rail

Superior cash and returns

Strong free cash flow of £146m

£m	FY 2017	FY 2016
EBITDA	**377.0**	**344.6**
Working capital	4.8	(3.1)
Net maintenance capex	(165.2)	(134.7)
Pension deficit	(5.0)	(5.5)
Operating cashflow	**211.6**	**201.3**
Tax/interest/other	(65.2)	(62.7)
Free cash flow	**146.4**	**138.6**

Operating cash flow

	Operating Profit %
ALSA	92%
North America	84%
UK	78%
Group	88%

- Free cash flow of £146m, £8m higher than 2016
- Full year net maintenance capex in line with normal levels of 1.1x to 1.2x depreciation
- Operating cash conversion of 88%
- Generated £750m of FCF over the last 5 years

Superior cash and returns

Investing for future growth & returning to shareholders

£m

	FY 2017	FY 2016
Cash flow available for growth & dividends	**146.4**	**138.6**
Net growth capital expenditure	(13.2)	(27.0)
Net inflow from discontinued operations	27.5	-
Acquisitions	(101.5)	(88.8)
Dividends	(64.7)	(58.9)
Other, including forex	(4.4)	(96.4)
Net funds flow	**(9.9)**	**(132.5)**
Net debt	**(887.9)**	**(878.0)**

- 44% of free cash returned as dividend
- £115m reinvested for organic & inorganic growth
- Gearing reduced to 2.3x on net debt broadly flat at constant currency

Growth
Acquisitions in 2017

9 acquisitions in the year generating good returns

- Combined consideration of £128m at 6x EBITDA: £53m paid in 2017, £75m deferred consideration in future years
- 3 in North America:
  - A para-transit operator in Chicago, providing entry into the largest para-transit market in North America
  - A school bus & charter operator in Cincinnati & a school bus & para-transit business in Rochester, NY
- ALSA - 6 acquisitions:
  - 2 urban transport companies in Madrid & Granada
  - 3 businesses in the Geneva area including 2 additional businesses in the Swiss ski transfer market
  - A charter services & school bus transport company in Madrid
- Continuing to evaluate further opportunities, applying our disciplined approach

Balance sheet
Gearing reduced to 2.3x

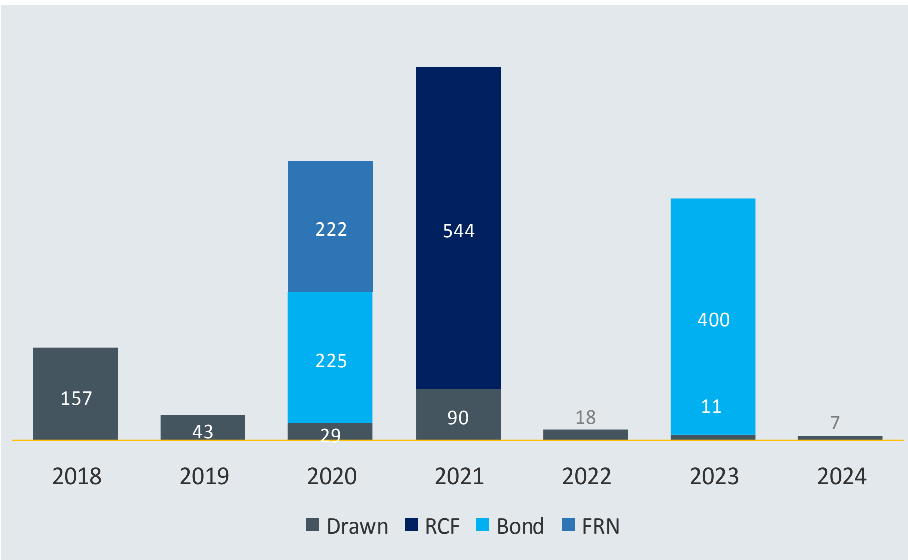
Gearing Ratios	2017	2016	Covenant
Net debt/EBITDA	2.3x	2.5x	<3.5x
Interest cover	10.2x	7.0x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa3	Positive
Fitch	BBB-	Stable

- Gearing reduced to 2.3x
- Improved interest cover
- Remain committed to a robust financial strategy:
  - Prudent gearing policy: approximately 2-2.5x EBITDA
  - Dividend covered by at least 2x Group earnings
  - Strong commitment to Investment Grade debt rating
  - Prudent risk planning – fuel mostly hedged to 2019 & pension deficit plan in place

Balance sheet
Increased liquidity & interest savings

Strong debt maturity profile



Available cash and undrawn committed facilities at 31 Dec 2017

- £858m cash & committed headroom*
- Funding out to 2023 (average 3.6 years)
- £12m reduction in interest costs in 2017
- Debut Eurobond further diversifies & reduces cost

