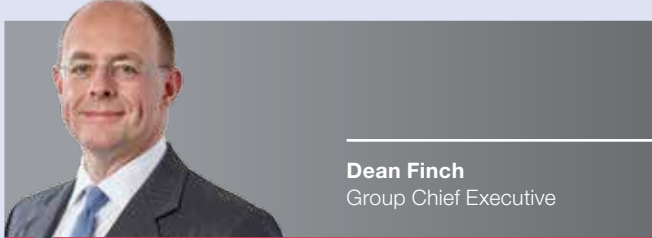


Our strategy is delivering results



Dean Finch
Group Chief Executive

Introduction

National Express has delivered perhaps its strongest ever set of results in 2017, with good growth across all of our internationally diversified portfolio. We have achieved particularly strong performances in both North America and ALSA. Our performance in the second half of 2017 in the UK has reversed the declines seen in the first six months, to deliver annual growth in both our bus and coach businesses.

I believe that we are seeing the benefit of our focus on operational excellence, technology investment and disciplined acquisition in these results. North America's combination of customer focus, contract retention and successful acquisitions has driven a record result. ALSA has also delivered a very strong performance, propelled by its increasingly sophisticated real time Revenue Management System (RMS). Both our UK bus and coach businesses have used sophisticated pricing techniques and efficiency programmes to drive second half performances that have more than reversed their first half challenges.

These divisional performances are reflected in the strength of our Group results. We again delivered a record statutory profit of £134.3 million (up nearly 12% on last year's record). Free cash flow also increased to £146.4 million (2016: £138.6m) and our gearing reduced to 2.3 times EBITDA. With this strong performance we are proposing a 10% increase in the final dividend. Our consistent delivery is also reflected in the fact that over the last five years we have generated over £750 million of free cash flow and, including this year's proposed final dividend, returned over £325 million to shareholders.



National Express has delivered perhaps its strongest ever set of results in 2017, with good growth across all of our internationally diversified portfolio.

While I am pleased our international portfolio and strategic focuses have driven another year of growth, I am firmly focused on the future. We have significant opportunities still to capture to drive organic growth as well as new avenues for further expansion emerging.

With the Group out of UK rail we have removed both significant financial commitments and political distraction and are able to concentrate on growing our bus and coach presence in our existing, interesting adjacent and targeted new, markets.

We have moved deliberately away from a business model where our prosperity was significantly determined by the instabilities of UK rail. Indeed, a key attraction of our internationally diversified portfolio is that it has a significantly reduced exposure to any one country's political or regulatory movement.

Our largest contract is worth less than four percent of our Group earnings; we are less dependent on the success or failure of a specific contract. So, rather than spending tens of millions of pounds on rail bids where we may win, say, one in four competitions – which were also won on increasingly eye-watering terms, with vanishingly thin returns – we have decided to invest our strengthening resources on improving the quality, safety and efficiency of our operations as well as on attractive acquisition opportunities. We have expanded in and into large, wealthy cities and also launched successfully in three new markets (Germany, Bahrain and Switzerland) in recent years. These three new market entries have all been profitable in their first full year of operations.

Our strategy therefore remains focused on three key pillars:

- Operational excellence, including organic growth, tight cost control, rigorous cash flow management and the disciplined allocation of capital to maximise returns;
- Investment in technology to drive customer-focused innovation and excellence, improved safety performance and greater cost efficiency; and,
- Growth through targeted acquisitions in the world's most affluent cities and regions.

I will now set out how we are already delivering against each of these pillars and outline some of the emerging opportunities for further benefits to come.

Strategy

Operational Excellence

We aim to give our customers safe, punctual and frequent transport services at excellent prices. During 2017, we gave our customers lower fares and improved services. We also invested to improve the safety of our services and their ease of use through enhancements including the provision of better real time information, mobile journey planning tools, contactless ticketing and faster services with better end to end connections.

This relentless focus on improving our service to customers and our fares, coupled with constantly improving the efficiency of our operations, was rewarded with an increase in the number of passengers we carried and with improving customer satisfaction. Across the Group we have carried over 882 million passengers, up 1.2% on a continuing basis, on 2016. Our value for money scores were already high and are rising, for example: UK coach's score was over 87%, up 0.5% year-on-year; and, ALSA's 72% was up 6% year-on-year.

Our businesses have again demonstrated their industry-leading customer service credentials in the year. ALSA has achieved a record customer satisfaction score of 7.4 out of 10 (up 4.8% year-on-year) and also won the IZO 'Best Customer Experience for the Transport Industry' award, the largest satisfaction survey conducted in Spain. Our UK bus business achieved a record-equalling customer satisfaction score of 87% in the independent Transport Focus survey (also up 1% year-on-year). Our UK coach business' customer satisfaction score was also up, three percent to 86%, with the independent Temkin Group Net Promoter Score index ranking National Express fourth in its select group of companies. North America again delivered another year of customer satisfaction above 90%, coming in at 91.2%.

