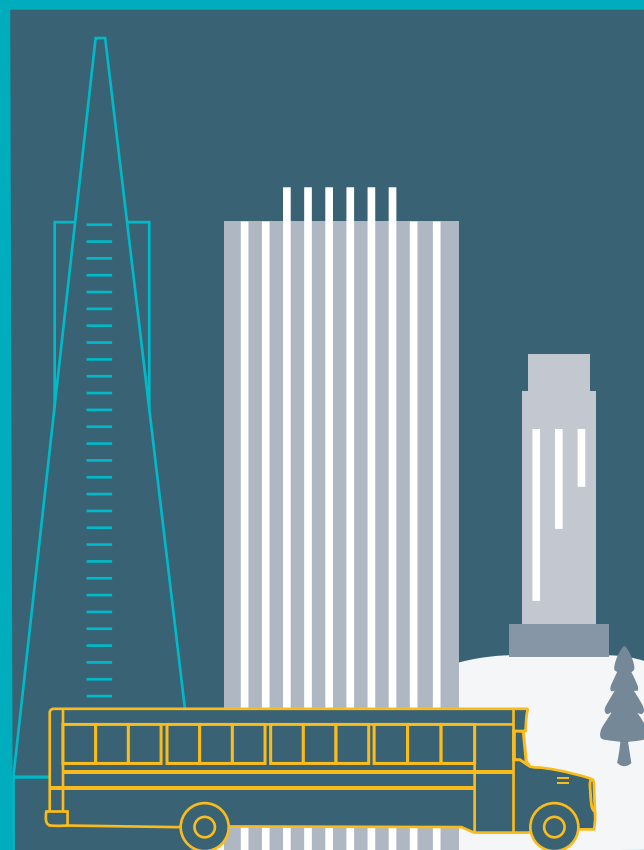


Trusted through testing times



Our Purpose guides everything we do

Our Purpose is to lead the modal shift to mass transit by providing safe, reliable and great value services on clean and green vehicles.


Our Purpose shapes our strategy

 [Read more on pages 16 to 17 – strategic imperatives](#)

And is underpinned by our enduring values which shape our culture

 [Read more on page 48](#)

This ensures consistency of delivery for all our stakeholders

 [Read more on pages 44 to 45](#)

And sets a high ambition for stewardship of the environment and the societies in which we operate

 [Read more on page 48](#)

All of which is reflected in how we reward our management

 [Read more on pages 95 to 127](#)



Our Vision is to be the world's premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value.



Our Belief is that driving modal shift from cars to high quality mass transit is fundamental to a clean, green and prosperous future.

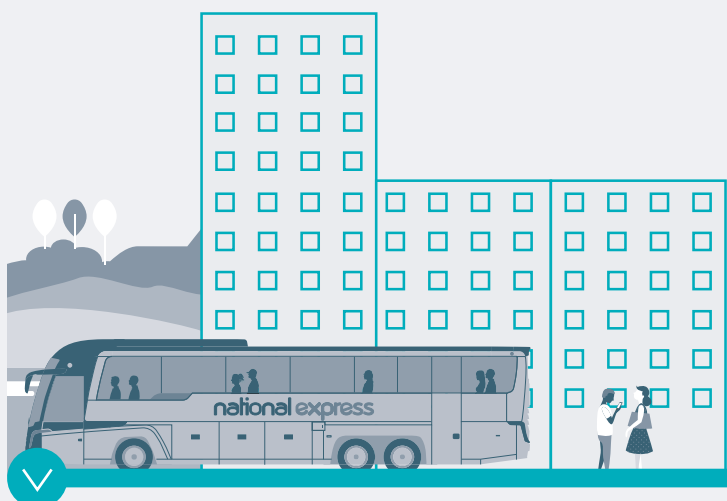


Our Purpose is to help lead this modal shift by making mass transit an increasingly attractive option for all our customers whether they are individuals, transport authorities, school boards or businesses. We seek to do this by earning our customers' loyalty by providing safe, reliable and great value multi-modal services on clean and green vehicles.





Our Approach is to seek social and environmental leadership to ensure we are a good employer and partner, while using technology to make our services increasingly easier to access, safe and efficient. It is this model of progressive partnership that: delivers industry-leading services for our customers and communities; secures rewarding careers for our people; and generates sustainable returns for our shareholders.



