

# UK Rail

7 April 2011



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**Our position**

**Operational achievement**

**Framework for the future**

# Our position

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- National Express can have a future in rail
- East Coast exit issues resolved
- Maximising short term value from existing operations
- Operational expertise
  - c2c: top industry performance delivery; franchise extended to May 2013
  - East Anglia: successful on-time and on-budget implementation of £185m HLOS investment programme; franchise extended to Feb 2012
- Committed to delivering maximum long term value for shareholders
  - High return on capital
  - Only bid for franchises where there is an economic return
  - Rail is “nice to have, not a must have”

# Attractive market



## Market

-  Market size: £6bn of contested franchises over the next 5 years  
Share: approx. 9%
-  Composition: top four players have around 70% of the market. 19 franchises in total
-  Trends: Growth in the last decade driven by passenger volumes. Market highly dependent on GDP. Fares to increase by 10% in real terms in next 3 years

-  Market: regulatory environment undergoing a period of change, with proposed longer franchises and greater operational autonomy
-  Customers: increasing, despite proportion of rail costs now borne by the passenger
-  Competition: Increased international interest. Limited “open access” operators.
-  Labour: high union representation

## East Coast issues resolved

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- Agreement with the Department for Transport in December 2010 to resolve all outstanding issues with regard to East Coast Main Line
  - End to the arbitration process regarding value of assets transferred
  - No risk of legal recourse from DfT
  - National Express deemed “rehabilitated” for purposes of future bids
  - Exceptional costs incurred in 2010, net of tax, of £11m
- National Audit Office report findings (published 24 March)
  - Hand back didn’t cause taxpayer loss
  - DfT should have stress tested for economic downturn during the bidding process

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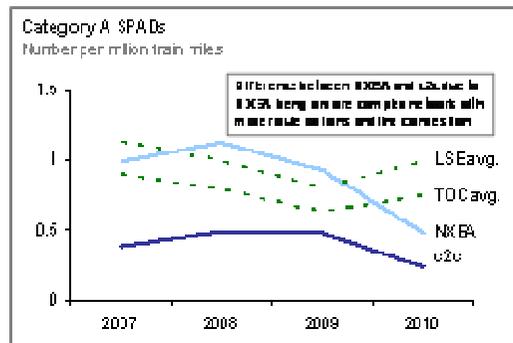
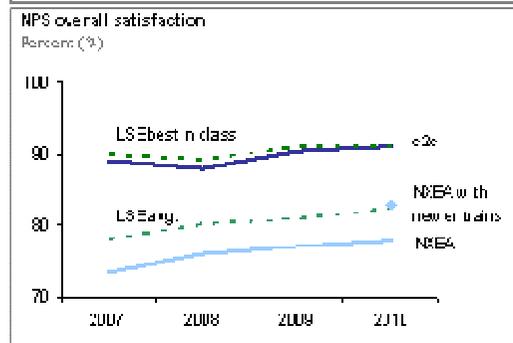
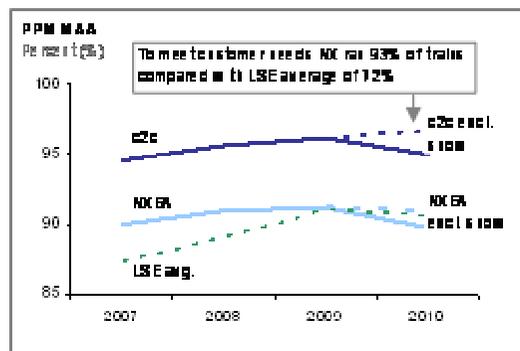


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# Operational achievement: Overview



- Performance
  - c2c set the UK PPM record of 98.8% in August 2010.
  - NXEA’s PPM has consistently improved, achieving 94.3% in October 2010 – the best since the start of the franchise
  
- Satisfaction
  - Autumn 2010 NPS results for c2c were outstanding, c2c received its fifth consecutive score of 90% or above and was the highest scoring London and South East (LSE) operator and second highest scoring franchise TOC in the country
  - NXEA’s, overall satisfaction has increased every year since 2005, rising by 2% in autumn 2010 to equal its best ever score of 79%.
  