We are also seeing the benefits in the safety performances of our business. Safety is our top priority and we established our Driving Out Harm programme in 2010 with the deliberately ambitious objective of removing all harm caused by our businesses. I am delighted that since Driving Out Harm's inception, we have reduced harm, as measured by our industry-leading Fatalities and Weighted Injuries (FWI) index, by 74% per million miles operated.

We are also receiving significant external recognition for our safety programmes and performance. Both UK bus and coach received five-star British Safety Council scores, and their highest honour, the Sword of Honour: bus' score of 97.4% was the highest in the transport industry; coach also received a ROSPA Gold Award. ALSA received two awards from MAPFE: the 'International Road Safety' and 'Best Initiative in the Prevention of Accidents' awards. And our North American school bus business has again received the highest possible safety rating from the Federal Motor Carrier Administration. Safety will remain our Group's – and my personal – top priority as long as I am Chief Executive. I will say more about our technology investments that are a crucial part of our plan for further improvement in the next section.

We also continue to forge and leverage strong partnerships with local authorities to tackle key operational and customer service challenges. For example, through a joint bid with Transport for West Midlands, our bus business has recently secured Department for Transport investment for new bus lanes on the important Harborne to Birmingham city centre route. We have introduced our state-of-the-art Platinum buses to this route, with the aspiration of repeating the significant increases in passengers we have seen where previous schemes (such as Lode Lane in Solihull) have combined journey time savings with new, premium vehicles. It is precisely this strong partnership approach that we are looking to further enhance by working closely together to make sure the 2022 Commonwealth Games in Birmingham are a success and deliver significant transport improvements before the games begin.

Investment in technology

We are in a period of significant technological change. The seemingly constant stream of innovations presents many opportunities for customer-focused businesses such as ours. We are working on innovative new transport technologies, with ALSA developing autonomous, electric vehicle projects in Madrid, for example. Beyond this, our task is to focus on the improved outcomes that can be delivered through the right technologies, rather than chasing every innovation that appears on the market. I believe new technology presents a real opportunity to drive organic growth, improve standards and realise cost efficiencies. We have therefore focused our interest in three principal areas.

First, improving our service to customers. Our RMS is a significant example of this. This allows us to provide real-time pricing that becomes increasingly sophisticated through time as it builds up a 'memory' of historic customer behaviour and applies it to the current market. This has allowed our UK coach services to respond to the reduction in travel demand after the terrorist attacks in 2017, with a prompt, targeted lowering of ticket prices to sustain passenger numbers. That our UK coach business carried more passengers in 2017 than 2016, despite the significant challenges it faced, is testament to the benefit of this real-time and granular pricing. Overall, our UK coach services saw an underlying revenue benefit of two percent from RMS, with seat occupancy rates also up two percent – also demonstrating the efficiency benefit of the technology. Our Spanish long haul services which have RMS installed also saw revenue increase by 3.9% and seat occupancy rates up over two percent.

Investing in technology to improve safety standards

We are committed to investing in technology to improve standards and secure efficiencies. One area where we have shown particular leadership is through the installation and use of smart safety cameras on our vehicles. Lytx DriveCam, pictured below, is an industry-leading system that allows the recording of accidents or incidents worthy of subsequent review. This technology is being rolled out across our businesses and is already fully installed in the UK. The videos allow us to improve safety and driving standards through tailored training and also provide crucial evidence for insurance claims, helping us significantly reduce the costs of accidents where it is installed.



In 2018, we expect RMS to underpin further organic growth and deliver a one percent underlying benefit in both UK coach and ALSA. We also continue to see significant growth in digital sales channels across our businesses. It is by far the most significant means of payment for UK coach, with 66% of revenue coming through digital channels (up 3% year-on-year). ALSA saw significant growth in digital channels in 2017 of over 9%, with more than 40% of all its sales now through digital. On ALSA's long haul coach services, 44% of all sales are through digital channels. UK bus is also experiencing a rapid rise in the number of passengers using digital channels, with 10% of all passengers now travelling on m-tickets. This growth in m-ticket use has almost entirely occurred during 2017 and this trend is accelerating in 2018.

We are investing to accelerate this shift. We have introduced new contactless ticket machines to our UK buses, allowing a wide range of digital and contactless ticket types to be used. These machines enable the daily capping of prices and allow us to move decisively away from the use of exact cash fares to travel. Our customers in Coventry started using these new machines in January and they will be fully operational across the whole of the West Midlands in April, making it the single largest contactless network outside of London. We will be complementing this with the launch of a much-improved app in March that will allow real-time tracking of buses, among other customer-friendly features.