Our measure of Success is being seen by 2030 as the world's premier mass transit transport partner, with a reputation for industry-leading safety, reliability and value for money across a portfolio of easily accessible multi-modal services. At the forefront of technological innovation, National Express will lead the transition to zero emission vehicles, maintain its safety leadership and pioneer new ways to access transport. Our staff will see us as an employer of choice and customers will rely on us as an operator they can trust, with services that help meet their needs while also having a positive impact on their communities. This will, in turn, drive strong, consistent returns for our shareholders.

The challenges which Covid-19 has presented in 2020 have not changed our ambition or approach. We will continue to champion modal shift, meeting the continued demand for safe and sustainable mass transit solutions.



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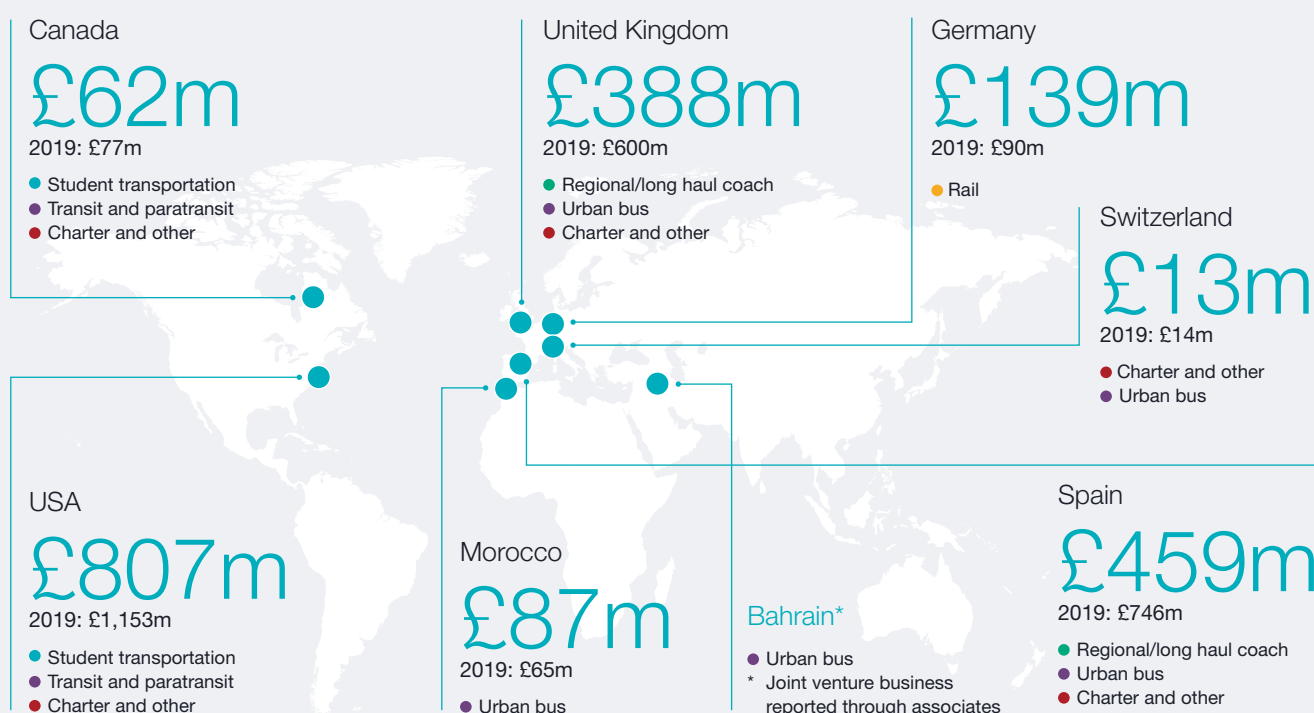
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National Express at a glance

National Express is a leading international public transport operator, diversified internationally and by business area.

