national express

Half Year Results

For six months ended
30 June 2014

30 July 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.

Delivering our strategy

Achieve world class safety standards	50% improvement in 3 years
Achieve operational excellence	Punctuality and customer service improving across the business; best-in-class achieved across the Group
Grow in each of our core businesses	Normalised profit up by £3.8m*
Re-establish ourselves in rail	Won Essex Thameside: 15 years, £4bn in revenue
Establish new sources of income	German Rail, Middle East, Transit
Reduce our debt	Net debt reduced by £100m since Petermann acquisition
Improve our ROCE	Group ROCE improves to 11.8%; North America Return on Assets +90bps to 22.6%

** Adjusted for one-off events and currency*

Rail

High quality bid has delivered key ET win

Driving progress

- ET win establishes National Express as long term operator in UK rail – £4bn of revenue expected over 15 years
- Reflects transformation of c2c over last 15 years into UK's best performing franchise – topping punctuality league table for over 2 years at 96.7%*
- c2c revenue growth of 6% supported by strong core passenger base
- Mobilisation of RME franchise in Germany ahead of 2015 start-up

H1 2014

	2014	2013
Revenue	£74.5m	£69.9m
Op profit	£5.4m	£4.8m
Margin	7.2%	6.9%

- **Revenue**: 6% overall increase
- **Profit**: strong margin, delivering profit share to DfT during c2c extension

Opportunities

- ET – strong credential for future bidding – UK/international
- High quality bid for ScotRail
- Selective bids as part of DfT future franchising programme
- €1.5bn pipeline for German rail bids
- Further opportunities in liberalising markets

Risks

- Successful mobilisation in UK & Germany
- Achieving returns on rail bidding costs
- Political change in bidding landscape

** Moving Annual Average to 17 July 2014*

Rail

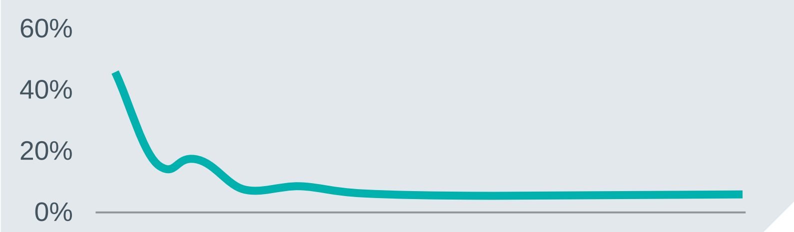
Essex Thameside: a new era of rail operations

A high quality innovative bid

- Driving revenue through quality, innovation & customer service
  - New timetable and fleet upgrades that add significant extra capacity
  - New technology to support customers & operations
  - Ground-breaking commitment to our customers
  - Significant opportunities in station management; e.g. Fenchurch Street
- Investing in passenger growth
  - £50m up-front investment in stations, technology & customer experience
- Strong financial bid that adds value for all stakeholders
  - Annual revenue growth rate consistent with historic trends ~7.5%; early growth driven by initiatives
  - Non-passenger revenue from retail and station management
  - £1.5bn premium to DfT*; £33m in first full year

Passenger revenue growth forecast

Non-passenger revenue growth forecast



Premium payments* to DfT

Year	‘14	‘15	‘16	‘17	‘18	‘19	‘20	’21
Premium (£m)	**10**	**33**	**47**	**60**	**74**	**81**	**83**	**90**
Year	‘22	‘23	‘24	‘25	‘26	‘27	‘28	‘29
Premium (£m)	**103**	**116**	**121**	**127**	**132**	**143**	**149**	**97**

** 2014 prices. Basis: RPI +1%, Control Period 4*

International

Bahrain – a second new market

A first step in a fast-developing region

- Preferred bidder to operate the urban bus services of the Kingdom of Bahrain (current population c1.4m inhabitants)
- Leveraging Morocco/European city bus expertise
- Urban bus network with initially 140 vehicles, serving the entire island, but particularly concentrated around the capital city, Manama
- Scope for further growth of the network in the future
- 10 year contract
- Operator not exposed to commercial revenue risk
- Joint venture with well-respected Bahraini partner
- Stepping stone to regional opportunities – driven by urbanisation, investment and congestion

UK Coach
Strong revenue growth & margin improvement

Driving progress

- Strong revenue and margin progress through attractive pricing, patronage growth & better coach occupancy
  - Strong growth on new services: Luton, Ryanair
  - Expanded distribution channels: Saga, UCAS, Tesco
  - Strong non-core revenue: Kings Ferry, Festivals
- Driving cost efficiencies: partnering, own operated network

H1 2014

	2014	2013
Revenue	£130.5m	£121.7m
Op profit	£9.3m	£7.8m
Margin	7.1%	6.4%

- **Revenue**: 7% core growth, with 6% from passenger volume
- **Profit**: continued improvement in margin

Opportunities

- Volume opportunity – filling the coach
- Improved revenue management capability
- Operational efficiency, network change, faster routes
- Driving greater loyalty & use (CRM)

Risks

- Competition threat
  - Advanced ticket discounting in rail

UK Bus

Investment in services delivering clear progress

Driving progress

- Robust revenue growth: commercial revenue +3.2%, driven by patronage growth & service quality improvement
  - Better punctuality, fewer cancellations
  - New route branded buses
  - Delivering TBT3*: Major fleet upgrade, technology
- Concession revenue growth +1.9%; softer advertising income
- Driving structural cost efficiency

