

UK



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National Express operates both bus and coach services in the UK. In Bus, National Express is the market leader in the West Midlands – the largest urban bus market outside of London. We also run urban bus services in the cities of Coventry and Dundee. In Coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services linking more than 900 destinations across the country. The Kings Ferry group of companies are long established providers of private hire, B2B and commuter coach services.

REVENUE

£577.0m

2017 : £561.5m

NORMALISED OPERATING PROFIT

£79.9m

2017 : £70.9m

MARKET OVERVIEW

Bus

The largest five operators represent around 70% of the UK deregulated bus market, with the remainder of the market made up of a large number of private operators. Active competition comes from national and local bus operators, as well as private car and rail. Economic regeneration and environmentally driven public transport present growth opportunities over the car.

Growth driver

Increase passenger volumes through investment in vehicles, technology and people through delivering high quality services

Coach

Our Coach business has the only nationwide network of services, with other competitors tending to focus on specific regions or corridors. Selective competition comes from rail, particularly on discounted fares, and from large bus operators and localised services. Drivers for demand include the level of fare discount to rail, cost of private motoring and environmental friendliness. Customer satisfaction is also an important driver for longer-term loyalty through consistent service and high customer safety standards.

Growth driver

Revenue growth through competitive pricing, better distribution channels and greater understanding of customers and their needs

BUS MARKET SIZE

£4.8bn

Operates 1,655 buses, focused in the West Midlands and Dundee

COACH MARKET SIZE

£350m

| Year ended | 2018 | 2017 |
|-----------------------------|-------|-------|
| 31 December | £m | £m |
| Revenue | 577.0 | 561.5 |
| Normalised operating profit | 79.9 | 70.9 |
| Operating margin | 13.8% | 12.6% |

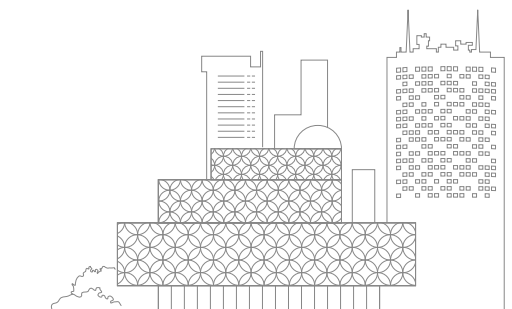
Overview

Our UK businesses had a very strong year, with accelerating revenue growth in the second half of the year underpinned by strong commercial passenger growth. Our coach business set new annual revenue and passenger records. UK bus is bucking national trends by improving average journey times and growing commercial patronage.

Overall, UK revenue increased by 2.8% to £577 million, with the annual growth rate impacted by the exit from Eurolines and our Hotel Hoppa services towards the end of 2017. Passenger growth has driven these revenue increases: core coach set a new record of 20.7 million passengers (up 5.2%); commercial West Midlands bus passenger growth was 1.1%. Alongside good cost control and the benefit of an incremental £5 million received from the sale and leaseback of four depots, our UK division delivered normalised operating profit growth of 12.6% to £79.9 million (2017: £70.9m) and increased its margin by 120 basis points to 13.8% (2017: 12.6%). Removing the profit from the property sales, underlying profit growth was up 5.4%.

| | £m |
|-----------------------------------|-----|
| 2017 normalised operating profit | 71 |
| Growth in the continuing business | 8 |
| Net cost inflation | (3) |
| Other* | 4 |
| 2018 normalised operating profit | 80 |

* This includes incremental £5m from the sale and leaseback of four depots



Operational excellence: driving organic growth

Both of our UK businesses have driven organic growth by focusing on improving their core customer service proposition during the year. Both businesses have enhanced their websites and apps, improved network efficiency and applied sophisticated pricing. This has led both businesses to improve their revenue per mile: bus up 4%; coach up 11.5%. Early indications from trading in 2019 suggest further improvements are likely in the year.

We have now seen 18 months of commercial bus passenger growth in the West Midlands, as our increasingly targeted, contactless and digital ticketing is proving very popular. Against national trends, last year our West Midlands bus business both saw the first improvement in average journey times in 10 years and increased commercial patronage by 1.1%. Digital ticketing, including contactless with a daily price cap, is proving very popular with customers. Further, our Dundee bus operations also reported over 2% growth in passengers during 2018 with contactless ticketing to be introduced soon.