Revenue breakdown by territory



Summary financials

| | 2020 IFRS basis | | Underlying basis | |
|---|-----------------|------------|------------------|------------|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Revenue | 1,955.9 | 2,744.4 | 1,955.9 | 2,744.4 |
| Operating (Loss)/Profit | (381.4) | 242.3 | (50.8) | 295.3 |
| (Loss)/Profit before tax | (444.7) | 187.0 | (106.1) | 240.0 |
| (Loss)/Profit for the year | (326.7) | 148.3 | (76.8) | 184.8 |
| Basic (Loss) / earnings per share (pence) | (57.9) | 27.6 | (14.6) | 34.5 |
| Net cash flow from operating activities | (96.7) | 356.2 | | |
| EBITDA | | | 186.6 | 510.1 |
| Free cash flow | | | (178.7) | 178.7 |
| Net debt | | | 941.6 | 1,224.0 |
| Full year proposed dividend per share (pence) | | | – | 5.16 |

To supplement IFRS reporting, we present our results on an underlying basis which shows the performance of the business before separately disclosed items, comprising amortisation of intangibles for acquired businesses and, for 2020, certain costs arising as a direct consequence of the pandemic. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further details relating to separately disclosed items are provided on page 167 in note 5 to the Financial Statements. All definitions of alternative performance measures used throughout the Annual Report are included on page 243.

What we do

We own and lease buses, coaches and trains which we use to deliver local, regional, national and international transportation services. All vehicles are driven and maintained to our global standards.

In Spain, Morocco, North America and Germany, services are run typically under an exclusive concession. In the UK, our bus and coach services are unregulated.

Where we operate

We hold the largest market share for long haul coach transport in both Spain and the UK, and are the second largest school bus provider in North America. We are the largest bus operator in Morocco.

Revenue breakdown by business line

Student transportation
(North America school bus)



£550m

28%¹
2019: £804m

Urban bus
(UK bus, North America transit, ALSA)



£754m

38%¹
2019: £796m

Regional/long haul coach
(ALSA regional and long haul, UK coach)



£365m

19%¹
2019: £752m

Charter and other
(North America, ALSA and UK)



£148m

8%¹
2019: £302m

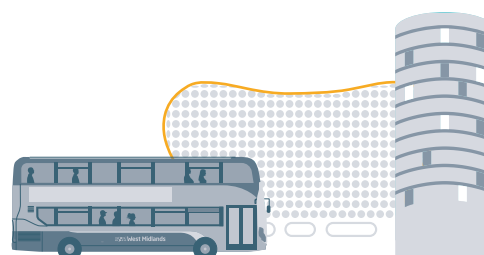
Rail
(German Rail)



£139m

7%¹
2019: £90m

¹ Percentage of Group revenue



An unprecedented year

Performing strongly before the crisis



Pre-pandemic performance was particularly strong with revenue up 17% year-on-year in January and February.

ALSA was performing very strongly with revenue up 23% in the first two months of the year driven by underlying growth of over 6% boosted by the new contracts in Rabat and Casablanca and acquisitions made in 2019. Our Spanish business was performing strongly across all segments but particularly in long haul where revenue was up 8%.

North America was performing strongly with revenue up 16% in the first two months of the year, largely driven by continued growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing revenue by over 20% in the first two months).

The UK was performing well, with revenue up over 5% in the first two months of the year. Broad-based underlying growth in both our bus and coach businesses was augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

See Chairman's statement on pages 6 to 7 and Operating review on pages 20 to 21

Doing the right things through the crisis



An unprecedented 80% drop in passenger demand following lockdown was mitigated by proactive customer engagement to limit revenue loss to 50% and swift action to significantly reduce service to save variable costs.

The safety and welfare of our customers and colleagues remained our priority with enhanced cleaning regimes and reconfigured vehicle layouts quickly established; personal protective equipment (PPE) promptly distributed and employee welfare programmes enhanced.

Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles; and medical transport.

Swift and decisive action was taken to protect the financial position of the Group with liquidity boosted by a £230 million share placing, £1.3 billion of new facilities and lending covenants renegotiated out to December 2021.

Decisive management action to cut costs across the Group: at peak, 40,000 employees were furloughed or temporarily laid off; over £100 million was cut from planned capital expenditure; over £300 million of operating costs removed from the business in Q2; and the Board and senior management accepted salary sacrifices.