H1 2014

	2014	2013
Revenue	£137.7m	£134.8m
Op profit	£15.3m	£15.0m
Margin	11.1%	11.1%

- **Revenue**: overall revenue +2%
- **Profit**: revenue & efficiency driving profit expansion

Creating opportunities

- Commercial growth: route branding, journey times, technology (vehicle tracking, smartcards, apps)
- Leveraging Centro partnership – eg road prioritisation
- Margin improvement through patronage & cost efficiency

Risks

- Concession income pressure beyond 2014
- Political / regulatory change

**Transforming Bus Travel 3 agreement with Centro PTE*

Revenue growth is like-for-like except 'overall'

North America

Delivering better quality School Bus business

Driving progress

- Continuing to generate cash, better returns & improved quality business:
  - Excellent customer service and improved contract pricing
  - Industry leading retention rate of 98%
  - Good bid season – net growth (100 buses)
- Successful replacement of poor margin business with contracts generating better returns:
  - 14 ‘up or out’ contracts retained - 5% price rise
  - 10 contracts exited & final 6 loss-making contracts provided for ahead of exit
  - 650 buses acquired in conversions, 350 buses by acquisition
- Largest Transit contract retained; new win in Arizona

H1 2014

	2014	2013
Revenue	$556.6m	$554.5m
Op profit	$58.8m	$64.4m
Margin	10.5%	11.6%

- **Revenue**: 1% underlying growth in School Bus, Transit +16%
- **Profit**: US$6.1m adverse H1 impact from severe weather

Creating opportunities

- Organic growth: Strong customer relationships, disciplined pricing, minimum return criteria
- Efficient capital focus: conversion, bolt-on
- Cost efficiency: use of technology, standard processes
- Growth in capital-light Transit market

Risks

- Economy driving cost pressures
- Healthcare
- External labour pressure

Spain

Urban & regional growth mitigates intercity pressure

Driving progress

- Strong growth in Morocco +20%
  - 20 new buses added in Agadir & Marrakech
  - New bus fleet launched in Tangiers in June
- Good urban bus performance in Spain
  - Madrid contract extended to 2024
- Coach competition from high speed rail stepped up:
  - Revenue management introduced on competed corridors
  - Growth in regional coach operations
- ‘Alsa Futura’ programme delivering cost efficiencies

H1 2014

	2014	2013
Revenue	€319.3m	€321.2m
Op profit	€38.6m	€40.8m
Margin	12.0%	12.7%

- **Revenue**: overall -1%
- **Profit**: Resilient - €2m impact from Madrid industrial action in Q1

Creating opportunities

- Winning & retaining contracts
  - Selected urban & regional opportunities in Spain
  - Morocco – potential to add new cities
  - Intercity coach concession structure confirmed

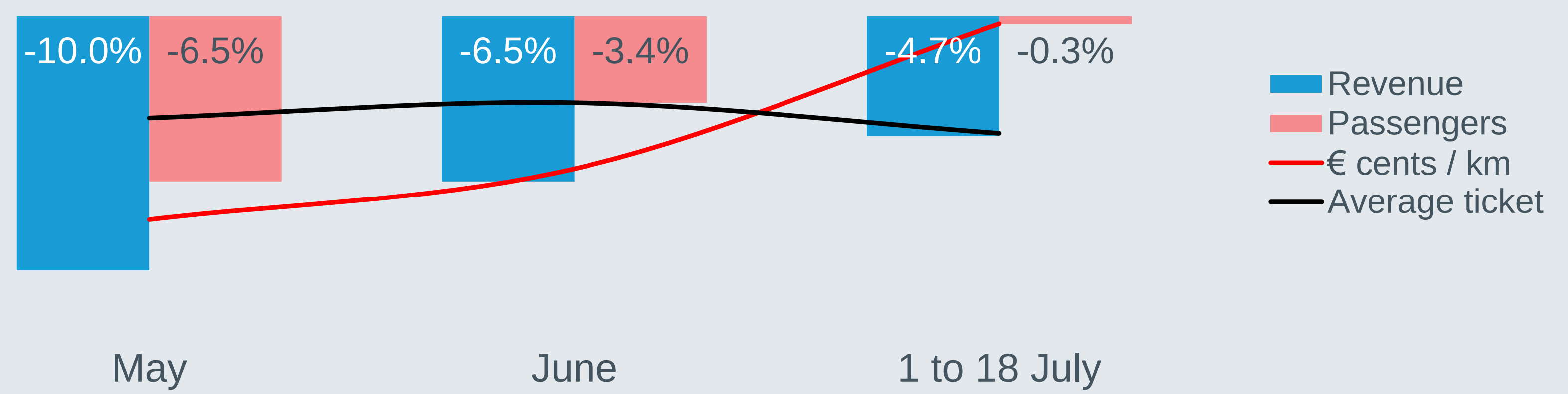
Risks

- Greater rail competition
- Intercity concession renewal (not until 2016)
- Continued austerity impact on urban budgets

Spain

Intercity responding well to recovery actions

8 main corridors performance



- 8 competed corridors - €140m annual revenue
  - 5 compete with high speed rail – price & speed
  - 3 compete with regional rail – price
  - Average 27% price reduction by Renfe to fill seats & cut deficit
  - Alsa revenue on competed corridors -11% revenue, -6% patronage