Guidance

2018

- Net maintenance capital expenditure of 1.1x to 1.2x depreciation – 2018 target *c.*£170-180m
- Growth capex of *c.* £15-20m
- Effective normalised tax rate in the low 20s % range, normalised cash tax rate <15%
- Lower fuel costs – *c.* £20m in 2018
- Free cash flow generation broadly in line with 2017
- Dividend cover of at least 2.0x Group normalised earnings

Strategic review

Dean Finch

Group Chief Executive

Our strategy is working: a differentiated business

Introduction

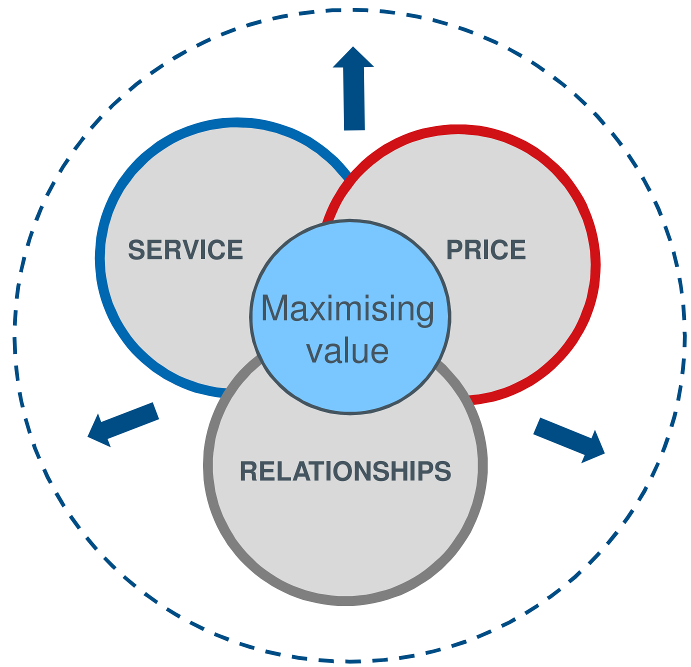
1. Management action in 2017 delivered across an internationally diverse portfolio:
   - Strong growth in the US
   - Strong organic growth in Spain
   - Return to growth in the UK

2. Benefits of investment in technology, innovation & safety reflected in improved operating performance & revenue growth

3. We continue to grow in 2018 as a result of our diversification

Repositioning the business for growth

- Significant repositioning of our operations over the last 5 years
- Exited high risk UK rail
- Focus on growing urban markets around the world
  - E.g. in 2017 we grew in London, New York, Chicago, Madrid & Geneva
- New leg growing strongly in North American Transit
- Aim for market leadership in price, service & customer relationships to drive revenue & returns

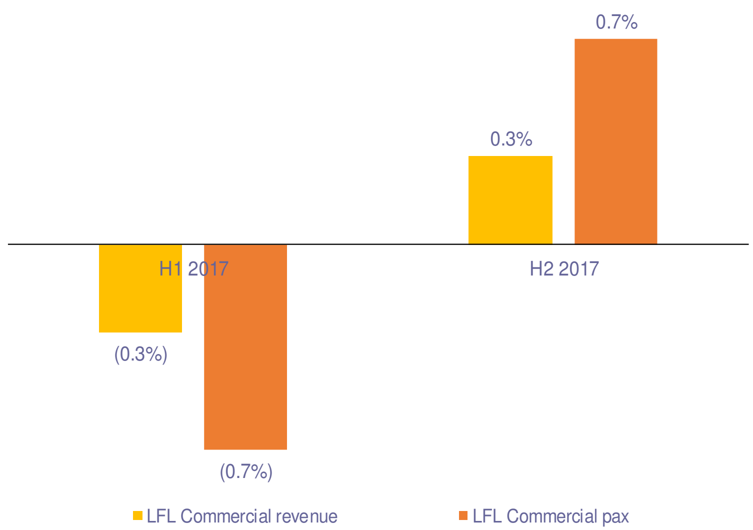


- Relentless focus on driving improvement in each aspect
- Selective expansion of model in new wealthy urban areas