We have also invested to make UK coach's digital presence easier, quicker and more responsive to use. An upgrade to our UK coach website has significantly reduced the number of clicks necessary (and therefore time taken) to purchase a ticket, with online sales conversion rates increasing 3% during the year. We have also piloted a successful seat reservation system which will be rolled out network-wide in 2018. These innovations and investments have: helped raise its rating in the App Store to 4.5 stars (up from 2.5 stars at the start of 2017); seen www.nationalexpressgroup.com significantly improve its Google search optimisation scores so it is now the best ranked land transport website in the UK; and also been recognised with the Best Technology Award at the UK Coach Awards for the customer entertainment system, VUER.

Our North America business is also accelerating its use of technology to make it more responsive to customer demands. During 2017 we launched new apps in transit and school bus, and through our market-leading software company Ecolane, for paratransit customers. The Ecolane app allows users to book and view trips in real time and also proactively alerts them when their vehicle is on its way. We have also – uniquely within the industry – installed an online complaints management system in all of our school bus depots.



New technology presents a real opportunity to drive organic growth, improve standards and realise cost efficiencies.

German Rail and Bahrain continue to use market-leading technologies to enhance their services to customers. In Germany, our 'NX-Scout' WhatsApp group, which provides up-to-date travel information for customers, has the equivalent of around 15% of daily passengers signed up. In Bahrain, the local app has seen a 50% increase in downloads during 2017, and the 'GO Card' smartcard is used in between 45% and 50% of journeys.

The second area where technology is also playing a very important role in our determination to continue to improve our performance is safety. In 2017, we saw significant progress in our roll-out of the industry-leading Lytx DriveCam smart safety cameras that allow incidents to be recorded and analysed. This provides the opportunity for both tailored driver training and fuller evidence to be used in insurance claims. The cameras are now installed: across all our UK fleet; in 6,351 vehicles in North America, with a target of around another 10,000 by the end of the year; and in 150 vehicles in ALSA, with a target of over 1,000 (around 45% of the Spanish fleet) by the end of the year.

There are very encouraging results of reductions in 'event severity', the number of incidents and insurance costs where the smart safety cameras have been in place the longest. In North America, for example, we started rolling Lytx DriveCam out in 2014 and it is now installed in 46 locations. The results so far show that when comparing the costs of claims from preventable street accidents for the 12 months prior to fitment against post-installation, there has been a 30% reduction. So with the significant further roll out programme in 2018, we expect to reap further driving standards, safety and cost benefits over the coming years.

Alongside the investment in the smart safety cameras we have begun a comprehensive programme addressing speed management across the Group. Technology is already playing a crucial role in identifying issues and allowing targeted management interventions. It will be augmented in 2018 with a comprehensive internal communications campaign to reinforce the crucial importance of speed management. We will have the near universal roll-out of this technology by the end of 2018.

We are also investing in technology which improves our third principal area: business and cost efficiency. Two North American pilots are providing particularly interesting opportunities. First, a new budget management system which provides, to a very granular level, detailed cost management for local management use but also central review. Second, a business management system will systematise good customer and operational practice across our business supporting local management and also enhancing central oversight. In a continent-wide business where customer relationships are key, striking the right balance between local flexibility and central control is a crucial challenge for running an effective and efficient business.

These two emerging tools are providing encouraging early results and exciting opportunities for the future. By using the business management system we have been able to revise our fleet management system and in so doing have identified over 750 buses we believe can be more effectively deployed in 2018. This will have direct benefits in terms of a significant reduction in new capital requirements. This system is being extended to cover our maintenance processes and we expect to again generate improved efficiency in our systems generally and also allow for greater claims on parts warranties, specifically.

Acquisitions and new opportunities

With our strong and sustainable cash flows, we have targeted new acquisitions in recent years to deliver growth as well as add quality new businesses to our portfolio. In 2017, we continued to do this in a disciplined manner, with targeted returns above 15%. We made a further nine acquisitions in the year, with North America remaining the focus of our capital allocation, but ALSA also adding six new businesses.

The acquisitions we made in recent years continue to perform strongly and we have a strong pipeline of further opportunities that we are actively pursuing in both North America and through ALSA. Through the appointment of James Stamp as Group Commercial Director – previously KPMG's UK Head of Transport and Global Head of Aviation – and other hires in his team, we have strengthened our Group support to the divisions in their acquisition and new market identification.

Our ALSA acquisitions include three that build on our successful Swiss ski market entry through AlpyBus and strengthen our presence in the Geneva area. We are developing Geneva as an emerging growth 'hub' with expansion into local school bus and discretionary transport alongside the growing transfer business; AlpyBus itself grew significantly in 2017. ALSA made another three acquisitions in the year that add new bus operations in Madrid and Granada as well as 'Maitours', which provides: staff transfers for a large local airline and national bank headquarters; an urban transport contract in Azuqueca, Guadalajara; and school bus services in Madrid.