- Action taken on 80 flows within 8 corridors
  - Dynamic revenue management introduced
  - Differentiated fleet & service offerings
  - Journey time improvements implemented
  - UK skills & capability leveraged
  - 2% reduction in kms operated
- Steady improvement seen post-action
  - Improving passenger & revenue trend
  - YOY passenger growth on 4 corridors

Well positioned to create future value

- Portfolio of high quality businesses
  - strong operations, good underlying performance
  - capable of delivering revenue and profit growth
- UK Rail win
  - innovation and performance a key differentiator
  - strategically important both in UK and Rest of World
- Cash generation
  - intrinsically strong, embedded, sustainable
  - available to fund growth or returns
- Good pipeline of attractive business opportunities both in UK and internationally

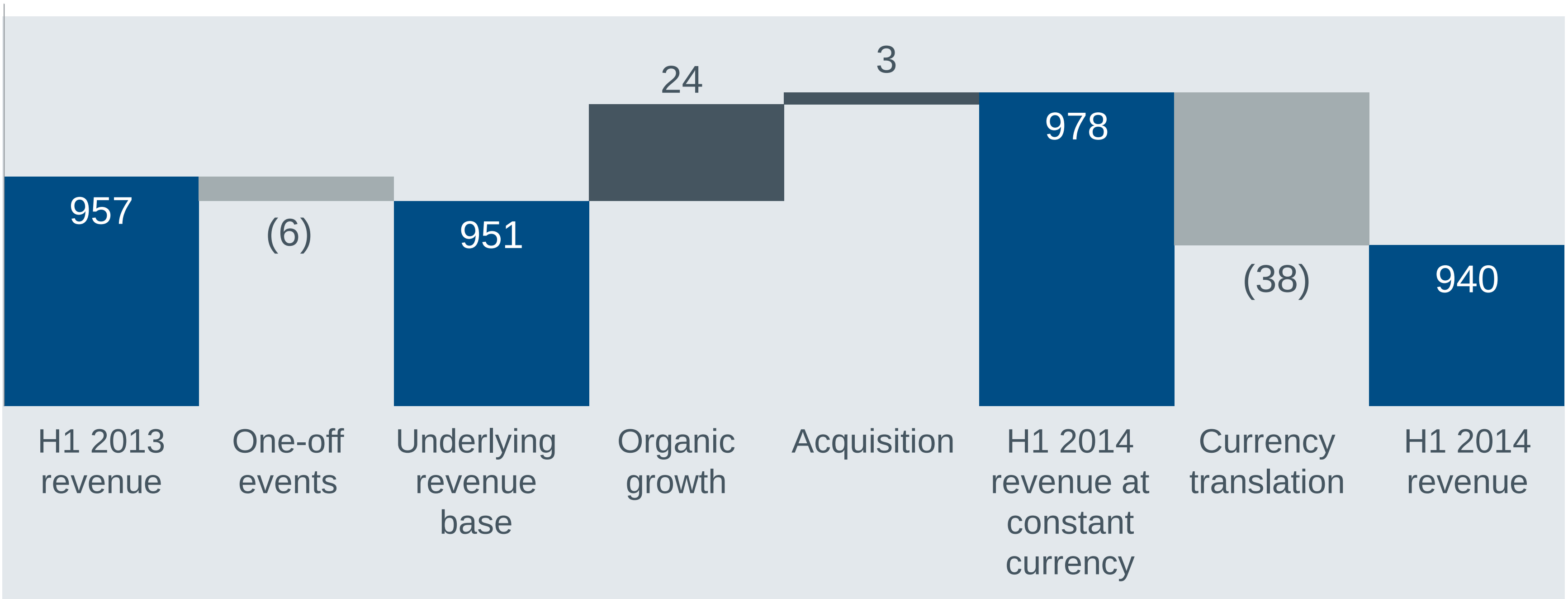
Contract order book £8.4bn
+ recurring UK passenger revenues over £700m pa

First half 2014:
Profit impacted by one-off events & currency

£m		H1 2014	H1 2013
Revenue		**939.5**	**956.7**
Operating profit		**89.5**	**97.2**
Net finance costs		(24.2)	(25.8)
Associates		0.2	0.4
Profit before tax		**65.5**	**71.8**
Basic EPS:	Non-rail	9.1p	10.1p
	Rail	0.8p	0.7p
	Group	**9.9p**	**10.8p**
Interim dividend		**3.35p**	**3.25p**

Revenue

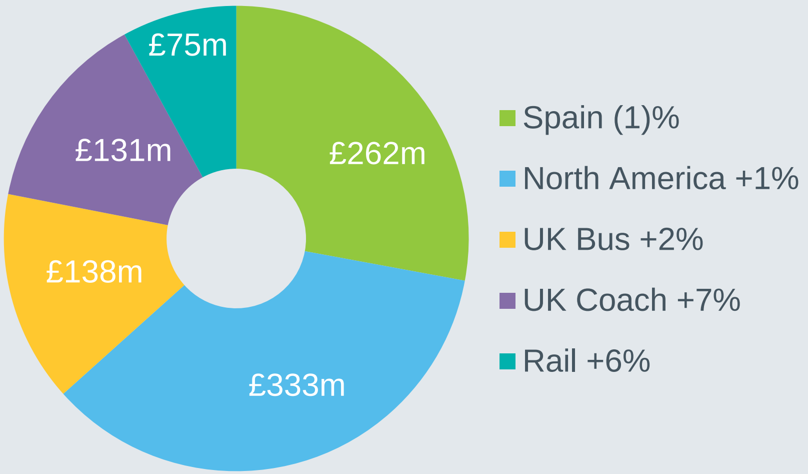
Good organic growth delivered



- 2% underlying revenue increase
- -4% impact from stronger Sterling:
  - US$ moved from $1.55 H1/13 to $1.67 H1/14
  - € moved from €1.18 H1/13 to €1.22 H1/14