UK

Bus: return to growth in H2; positive trajectory into 2018

LFL commercial revenue & passenger growth in West Mids



Leading to 1.6% revenue per mile growth

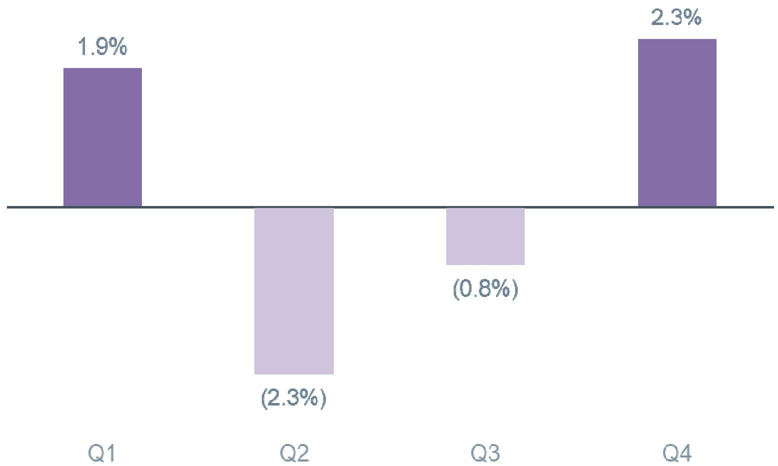
Key highlights

- 6 LFZs introduced in 2017, covering 28% of commercial network:
  - In LFZs passengers up 4%; revenue up 1.5%
- Contactless & m-ticketing rolling out fast:
  - 52% of m-ticket purchasers say it makes them more likely to travel
- Working closely with mayor to tackle congestion
  - Where journey times were cut by 3%, passengers up 1%
- TfWM – 2022 Commonwealth Games

UK

Coach: recovered from terrorism to grow revenue, passengers & profit

Coach core quarterly revenue growth



* Q1 & Q2 normalised for Easter

Leading to 5.5% revenue per mile growth & overall core passenger growth of 0.9%

Key highlights

- Passenger growth driven through a combination of fare reductions & new services
- RMS helped drive a 2% improvement in seat utilisation
- Further network optimisation & fares management to drive revenue per mile growth
- Amazon contract won & new partnerships signed
- Property sale generated £2.5m
- UK consolidation savings of £10m

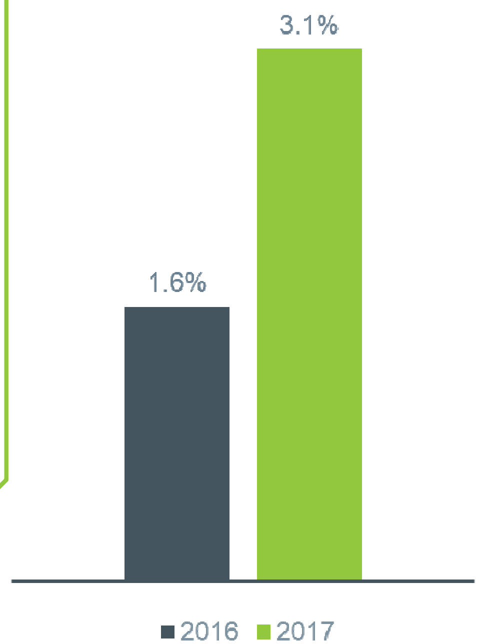
ALSA

Strong underlying growth in Spain

Key highlights

- Excellent performance – strong economy & self-help
- Overall passenger growth of 2.1%; 3.9% revenue growth in Long Haul
- RMS helped drive growth & yield:
  - Seat utilisation improved by 2%
  - Revenue per mile up 2.4%
- Positive inflation impact on regulated fares in 2018 vs negative in 2017
- Madrid-Guadalajara - successful renewal, quality not price
- No profit impact from concession renewals in 2018; minimal in 2019; methodology changed to emphasise quality
- Targeted acquisitions in Geneva & Madrid opening strong new markets
- Bid submitted for 400 bus contract in Rabat

Organic revenue growth in Spain



North America

Strong growth

Key highlights

- Transit business grew by 60% to around $300m annualised
- Three acquisitions including Chicago & New York
- 5% driver wage inflation hurt margins but beginning to recover through bid season:
  - 2018 started well
- Technology helping us to transform our business:
  - 750 bus units deployed for growth
  - Lytx DriveCam helping us to significantly improve risk management
- Charter opportunity: Trinity 11% of revenues & Durham 4% of revenues
- $10m of cost savings through headcount reduction in year

German Rail
A year of delivery

Key highlights

- Growth in revenue & profit boosted by clarification of revenue position (& recognised in 2017)
- Contract profitable from first year
- Expect margins to return to industry norms with profit in 2018 expected *c.*2%
- Passenger growth of 0.5% in 2017 even after significant track maintenance disruption
- Progressing with mobilisation of RRX
- Looking to submit further bids in 2018

Delivering our strategy

- Benefits of internationally diverse portfolio together with decisive management actions
  - Strong profit growth, PBT up 19%, EPS up 11%
  - Cash generation is strong: expect 2018 to be broadly the same as 2017
  - Dividend up 10%
- De-risked for UK rail
- Outlook for Spanish concession renewals plays to our strengths
- UK growth is accelerating
- North America – positive start to the new school bid season
- Good acquisition pipeline
- £20m fuel tailwind; $10m of US cost efficiencies benefit
- As January 2018 has shown, we are positive on the future outlook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buy from the driver
unlimited travel up to 5 people together from 6pm
£5
4528
Debbie
Cyclists
SUMMER
SOLVED
West Midlands