UK coach has invested significantly in its website and app, so that customers are now offered a sophisticated, industry-leading portal. This has helped attract a record number of core coach passengers to our services, with the further expansion of our commercial partnerships enabled by our upgraded digital 'back office'. The real-time pricing capability of our RMS allows targeted offers to encourage travel, or more appropriate pricing during peaks. With its successful implementation, our coach business had record Christmas, Easter and bank holiday periods, carried 10% more passengers in the summer of 2018 than 2017 and had its largest ever revenue day on Boxing Day. The plans to develop the sophistication of RMS further are set out below.

Both the bus and coach businesses have maintained their focus on network efficiency. The West Midlands bus business

concluded two significant network reviews, both resulting in faster routes and more passengers. Indeed, the West Midlands bus business achieved its best ever satisfaction score (88%) in the independent Transport Focus passenger survey; this included increases of 8% and 4% in satisfaction with value for money and punctuality respectively. Our coach business continued to refine its network, removing lower-yielding mileage and reallocating it to more popular routes.

Our coach business also saw significant growth in ancillary income, such as insurance products, a seat reservation option and extra leg room. These have proved very popular with passengers, leading to a 12% increase in ancillary revenue. This is an area for further growth as our digital channels become ever more sophisticated. Our bus business is also actively considering how it might extend similar opportunities to its systems.

Our UK businesses have also won a number of awards during the year. Both our bus and coach businesses have retained their prestigious Sword of Honour from the British Safety Council ('BSC') – coach for a fourth consecutive time and bus for a third. Both businesses also hold BSC five-star audits (coach for the fifth consecutive year), and coach again secured a RoSPA Gold Award (for the fourth year running). Both businesses hold five-star European Foundation for Quality Management scores, with coach securing 'Enhanced Recognition for Excellence' during the year. Our innovative employee Health Bus won a British Quality Foundation Excellence Award. At the UK Coach Awards, National Express won Operator of the Year, Large Operator of the Year and Making Coach a Better Choice; while UK bus won the Route One Best Use of Technology Award for DriveCam.

We continue to work closely with Transport for West Midlands ('TfWM') and the West Midlands Mayor to improve services for passengers. With a strong and positive relationship we believe we will continue

to prepare for the significant medium-term opportunities (such as the January 2020 introduction of the Birmingham Clean Air Zone and the 2022 Commonwealth Games) in partnership, rather than be distracted by the threat of regulation. Indeed, working with local councils and TfWM, we have secured funding to buy 29 electric buses, which will be introduced by the middle of next year.

Our pioneering Bus Alliance is delivering results, such as helping stop the many years of declining average bus speeds, again leading the way on a national problem. Two examples stand out. First, the investment in contactless and mobile ticketing is speeding up boarding times. Second, working in partnership we developed a plan to upgrade the major corridor between Harborne and Birmingham. Over 50% of the commuters on this route use bus. To increase this number further we agreed a package of measures including a significant new bus lane, priority measures at junctions and traffic lights, and parking restrictions. We supplemented this with new express services and brand new 'smart hybrid' luxury Platinum buses. Since launching this upgrade in November, over 4,000 extra passengers a week are using our buses.

Technology investment to underpin excellence, efficiency and innovation

We continue to invest in digital technologies to improve customer services and operational excellence. Both of our UK businesses saw revenue secured through digital channels grow and extended the application of technology to safety management.

From an already very high base, 70% of core coach's revenue is now secured through digital channels (up 3%). Alongside this, RMS is becoming ever more sophisticated, generating passenger and yield growth in the year. This digital focus also allows us to forge more partnerships with third parties, who can be more easily linked into our booking processes, with a near doubling in this



income during the year. Together, the improved ease of booking, sophisticated pricing through RMS and new sources of growth through partnership is helping drive seat utilisation rates up impressively, from 54% in 2016, to nearly 60% in 2018.