Operating profit
UK divisions achieved profit growth

Revenue (YOY change*)



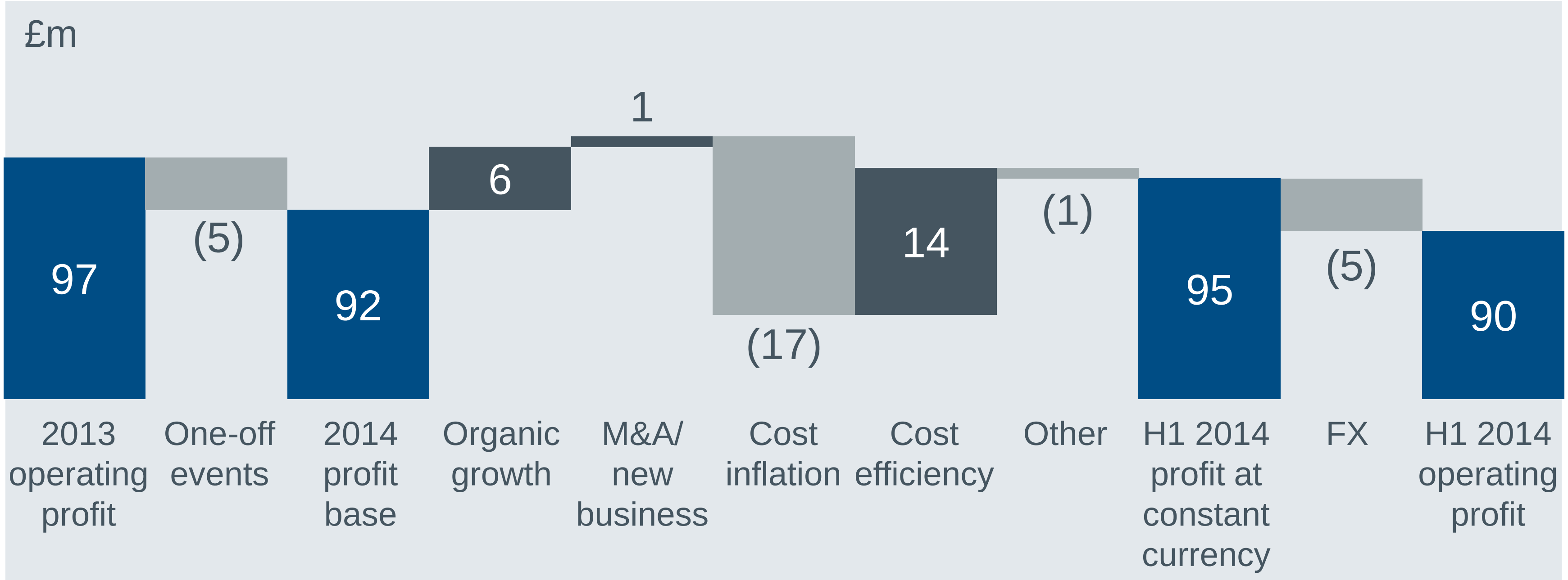
Operating profit

	H1 2014	H1 2013
Spain	€38.6m	€40.8m
North America	$58.8m	$64.4m
UK Bus	£15.3m	£15.0m
UK Coach	£9.3m	£7.8m
Rail	£5.4m	£4.8m
German coach	£(1.4)m	£(0.9)m
Centre	£(6.0)m	£(5.7)m
Group	**£89.5m**	**£97.2m**

** Underlying year-on-year change shown in local currency (excludes German coach)*

Normalised operating profit

Organic growth & cost efficiency have offset inflation



- 1.5% real cost reduction delivered
- £6m profit increase from organic growth, primarily in UK
- £5m adverse impact from stronger Sterling:
  - Each US$ cent impacts full year by ~£0.3m
  - Each € cent impacts full year by ~£0.6m

Superior cash and returns
We continue to generate excellent free cash flow

£m	H1 2014	H1 2013
EBITDA	**139.9**	**153.6**
Working capital	7.5	27.6
Replacement capex	(25.3)	(43.3)
Pension deficit	(3.8)	(4.8)
Operating cashflow	**118.3**	**133.1**
Tax/interest/other	(38.0)	(38.6)
Free cash flow	**80.3**	**94.5**

Operating cash flow*	Operating Profit %
Spain	128%
North America	155%
UK Bus	110%
UK Coach	185%
Rail	-%
Group	132%

- Disciplined fleet investment – continue to improve capital deployment
- Continued working capital improvement - public body debt in Spain reduced further
- Operating cash generation at 132% of operating profit – North America continues to drive progress
- Free cash flow over £80m