- Safety
  - c2c has reduced its SPAD rate by almost 40% since 2007, and NXEA’s has dropped by 51%. This is a faster improvement than the average rates over the same period, for both the industry (21%) and for LSE TOCs (13%). Moreover, in 2010 the absolute SPAD rates at both companies were also much better than for the rest of the industry; c2c had zero main line SPADs

# Operational achievement: c2c



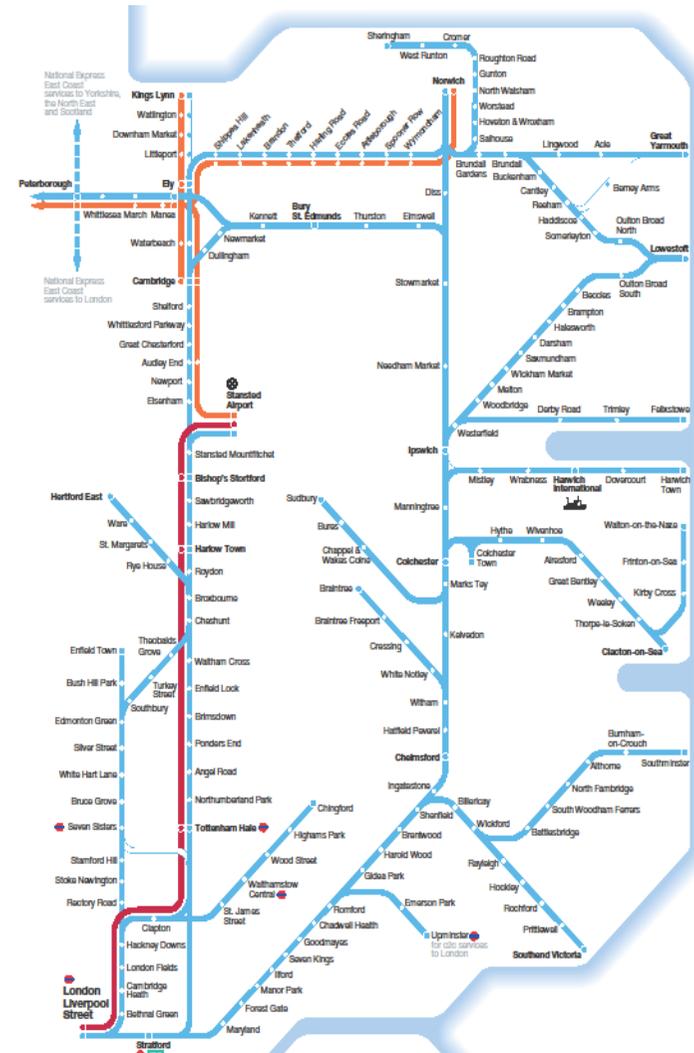
- National Express has been the Owing Group running the c2c franchise for the last 14 years; during this time the franchise has been transformed from the 'Misery Line' to an award winning operation achieving the highest TOC PPM result in August 2010 (98.8%).
- This transformation has been achieved through consistent good management and sustained investment in infrastructure and frontline customer service:
  - Replacement of entire fleet with new air conditioned trains,
  - Complete re-signalling of the line
  - Implemented Driver Only Operation (DOO) to improve performance and reduce staffing costs
  - Improvements of £16m to upgrade & refurbish stations; new stations at West Ham & Chafford Hundred
- Current franchise runs to 29 May 2011
  - Agreed 26 period (2 year) extension with the DfT, with option for DfT to curtail by 6 periods
  - Franchise will then be retendered for at least 15 years