Appendix

Full year
Summary divisional figures

2017 (£m)	ALSA	N America	UK	German Rail
Revenue	663.5	1,017.2	561.5	79.0
Depreciation	39	74	22	-
Capex	48	99	28	2
Vehicle age (years)	7.9	8.3	8.7*	n/a
Normalised op. profit	94.9	94.3	70.9	5.2
Driver wages(1)	29%	49%	24%	5%
Fuel(1)	13%	5%	6%†	7%

1 As a percentage of revenue
** Bus operations only*
† Excludes Third Party operators

Change to segmental disclosure

UK	2017	2016
Revenue £m	561.5	557.9
Operating profit £m	70.9	67.3
Operating margin	12.6%	12.1%

UK Bus	2017	2016
Revenue £m (external)	273.8	275.1
Operating profit £m	36.7	34.0
Operating margin	13.4%	12.4%

UK Coach	2017	2016
Revenue £m	287.7	282.8
Operating profit £m	34.2	33.3
Operating margin	11.9%	11.8%

- Restructuring of UK management structure post the strategic exit from UK rail
- Aligning external reporting with internal decision making structures
- UK Bus & UK Coach now reported as one segment
- Will continue to disclose revenue performance separately

North America

Record year with robust organic growth boosted by acquisitions

Delivering operational excellence

- Good bid season for 2017/18 - strong contract retention of 96%
- Average price increase of over 2% across portfolio 3% on our contracts up for bid & renewal
- Acquisitions delivering higher returns
- Strong growth in Transit – annualised revenue of *c.*$300m, up nearly 60% in the year
- Annualised cost savings of $10m

Creating new business opportunities

- 3 acquisitions in 2017: 1 para-transit & 2 school bus
- Opportunities to grow charter
- Strong pipeline

Risk

- Driver wage pressure of 5%

Generating superior cash & returns

	2017	2016
Revenue	$1,311.1m	$1,191.3m
Op profit	$121.6m	$114.1m
Margin	9.3%	9.6%

Revenue: +10.1% in constant currency, with strong organic growth together with bolt-on acquisitions

Profit: +6.6% – higher returns from acquisitions & organic growth more than offsetting increased cost pressures from driver wages

ALSA
RMS driving strong long-haul performance

Delivering operational excellence

- 6m more passengers this year
- Particularly strong performance in Spanish long-haul, up 3.9%
- RMS driving revenue, volume & yield
- Strong growth in ancillary revenues
- Improving outlook for concession renewals with greater emphasis on quality, a key differentiator for ALSA
- Awarded five-star EFQM – first mobility company in Spain to achieve this

Generating superior cash & returns

	2017	2016
Revenue	€757.4m	€731.2m
Op profit	€108.3m	€103.7m
Margin	14.3%	14.2%

Revenue: +3.6% - good growth in Spain benefitting from RMS & acquisitions

Profit: +4.4% - Margin up 10bps driven by pricing & cost initiatives

Creating new business opportunities

- 6 acquisitions:
  - 3 in Spain
  - 3 in Switzerland
- Bid for Rabat urban bus

Risk

- Further competition from rail
- Intercity concession renewal – small impact expected in 2019

UK
Management actions driving positive second half trajectory

Delivering operational excellence

- Robust performance with revenue growth accelerating in H2
- Management actions delivering:
  - Passenger & revenue growth through RMS & launch of LFZs
  - Network efficiencies & targeted annualised savings of £10m
- Technology driving growth – contactless payment, mobile ticketing, new apps & websites driving higher conversion
- Bus joins Coach with award of five-star EFQM status

Creating new business opportunities

- Added 20+ new commercial partners including Cardlytics, Visa & Amazon Pay
- New airport routes & express services

Risk

- Advanced fare discounting in rail
- Concession income

Generating superior cash & returns

	2017	2016
Revenue	£561.5m	£557.9m
Op profit	£70.9m	£67.3m
Margin	12.6%	12.1%

Revenue: Revenue up 0.6%, up 1.1% in H2 in response to management actions

Profit: Profit up 5.3%, reflecting UK restructuring & management actions including network optimisation, overhead savings & cost efficiencies, together with lower fuel costs

German Rail
Delivering first profit

Delivering operational excellence

- Strong growth in revenue, up 20.4%, reflecting full revenue recognition with catch up from 2016, including latest passenger count data
- Post settlement, RME is a profitable contract
- RRX mobilisation underway – new trains currently being tested & driver recruitment underway
- Expect margins to return to industry norms & profit in 2018 of *c.* €1-2m

Creating new business opportunities

- Pipeline of German rail opportunities
- Looking to submit further bids over next 12 months
- Looking at other international rail opportunities