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

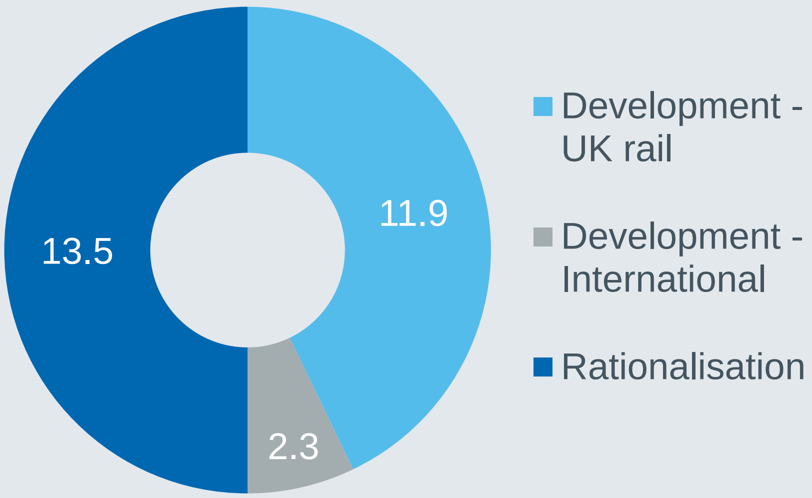
Exceptional costs

Creating future growth & driving efficiency savings

- Significant spend of £27.7m
- Investment in new opportunities: £14.2m
  - UK rail – completed 3 bids
    - Won £4bn 15-yr Essex Thameside
    - Strong Scotrail bid in evaluation
  - German rail bids
    - Steady flow of bids
    - Prequalified for 4 bids, including Berlin
  - International development
    - Preferred bidder in Bahrain
    - Expect 2 other bids in 2014
- Rationalisation driving future efficiency
  - N America contract strategy - £3m pa benefit
  - UK restructuring - £2m pa benefit
  - 'Alsa Futura' programme - £1m pa cost benefit & key competitive revenue defence
- No exceptional costs planned for 2015 onwards

Exceptional cost breakdown

£m



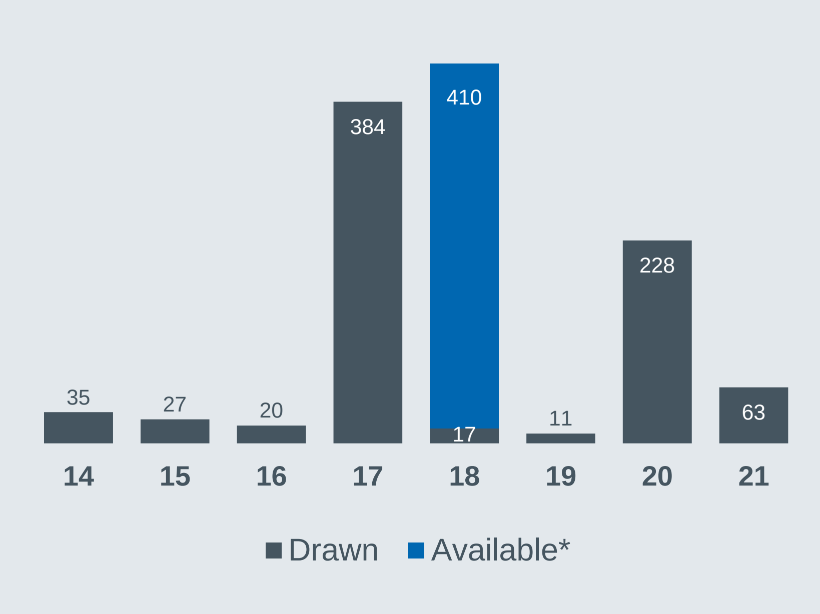
Balance sheet remains flexible

Net debt reduced to £729m

Gearing Ratios	H1 2014	H1 2013	Covenant
Net debt/EBITDA	2.5x	2.5x	<3.5x
Interest cover	6.0x	6.3x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa3	Stable
Fitch	BBB-	Stable

Good debt maturity profile



- Net debt reduced from year end by £17m to £729m
- Robust financial strategy:
  - Prudent gearing policy: 2-2.5x EBITDA
  - Target to reduce gearing towards 2x by end of year
  - 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
  - £426m committed headroom*

** Available cash and undrawn committed facilities at 30 June 2014*

Summary

We are making sound progress in our strategy

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

2014

- Solid platform of core divisions
  - Growth established in UK
  - Driving cash and returns in N America
  - Managing Spain
- Strong cash generation
  - £80 million of free cash flow; on track for £150 million this year
- Leveraging our expertise – £5 billion of new business secured