See our response to Covid-19 on pages 10 to 11

Ready to emerge strongly from the crisis



We remain excited by the long-term opportunity. The global recovery must be powered by a more efficient economy that is cleaner and greener. High quality mass transit will be a necessity, and the financial strains caused by the pandemic will create opportunities for operators that are able to adapt and survive.

Public transport has always played a key role in social mobility and in these unprecedented times it is ever more important in enabling economic recovery by providing safe access to work, education, retail and leisure. Where restrictions have been removed, we have seen a rapid recovery in demand.

We are confident that our strong reputation for service and safety, close relationships with customers and improved Balance Sheet mean we will be well placed to prosper post pandemic. During this period we have won or retained nearly £900 million of total contracted revenue, including our first contracts in Portugal, as well as completing the mobilisation of our new German Rail franchise.

See our Outlook statement on page 21 and market overview on pages 12 to 13

Rebounding from the pandemic

Work and commuting patterns

- Most urban bus commuters are unable to work from home
- We believe that long term, the campus model remains key to recruitment and productivity

Use of the high street

- The rise of online shopping was already driving change to the high street
- As mobility demand patterns continue to change we will flex our networks accordingly, matching services to where people want to travel to



Discretionary travel recovery

- When we have seen restrictions lift demand has quickly returned
- Vaccine roll-out programmes will help build consumer confidence – evidence of strong pent-up demand through advance holiday bookings, up nearly three times normal levels in the first two months of the year

Urbanisation and demographics Change

- People will continue to want to live and work in cities where the greatest job and career opportunities lie



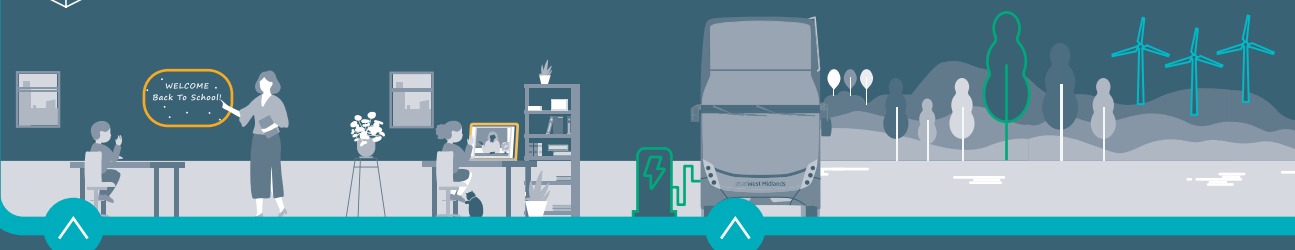
Education-related travel

- Covid-19 has highlighted the issues with remote learning, particularly for children from disadvantaged backgrounds: we don't expect any long-term change to how children are schooled

Government support for public transport

- Covid-19 does not change the fundamental need to provide public transport to enable social mobility and local economies to thrive
- Public transport is a key solution in tackling cleaner air and congestion issues

See our risks on pages 36 to 41



Trusted through testing times



Sir John Armitt CBE
Chairman

“2020 has been an unprecedented year for both society and businesses everywhere around the world.”

Dear fellow shareholder

Testing times

2020 has, without a doubt, been an unprecedented year for both society in general and businesses everywhere around the world. The impact of Covid-19 has been particularly hard for transport companies, with national and local lockdowns in every market necessitating significant travel restrictions – and even when lockdowns were lifted, the guidance from many governments was for people not to travel and to stay at home wherever possible.

During this period we have really seen the essential nature of public transportation to local communities and economies, providing vital services for transporting, for example, key workers to hospitals and shops and children to schools.

Notwithstanding this, the rapid and significant fall in demand for transportation services meant that, at the peak, 40,000 of our colleagues were either furloughed or temporarily laid off. I am proud of all the work that has been done to constantly engage with our employees across each of our businesses throughout this crisis: from weekly management updates and Q&A sessions through to enhanced wellbeing programmes, our colleagues have remained both informed and considered.

As a company we have not been immune to the ravages of Covid-19, and very sadly we have lost 32 valued colleagues – our thoughts go out to their families and friends.

2020 also saw the end of the Brexit transition period and the UK leave the EU. As I have said previously, we do not expect to suffer any direct consequences as we do not run any scheduled cross-Channel services and we have worked closely with our key suppliers to ensure that there is no disruption to our supply chains.