Risk

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

Generating superior cash & returns

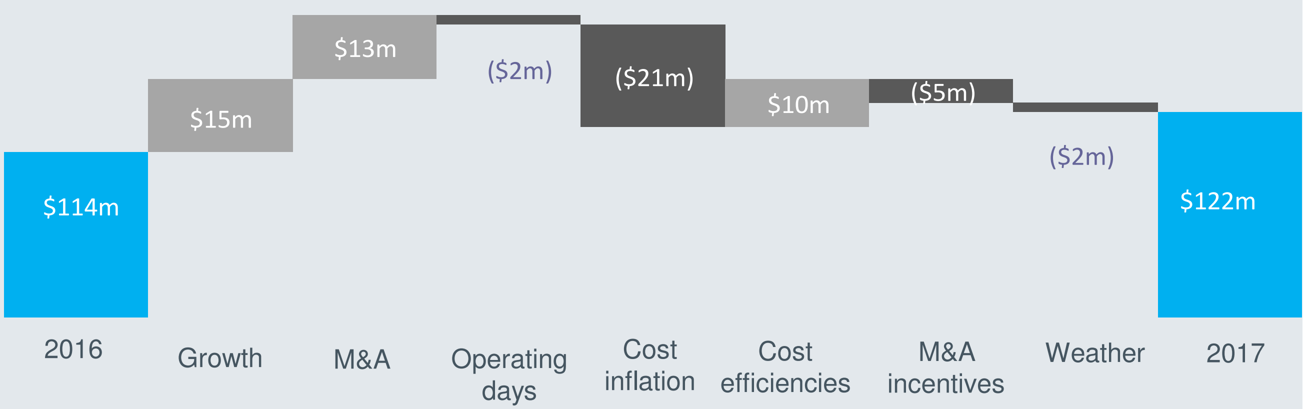
	2017	2016
Revenue	€90.3m	€75.0m
Op profit	€5.9m	€(1.8)m
Margin	6.5%	N/A

Revenue: Up 20.4% with the strong performance reflecting an element of catch up from the clarification of the revenue sharing position

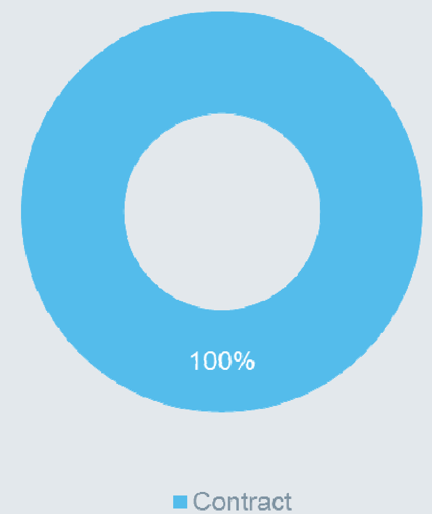
Profit: Strong profit performance recorded, boosted by revenue sharing clarification and catch up from 2016