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Appendix

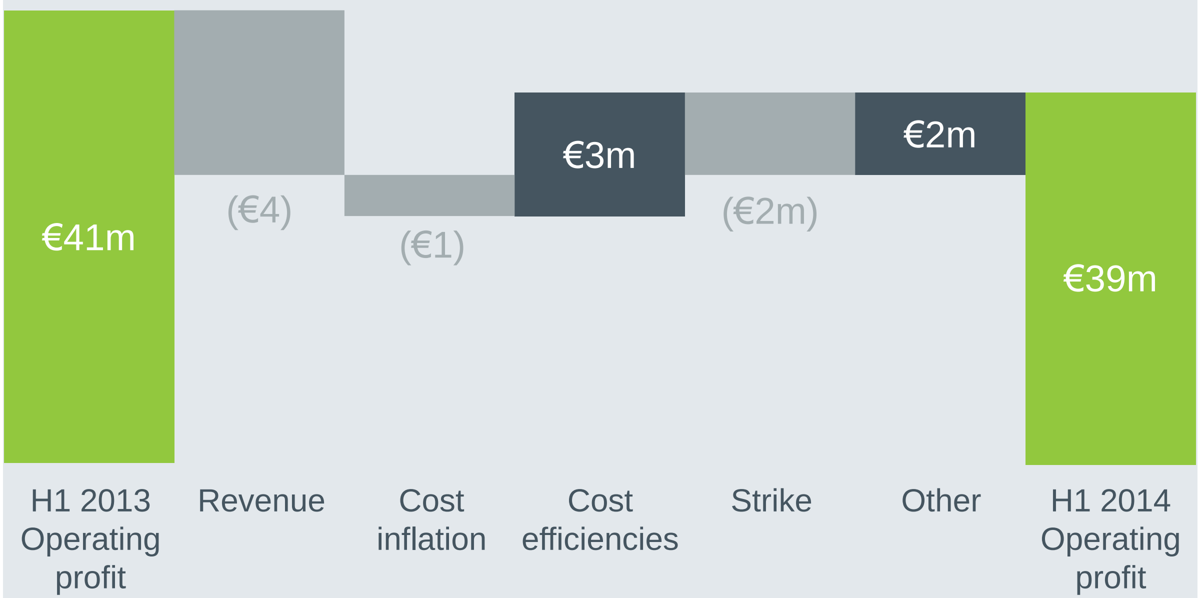
H1 2014 underlying revenue growth

	Yield	Volume	Revenue	Network Efficiency*	LFL growth
Spain					
Transport Spain	2%	(3)%	(1)%	0%	(1)%
Transport Morocco	(3)%	23%	20%	(19)%	1%
Non-passenger			5%		
Total[1]			**(1)%**		
North America[1]			**0%**		
UK Bus					
Commercial	1%	2%	3%	0%	3%
Concession			2%		
Total[1]			**2%**		
UK Coach					
Core NE network	1%	6%	7%	0%	7%
Other			8%		
Total[1]			**7%**		
c2c	4%	2%	**6%**		

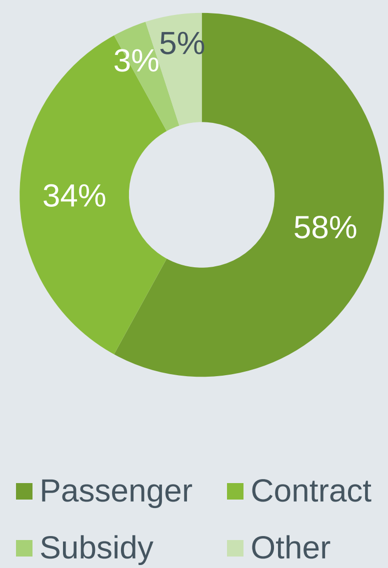
** Decrease / (increase) in mileage operated*
[1] Reported revenue