Extending and refining these technologies and partnerships will continue in 2019. For example, 2018 saw the start of a new modernisation phase for our coach RMS, with the testing of Artificial Intelligence ('AI') and machine learning to complement our team of analysts starting soon. The early results are positive as the technology is allowing us to extend the scope of our market analysis to all day, every day in a cost effective manner and generating extra sales and revenue.

Our bus services now have the largest contactless payment system outside of London and the first to offer daily capping. This is helping to drive up digital ticket use (whether mobile, smartcards or contactless). This has increased from 40% of journeys at the beginning of 2018 to 60% at the year end. The bus business has a target of 80% of journeys on digital ticketing by the end of 2019. These digital channels are allowing us to be more innovative in our pricing, with more targeted products (such as for students and apprentices) already proving popular and further innovations (such as flexi-seasons for part time workers) launching soon. Digital ticketing also allows more targeted marketing and provides granular travel pattern data that informs network planning.

All of our 2,450 UK vehicles have DriveCam smart safety cameras installed, except our recent acquisition, Stewarts Coaches, where they will be installed by the end of March. This has been combined with personalised training and enhanced driver oversight programmes to help deliver an improvement in our Fatalities and Weighted Injuries Index score within the UK. Like other divisions, as well as delivering service improvement, these programmes are helping to reduce the cost of accidents. In UK bus, the total cost of accidents was down 7% in 2018; while our owned operations in coach secured an even greater saving of 25%.

As well as the areas for further development outlined above, we have also partnered with an innovation hub on the Aston University campus, creating the NXIS technology incubator. Through this we have identified areas where we are looking for revenue, service and operational innovation. Entrepreneurs and experts in these areas develop potential solutions to pitch to us for adoption. We have selected nine projects in the first wave, with the small businesses now developing their proposals in more detail, including through pilots. Active pilots include: enhanced data analytics to improve running times and timetabling; a battery that can be installed to older buses, reducing fuel consumption; and, a social media AI application that allows more targeted marketing offers.

Targeted growth through strategic acquisition and market diversification

We anticipate further organic revenue growth in 2019 from the continued investment in digital platforms and sophisticated pricing set out above. Both of our UK businesses have started 2019 well and are pursuing a range of commercial initiatives to further grow passengers and revenue. We will continue to augment this with targeted expansion in complementary markets where we can build on our existing strengths to drive growth in an efficient manner.

Our coach business made an acquisition in the period – Stewarts Coaches – that well demonstrates our approach. Stewarts provides corporate travel and private hire services from bases in Reading and Leicester. It has a number of major corporate clients and works with a number of Premiership and Championship football clubs. This acquisition not only bolsters our existing presence in the growing corporate and private hire markets, but also gives us new platforms to grow further. Indeed, during 2019 we plan to launch major new national brands in the fragmented corporate travel and private hire markets. Drawing on National Express' brand strength and reputation in these areas, we see both markets as good opportunities for further growth.

After such a successful year for growth through our third party partnerships, our coach business is targeting further growth in this area during 2019. Despite Glastonbury (the single biggest event) not being held in 2018, our coach business still carried more passengers to festivals and events than in 2017; it is looking to build on this and achieve greater success in 2019, with Glastonbury being held again this year.

From its growing commercial base in the West Midlands, our bus business launched new services to Lichfield. These have outperformed expectations and we are exploring other similar opportunities for new services. We have already won several new tendered routes in the Black Country in 2019. Both the West Midlands and Dundee businesses enjoyed successful years for new tenders in 2018 and are actively pursuing further contracts in 2019. An expanded focus on education institutions also generated extra sales during 2018 and there are plans in place to grow this further in 2019.

Germany

On an underlying basis, German Rail revenue grew by 5.4% in the year. Reported profit and revenue were down in the period – (15.1%) and (43.4%) – respectively, driven by prior year catch-up revenue recognised in 2017 along with change in presentation in the current year. During 2018 our rail services carried 2.3% more passengers.

The mobilisation for our three Rhine-Ruhr Express contracts is progressing well, with the first services due to start in June this year. When combined with our existing two Rhine-Münster Express services, these contracts will help deepen our presence in the Nord-Rhine Westphalia region. This remains an attractive market and we will continue to bid in a disciplined manner for contracts that match our strategic objectives within Germany.