North America – operating profit bridge

North America

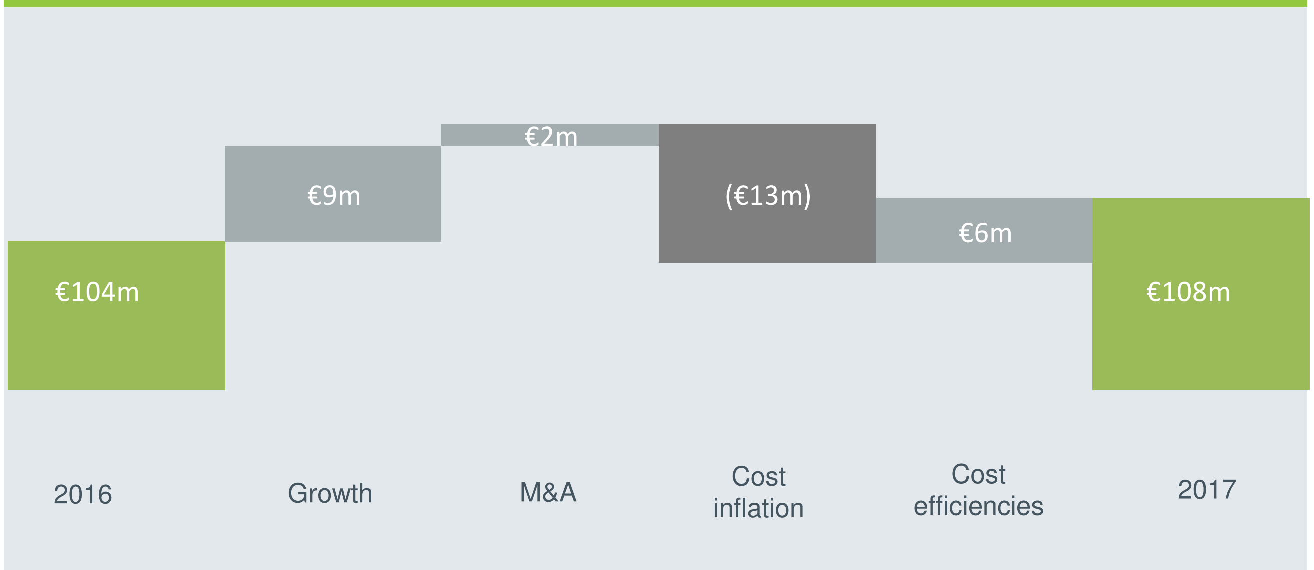


Revenue 2017

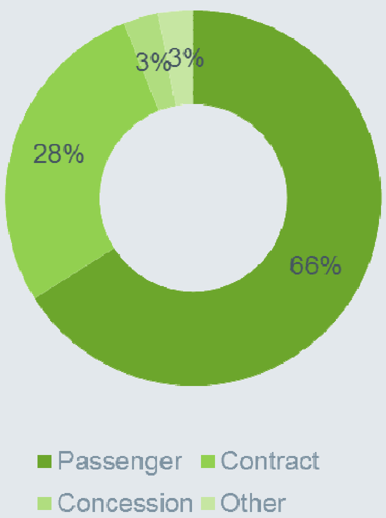


ALSA – operating profit bridge

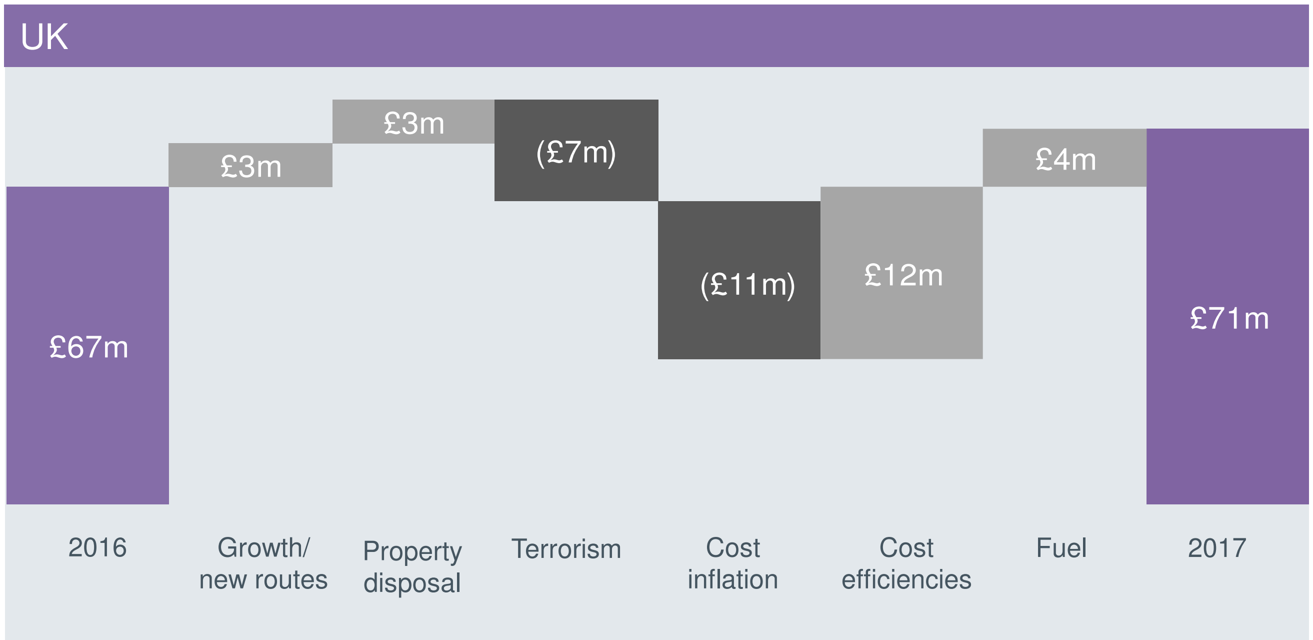
ALSA

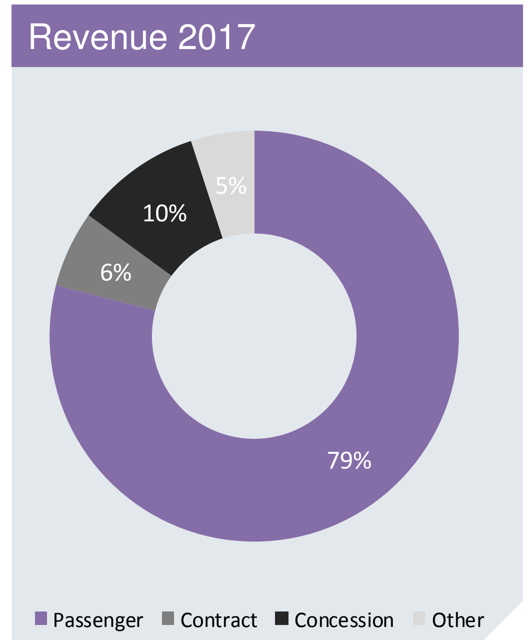


Revenue 2017



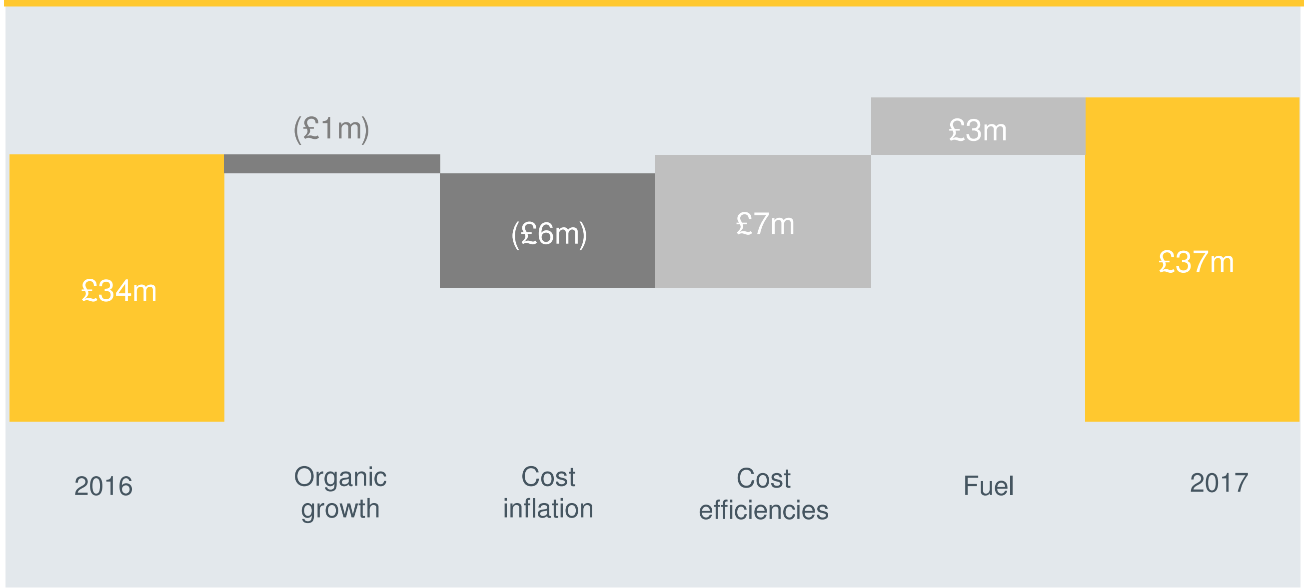
UK – operating profit bridge



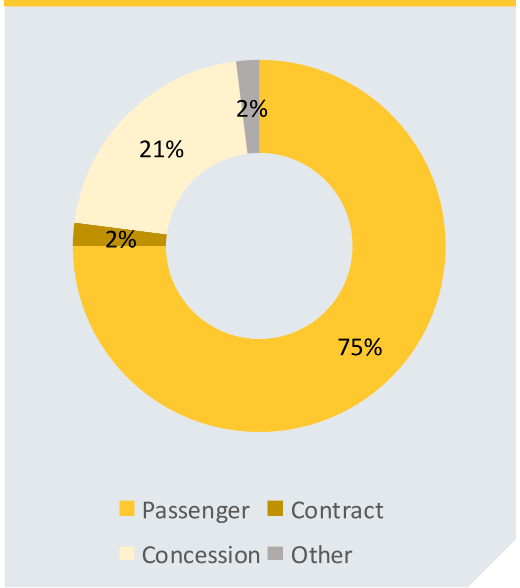


UK Bus – operating profit bridge

Bus

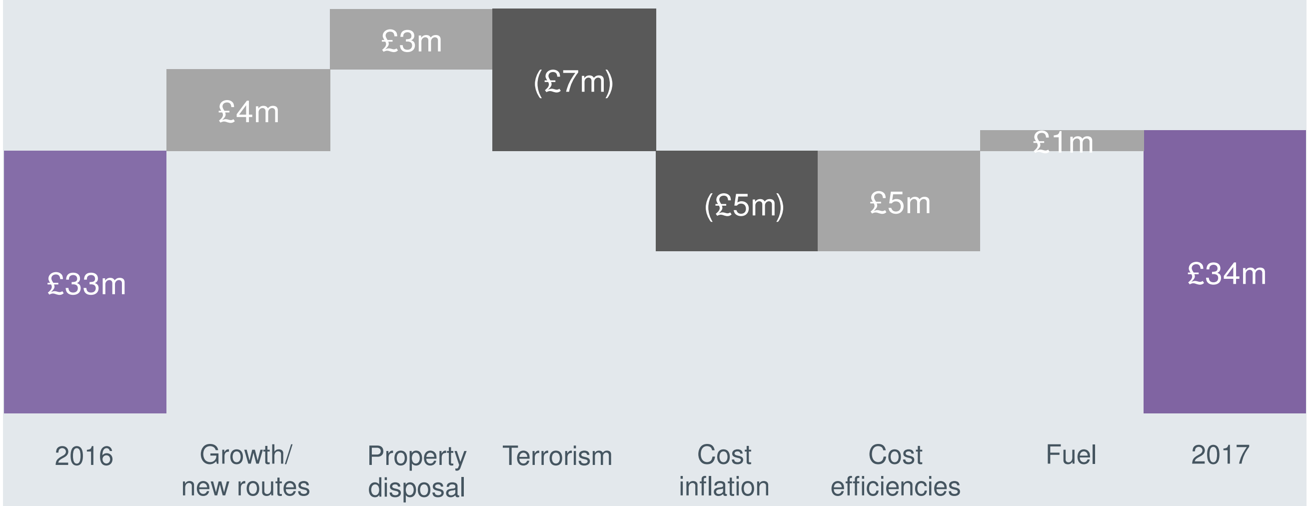


Revenue 2017