# Operational achievement: NXEA



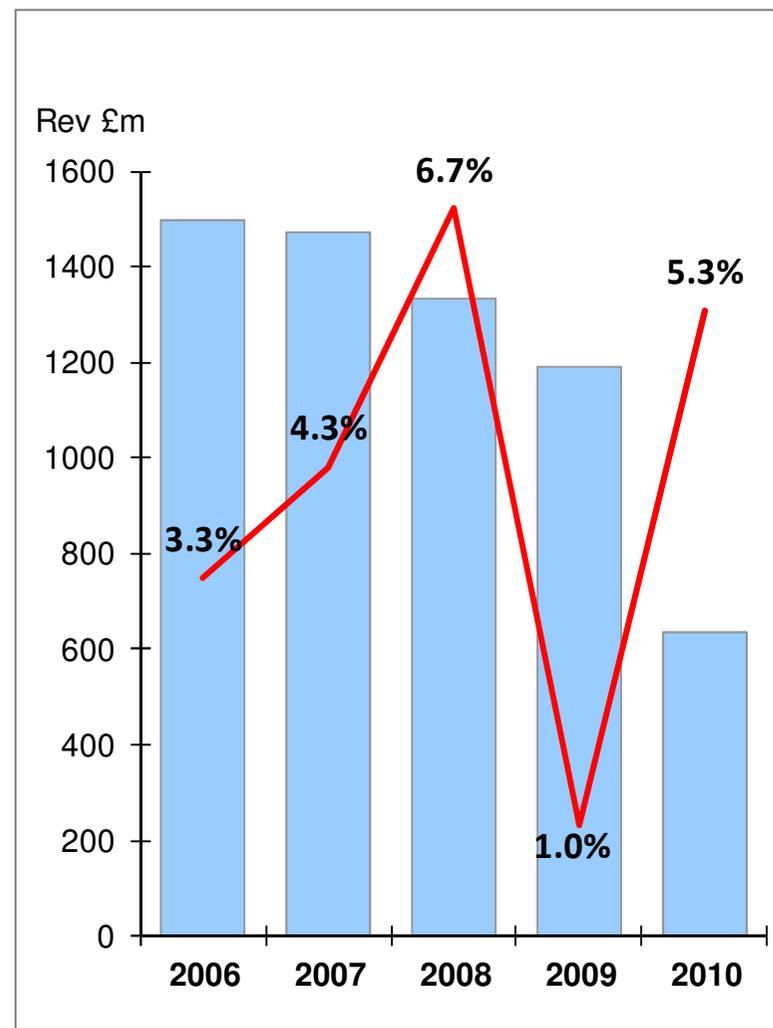
- Successfully delivered a range of projects for our stakeholders and customers including:
  - Stansted Express new trains
  - New train simulators
  - Car park extensions (Diss, Broxborne, Manningtree, Audley End)
  - Carriage washing machines
  - Clacton depot reopened
  - West Anglia platform extensions, new Cambridge island platform
- Stansted Express
  - 3 year project delivered first trains into service on time and on budget
  - Programme included new depot facilities, station and power supply alterations, and driver training programme
  - First new trains to be delivered under governments HLOS programme, part of a plan developed in association with other key stakeholders.
- Operational performance has improved significantly:
  - PPM MAA: 90.0% on time
  - NPS: 79% overall satisfaction



# Recent financial performance



£m	2008	2009	2010	East Coast 2009
Revenue	1,309	1,189	638	567
Revenue growth	(10%)	(11%)	(46%)	(43)
EBITDA	102	26	40	
EBIT	88	12*	34	(50)*
EBIT margin	6.7%	1.0%	5.3%	
Capex	9	4	3	7
Staff	7,000	6,000	3,500	2,700
Vehicles	1,906	1,830	1,406	500



\* East Coast loss partly charged to Exceptional costs

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# Future opportunities: Our franchises



- NXEA
  - National Express not selected for pre-qualification for the management contract
  - Term of 18 or 30 months. Long term franchise due to be awarded mid 2013 to 2014
  - Opportunity to be a highly-rated bidder in that process
- C2c
  - Franchise extension achieved in December 2010, with increasing revenue assumptions in line with previous franchise agreement