Spain – operating profit bridge

Spain

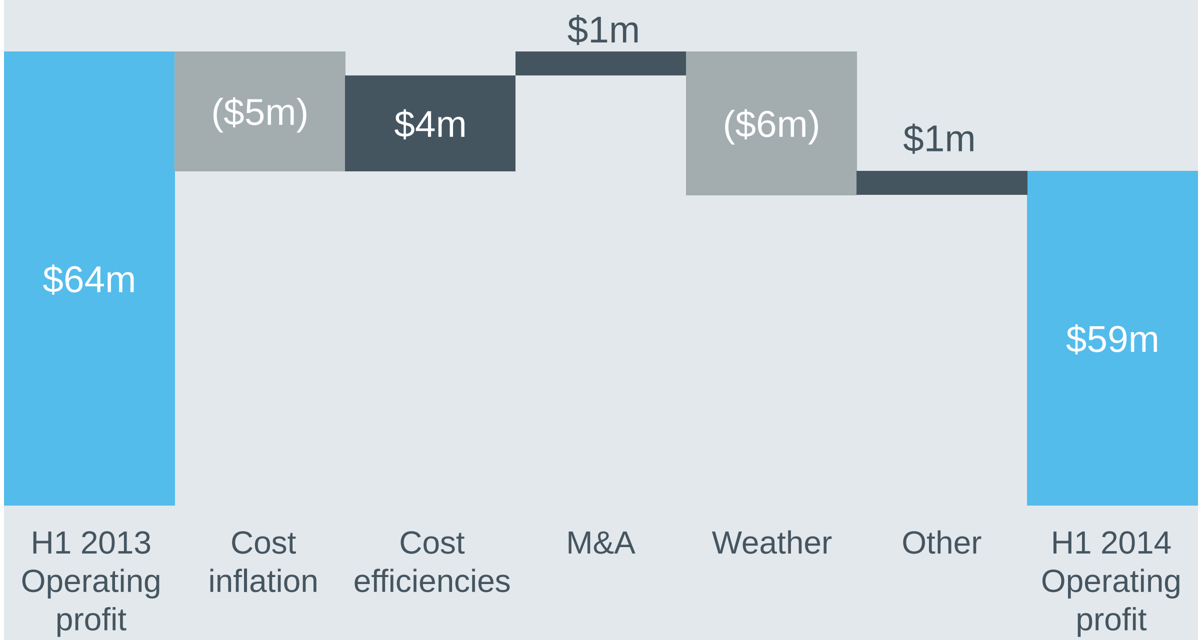


Revenue H1 2014

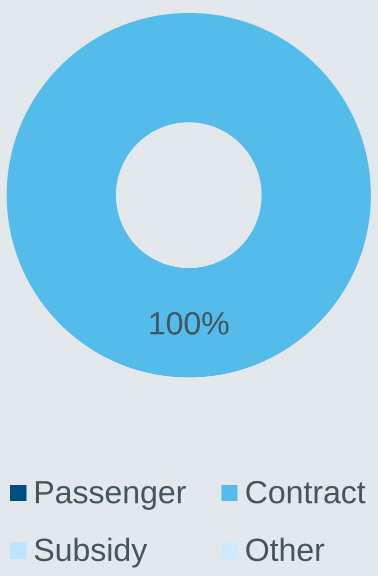


North America – operating profit bridge

North America

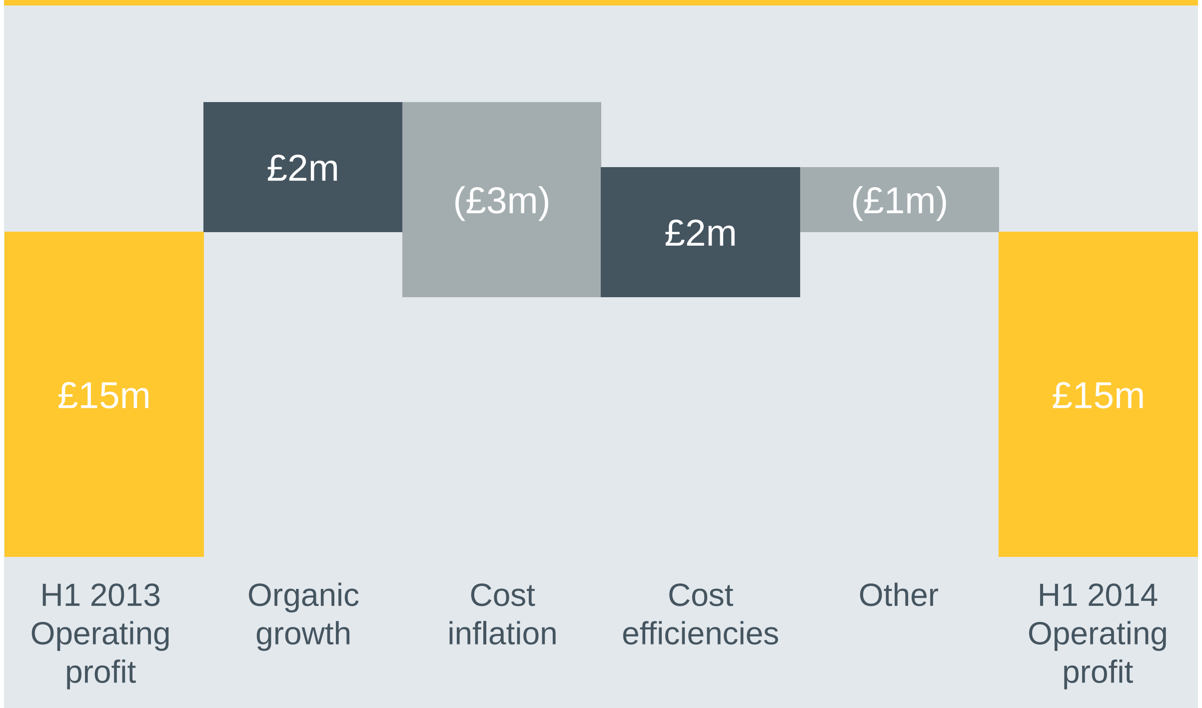


Revenue H1 2014

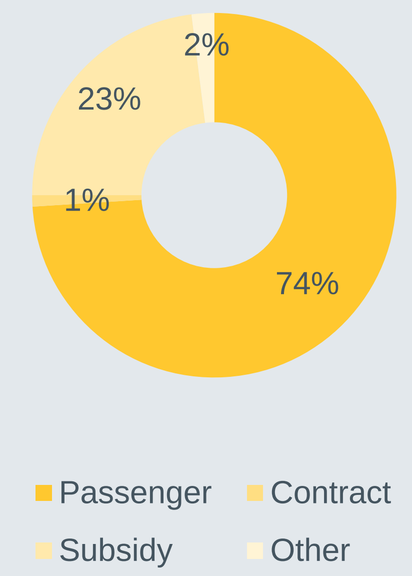


UK Bus – operating profit bridge

Bus

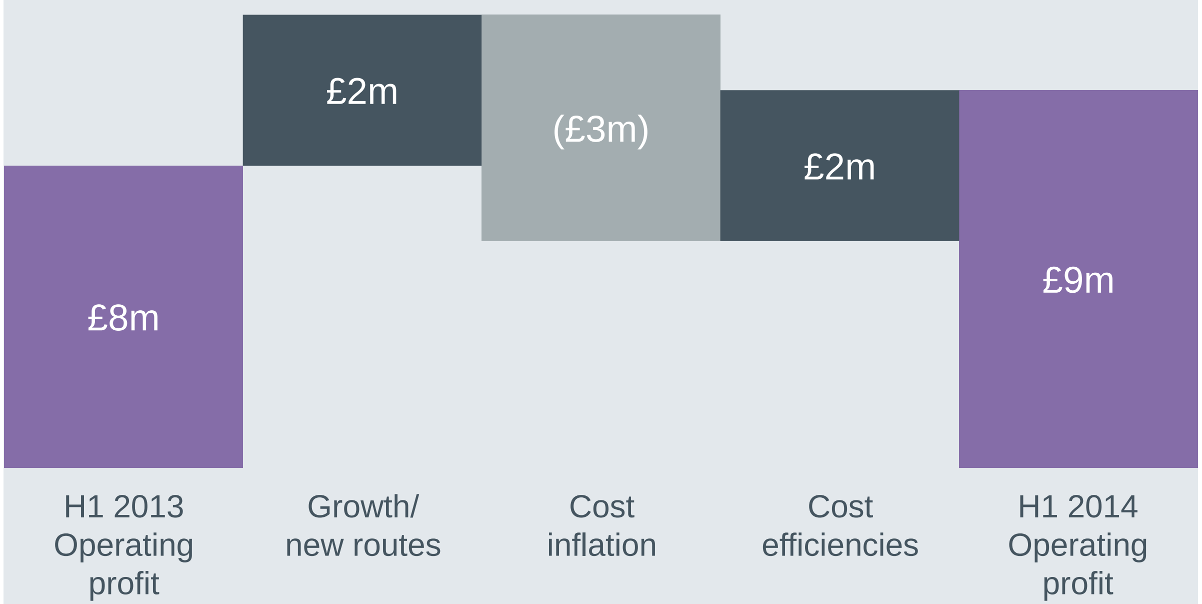


Revenue H1 2014

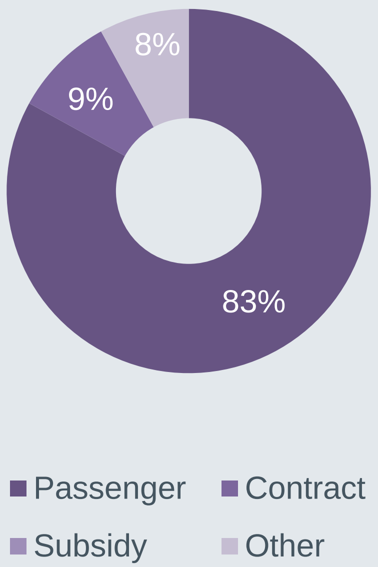


UK Coach – operating profit bridge

Coach



Revenue H1 2014



Pipeline of opportunities remains exciting

	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	H	H	L	H
Margin	L	L	L	L
Capital req'd	L	L	L	L
ROCE	H	H	H	H
3 year target opportunity	£4bn	$0.5bn	€1.5bn	£1bn
Active pipeline	3 contracts £1.2bn ScotRail pending	22 contracts $125m 1 win, 3 retained	5 contracts €0.4bn RME secured	5+ opportunities £500m Preferred bidder