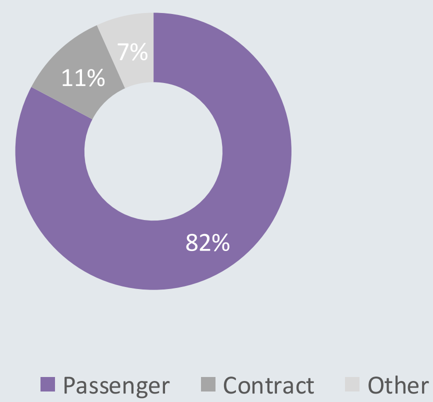


UK Coach – operating profit bridge

Coach



Revenue 2017



Risk management

Fuel risk largely fixed until 2019

Fuel hedging

	2017	2018	2019	2020
% hedged*	100%	100%	75%	42%
Price per litre	44.4p	34.3p	33.8p	32.9p

- Significant fuel savings expected and secured for 2018

** Of addressable volume (c.225 million litres)*

Foreign currency effects

Effect of fluctuations on profit and debt

Effect of a 1% weakening of £

	USD	EUR
Operating profit (£m)	**1.0**	1.0
EBITDA (£m)	**1.7**	1.4
Debt	**(4.2)**	(3.6)

Average rates versus £

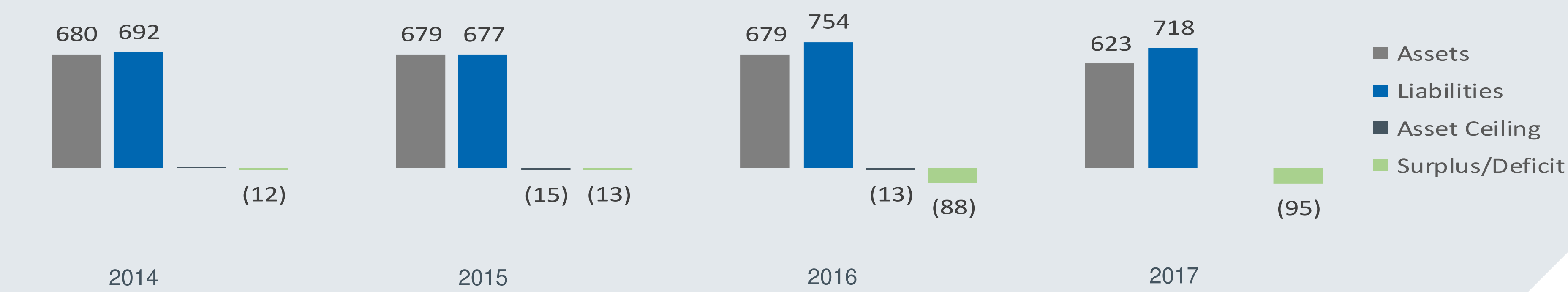
	2017	2016
USD	1.29	1.36
EUR	1.14	1.22

- Translational impact from movements in USD, EUR, CAD
- Hedging achieved by matching local currency debt to EBITDA

Risk management

Pension deficit plan in place through to 2020

Pensions £m (IAS19)



£m	Surplus /(Deficit) 31 Dec 2017	Surplus /(Deficit) 31 Dec 2016	Profit /(charge) 2017	Profit /(charge) 2016
UK Bus	(133.8)	(128.5)	(4.5)	(3.4)
UK Group	43.2	44.5	(0.2)	-

National Express Group PLC