Leadership transition

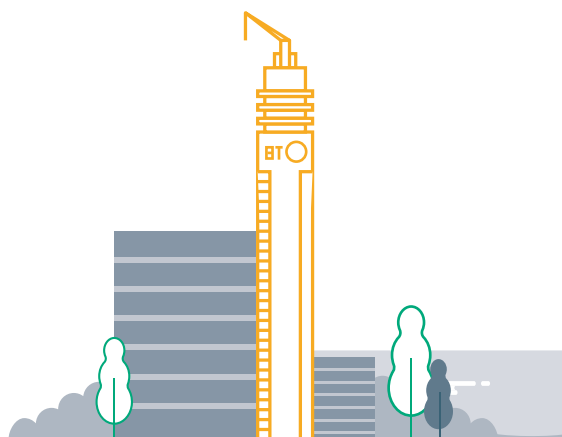
2020 has also been a time of significant change for National Express, specifically in terms of leadership.

In June, Dean Finch announced his resignation as Group CEO, a position he had held for over 10 years. I would like to thank Dean for his enormous contribution to National Express, through which he has transformed the business into a leading international transport group, with significant growth potential in all our main markets and a strong and effective management team at all levels.

I would also like to thank Chris Davies, our Group CFO, who took the reins and provided a steady hand as interim Group CEO, while the Board concluded the search for a new CEO.

And on behalf of the whole Board, I would like to welcome Ignacio Garat who joined the Group as Group CEO on 1 November, bringing with him extensive international operational and strategic experience. Despite the challenges with the pandemic, Ignacio has made a strong start, visiting all of our businesses and engaging widely across all levels, and we look forward to working with him over the coming months and years.

In addition to Dean's departure, Matt Ashley left the company on 3 April and both Lee Sander and Chris Muntwyler left the Board on 30 December. I would like to thank Matt for his contribution and Lee and Chris for their wise counsel to the Board over their tenures. I am delighted that Chris will remain as an adviser to the Board on safety and environmental matters.



“ We came into this crisis in great shape, we have acted decisively through this crisis and we are well positioned to emerge strongly.”

Trusted

Last year I wrote to you about how in, launching our renewed Vision and Purpose, National Express was not only looking to demonstrate leadership but also to ensure that our ambitions and focus reflect the priorities and earn the trust of all our stakeholders. This partnership approach has helped guide us through the crisis:

- Passengers have trusted us to keep them mobile in a safe and secure way – and throughout this crisis we have operated at pre-crisis levels of service across our bus networks in the UK, Spain and Morocco
- Customers, be they school boards, passenger transport authorities or corporates, have trusted us to respond flexibly and swiftly to changing circumstances and demand for services
- Colleagues have trusted us to prioritise their safety and wellbeing
- Debt and equity investors have provided us with new funding, trusting us to navigate through the crisis and repay them with superior returns as we emerge strongly

2020 performance

Not surprisingly, our financial performance has been severely impacted by the pandemic. It's important to remember that before travel restrictions came into force, we were performing very strongly, with revenue up 17% across the Group in the first two months of the year.

The pandemic had an immediate and unprecedented impact on our businesses, with the first lockdowns in the second quarter last year resulting in an 80% reduction in demand for our services which we were able to mitigate to a 50% reduction in revenue, through the strength of our customer relationships across the Group. Notwithstanding the multitude of actions taken, we could not mitigate this level of reduced demand and we have delivered our first operating loss in 11 years.

As a result of all the actions taken, we have experienced a steady improvement over the second half of the year, despite further sporadic restrictions being imposed, and as a result delivered EBITDA towards the top end of our guidance.

The financial position of the Group remains strong and, boosted by the share placing and hybrid issuance, we have ended the year with around £280 million less net debt than we had at the start of the year.

Government support

Governments around the world have recognised the essential nature of public transport and we are grateful for the support that we have received from governments in the markets in which we operate. In the UK, we have utilised the furlough scheme whenever mobility has been restricted by government policy. We have also received funds through the COVID-19 Bus Services Support Grant where we have been asked to operate services but with limited occupancy to comply with social distancing requirements. In Spain, we have utilised the ERTE (furlough) scheme to flex services up and down to the appropriate level, in line with government requests. And in North America, funding provided through the CARES Act has enabled customers to make partial payments to their school bus service providers while enhanced unemployment benefits have helped those of our staff where we were forced to shut down services.