We made three acquisitions in North America during 2017, adding over 800 vehicles across the school bus, paratransit, transit and special education sectors. These acquisitions included Cook-DuPage Transportation, providing entry into the US's largest paratransit market (Chicago). Paratransit is a fast-growing market and this acquisition therefore strengthens our credentials in this important sector.

By using our presence – helped by recent acquisitions – in large city markets to operate services across, for example, school bus, transit, paratransit, charter and employee shuttle, we can offer competitive pricing and operational resilience as we benefit from the synergies between the different operations. With a greater local concentration we can also develop strong local relationships. Across the Group, our best markets are often those where we successfully combine service excellence, competitive pricing and strong relationships. We believe, therefore, that developing and expanding this approach provides an interesting opportunity for new growth.

Our North American acquisitions have also brought new thinking into our business and we believe one area where we will benefit in particular is in charter. Learning from the way a recently acquired business had developed and grown its own local charter revenue, we see the opportunity for significant nationwide growth. We estimate the national charter market to be worth more than \$1.5 billion a year. In 2017, for example, National Express only captured around three percent of this market, demonstrating the opportunity for growth.

We have continued to target new growth opportunities through selected bidding. ALSA has recently submitted a joint venture bid to operate a bus contract in Rabat, to consolidate our position in Morocco. We plan to submit further German rail bids this year to augment our presence in North Rhine Westphalia.

I am very proud of our industry-leading work in the community. We launched the National Express Foundation in 2012 and in that time have supported over 14,200 youngsters in the West Midlands, East London, South Essex and Medway. This support has helped local community groups working with disadvantaged young people as well as those who would otherwise not be able to access further or higher education because of financial challenges, attend college or university. This year National Express Group will provide £300,000 to the foundation to further its good work.

Equally, our leadership on the Living Wage has been a source of pride. Our UK bus operations have been a Living Wage Foundation accredited employer for 2 years and the feedback from staff has been very positive. Our UK coach business is currently securing the accreditation; it has introduced the Living Wage Foundation living wage to directly employed staff and will shortly roll this out to contractors' employees.

I was very sad to hear of the untimely passing of John Devaney in January this year. John served as National Express' Chairman between April 2009 and January 2013. John also served as Executive Chairman for a period during this time, including leading the challenging rights issue that rescued the business. John brought a wealth of experience to his time at National Express and I always found him a helpful source of both support and challenge, essential for any Chief Executive. Both personally, and on behalf of National Express, I would like to offer my sincerest condolences to John's family and friends.

Outlook

We expect to deliver growth in every business again in 2018, as our strategy continues to generate strong shareholder value.

We will remain focused on operational excellence and technology investment to deliver high quality services to customers at good value prices. Our businesses are increasingly sophisticated, using technology to get ever closer to our customers and drive through efficiencies in our operations, whether RMS, Lytx DriveCam or contactless ticketing. We are confident therefore that we will deliver organic growth in each business in 2018 and complement this with a strong acquisition pipeline of opportunities with returns of at least 15%, across ALSA and North America. We are actively working on further acquisitions.

Our strong and sustainable cash flow – we believe our free cash flow in 2018 will be broadly similar to 2017 – combined with £20 million of fuel cost savings and the benefit of acquisitions made at the end of 2017, give us strong tailwinds. These have recently been strengthened by US tax reform, which will see our Group effective tax rate reduced to the low 20s, in percentage points.

I look forward to 2018 with both excitement and optimism. I am ably supported by a strong, dynamic management team that operates National Express' many businesses with relentless focus and efficiency. The technological tools now available to the business give us the granularity and transparency to control and manage the business in a way that I think could be transformational over time. The strength and resilience of the business proved to be very impressive in 2017 and will continue to underpin our future in the years to come. Our strong cash generation coupled with our numerous growth opportunities give me confidence as we once again look ahead to deliver growth in revenue, profits and returns in the years ahead.

Dean Finch

Dean Finch
Group Chief Executive
1 March 2018

Recognising exceptional driving performance

Our People Value is to develop the talents, reward the exceptional performance and respect the rights of all our employees. Our Master and Advanced Driver programme is a prime example of this. If drivers have two consecutive years of excellent service and performance (including, for example, no preventable accidents or customer complaints and excellent driving assessments) they become an Advanced Driver. Three consecutive years of this exceptional performance achieves Master Driver status. These drivers are presented with their awards at a ceremony (that families are encouraged to attend) and receive a distinctive tie and free membership of the Institute for Advanced Motorists, providing potential insurance benefits. We now have 903 Advanced Drivers and 728 Master Drivers across the Group and this increasingly popular programme continues to grow.



Master Drivers receive a distinctive tie to recognise their achievement



I look forward to 2018 with both excitement and optimism. I am ably supported by a strong, dynamic management team that operates National Express' many businesses with relentless focus and efficiency.