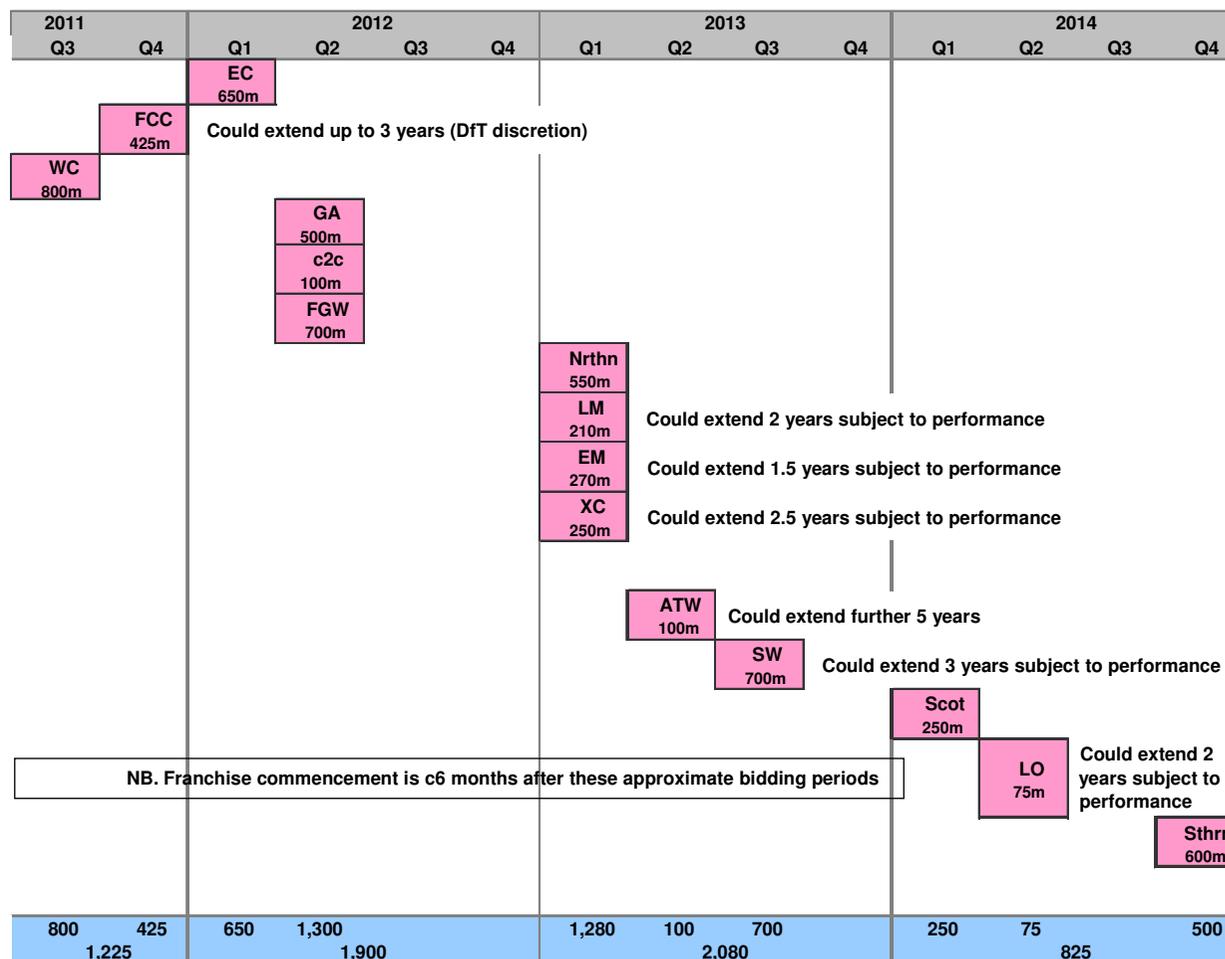
## Potential value of rail franchises

		Years	Revenue uplift p.a.
2010	Won extension to c2c franchise	2	~£100m
2013	New c2c franchise beyond 2013	15	~£100m
2013	Win NXEA franchise on new basis from 2013	15	~£500m

# Future opportunities: Franchise opportunities



- Strong operational record
- Project / programme management
- Industry leading approach to Integration & joint ventures
- Innovation
- Efficient structure and synergies
- Experienced pursuit team with strict focus



➡ Multiple opportunities for future value creation in the UK and abroad

# Future opportunities: Industry changes

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- Franchise reform is underway. It seems likely that the following changes will occur to franchising mechanisms:
  - Longer franchise terms with greater operational freedom and different risk mechanism
    - Preparedness to invest over a longer term for customer benefits
    - Flexible base to match customer demands
  - Asset investment
    - Greater certainty on residual values
    - Leverage third party investment: car parks, retail outlets, business centres
  - Infrastructure integration
    - Franchise-specific interaction with Network Rail, affecting planning of maintenance
    - Reduced costs and improving services, particularly at weekends
- NEX is well positioned to create value through:
  - Management team with skills and experience in both PPP and Maintenance (no real interest in infrastructure projects)
  - Strong and innovative funding options

## Where do we stand?

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- Explicit message from the Department for Transport that we are welcome in the bidding process for future franchises
- Strong track record as operators of the UK's best performing franchise in c2c
- Disciplined bidding process:
  - Suitable franchise profile before bidding
  - Appropriate capital commitment
  - Required rate of return
- Opportunity to shape, yet dispassionately evaluate new franchise structure
- No strong historic link between incumbent position or bidder size regarding franchise success
- There are £6bn of franchise revenues being tendered in the next 5 years