Dividend

In light of the exceptional circumstances and performance in the past year, the Group will not be paying a dividend in respect of 2020. The Board understands how important dividends are to many of our shareholders and we are committed to reinstating dividend payments when performance recovers.

The year ahead

2021 will be a year of transition and we expect performance to rebuild as we progress through the year. The rolling out of vaccination programmes across the world gives us confidence that we will see normality return, although the exact timing of that remains impossible to forecast. When that time comes, I believe that we are well placed to recover relatively quickly given both the high proportion of non-discretionary journeys taken on our services and the level of pent-up demand for travel.

The environmental commitments we made last year look even more important as governments around the world are looking to hold on to the clean air gains that have been made through the crisis. We have made good progress in the UK this year, rolling out the first of our new zero emission buses. We will build on this in 2021 with Coventry becoming the first of two electric bus cities in the UK and with new hydrogen-powered buses being launched in Birmingham.

Finally, I would like to thank my fellow Directors and all our employees at National Express. It has been a truly tough year and we have had to make many difficult decisions, but I am very proud of how our teams have worked together to get through this unprecedented year.

I remain confident about the future. We came into this crisis in great shape, we have acted decisively through this crisis and we are well positioned to emerge strongly from it.



Sir John Armitt CBE

Chairman

18 March 2021



Introducing Ignacio Garat, Group Chief Executive

Ignacio Garat joined as Group Chief Executive Officer on 1 November 2020 from Federal Express where he led the transformation of a multi-billion-dollar part of their business with operations in 22 countries and 22,000 staff, positioning it for strong international growth. Ignacio has demonstrated strong operational, M&A and strategic leadership, with a particular emphasis on safety and using technology to drive service excellence and efficiency.



Q What attracted you to National Express?

A I have a simple belief – that public transport can transform lives. It is an absolutely critical service if we are to tackle the challenges of reducing pollution and enhancing social mobility. National Express is well placed to lead this charge, and I was impressed by the focus on safety, excellence, and customer service. I was also attracted by the well diversified international portfolio of businesses with market-leading positions. They are well balanced across B2B and B2C, with a high degree of revenue protection and a number of exciting growth opportunities.

Q What will you bring to the Group CEO role?

A Despite being new to public transport, there are many parallels I can draw from my time at Federal Express, with many of the operational challenges very familiar and requiring the same level of rigour and process optimisation. So, I will be looking to extend the operational

excellence that National Express is already well known for, and to further leverage technology by accelerating the digital transformation. I also favour a disciplined approach to capital allocation to maximise returns and reduce asset intensity. Finally, and most importantly for me, is the power that comes from engaging the workforce directly with our vision and purpose, so they genuinely feel ownership for our strategy.

Q How have you approached your first few months in the business?

A Having joined during a global pandemic, my priority was to ensure that we continued to protect the safety and welfare of both our customers and employees. Early engagement with colleagues has also been key, and I have conducted nearly 200 one-to-one meetings with management and connected directly with over 2,000 employees at all levels in each of our businesses. This has given me great insights and I have been continually

impressed by the passion and dedication of my new colleagues. I have also spoken with our largest shareholders, and several key customers and government officials, all of whom have provided valuable perspective on their priorities and expectations. To ensure that we rebound quickly, the senior leadership team has identified additional divisional 'big deltas', all of which will drive performance improvement in 2021.

Q What are your first impressions of National Express?

A Your first impression is always of people, and at National Express their passion and commitment really stands out, highlighted by the way they have pulled together through such challenging times. Even in these first few months I have been struck by the depth and strength of the relationships we have across multiple stakeholder groups in the communities we serve. It is clear that they have been instrumental in helping us navigate the pandemic. There is an unrelenting focus on customer satisfaction and industry-leading safety credentials, and it is inspiring to be leading a company which is so focused on continually improving delivery to our customers and other stakeholders.

Q Will you be undertaking a strategic review?