** H – High; L- Low*

Risk management

Fuel risk largely fixed until 2016

Fuel Hedging

	2014	2015	2016
% hedged*	100%	100%	92%
Price per litre	49p	47p	44p

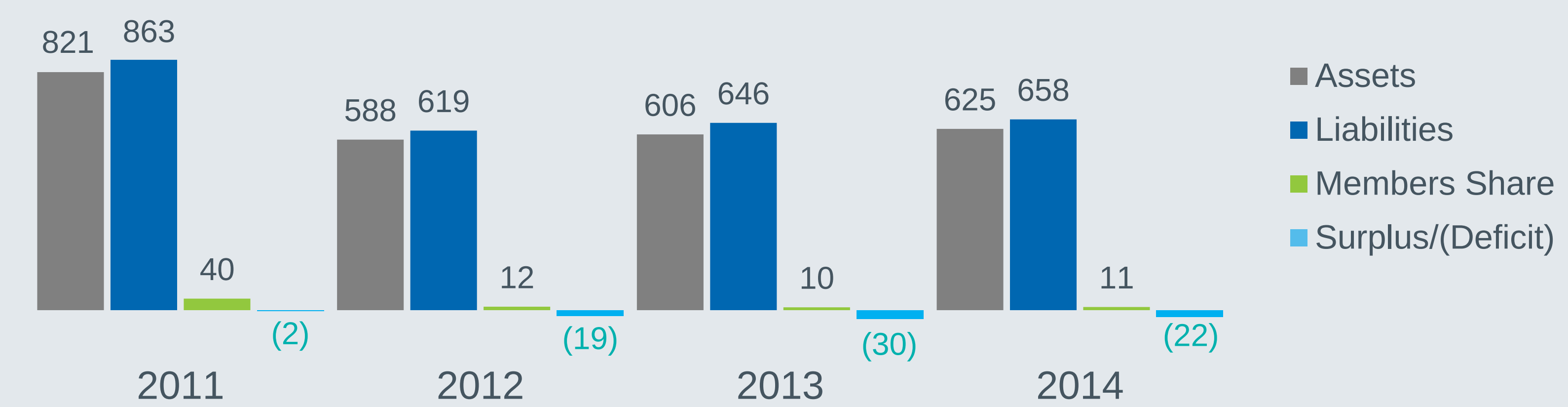
- Future year on year savings locked in (2013: 49p)
- Contracted revenue policy:
  - Extend cover for a minimum of 2 years
  - Longer hedging considered, subject to market liquidity & contract life
- Commercial revenue policy:
  - Minimum 15 months cover - provides a buffer for retail fare increases

** Of addressable volume (c240 million litres)*

Risk management

Pension deficit plan in place through 2017

Pensions £m (IAS19)



£m	Surplus /(Deficit) H1 2014	Surplus /(Deficit) 31 Dec 2013	Op. profit (charge) H1 2014	Op. profit (charge) H1 2013
UK Bus	(41.1)	(40.8)	(2.1)	(1.7)
UK Coach	15.7	12.6	0.3	-
UK Rail	5.0	(0.4)	(1.3)	(1.3)
Other	(1.6)	(1.5)	-	-

National Express Group PLC