A My initial approach is more about accelerating what is working well and deprioritising what is not. The strategy in place and the performance it has delivered in recent years means a full strategic review (in the form of a complete transformation) is not a priority. However, I have initiated a business review (specifically including a review of digital strategy) which will enable us to be crisper, on where to grow and how to do so profitably, the level of operational

efficiencies we can extract from the business, and which investments will yield the greatest returns.

Q Do you think Covid-19 will fundamentally impact the business in the longer term?

A No, as the core of our business is non-discretionary. School transportation and urban buses are essential for social mobility. Children need to get to school, and free bus provision is enshrined in law in North America. In our urban bus businesses in the UK, Spain, and Morocco, most of our passengers cannot work from home and need us to get them to work. Our paratransit operations in North America and new accessible transport business in the UK provide crucial services to vulnerable members of society. There is also latent demand for our more discretionary coach businesses in the UK and Spain, and volumes have returned rapidly whenever restrictions are lifted, with people traveling to see family and friends and get away on holidays. We are well placed to scale up our services to meet that demand, and it is worth remembering that coach travel is the lowest emission way to meet those needs.

Q What are your priorities in your first year?

A My first priority, together with my leadership team, is to restore the performance of this business to pre-pandemic levels and to lock in the plans that will return this business to sustainably growing revenue and profit. We are working hard now with a collective sense of urgency to ensure this business is in the best possible position to compete to win as soon as restrictions are lifted. The senior management team are focused on a small number of 'big deltas' that are critical to restoring performance in 2021 and we will be executing rigorously on those. For example, in North America, we have initiated the 'Driving Excellence' programme to optimise operating processes in every depot – this will both boost revenue and release cost from the business. In ALSA, we have initiated a transformational plan to reduce central costs and the mobilisation of Rabat and Casablanca are key drivers of revenue growth. In the UK the priority is to dynamically bring the Coach network back up in the most efficient way possible. Finally, as I noted above, we will complete a business review to define the next evolution of this business by ensuring that we are maximising the return on our investment, optimising the

choices of where we compete; what we offer; and how we operate.

Q How do you think about ESG?

A As I said earlier, I have a simple belief that public transport can transform lives, and it is clear that the team here is passionate about making a difference. Our purpose is to drive a modal shift away from single occupancy vehicles to high quality public transport. If we are going to hold on to the clean air gains made during the lockdown periods, we cannot revert to these single occupancy vehicles. I was particularly impressed that the company pioneered linking executive pay to emissions reduction, underlining its commitment in this area. There are some exciting developments underway for zero emission vehicles in which National Express is a key partner. But it is not just about the environment. Safety is at the heart of everything we do, we are a pioneer real Living Wage employer, and have ambitious plans for people and talent development. I feel very passionately about this entire agenda and you will be hearing more about the great things happening here in due course.

Q How would you describe your leadership style?

A My approach is always to be open and honest, and to bring the right people together to collaborate, harnessing the talents and experience across the whole business. We are one Group, and it is important to tap into our collective knowledge, and that is best achieved by having a compelling vision, a competitive strategy, and a culture of relentless execution that engages the entire organisation. As Group CEO, it is my job to lead and role-model the culture we want for this business. I like to get people aligned behind a single, unifying performance goal and plan so that everyone is clear what we are aiming for and how they can play their part. It is also incredibly important to me that people have fun and 'enjoy the journey'. I look for people who are excited about leaving a legacy and have found it in many of my colleagues I have met so far.

Q So corporate culture is an important area of focus for you?

A For a people focused organisation such as ours, it is absolutely vital. It is our values in action and without it we couldn't possibly hope to execute efficiently on our strategic plan. It requires our leaders to be strong and consistent, leading from the front and

showing pride in the organisation. It is also about humility, working with an owner's mindset and treating the company as if it was your own. A successful culture to me is one that is meritocratic and adaptable, with a collective sense of responsibility and ownership of the plan. For an organisation such as ours it requires an international mindset, one that is always looking to take the best ideas from around the network and applying them locally. Finally, it should encourage long-term thinking, I am always looking 5-7 years forward, and believe in a rolling 1,000-day plan to instil the required amount of urgency to keep us on track.

Q Why are you so optimistic about the future?


A This is a great business that was performing strongly ahead of the pandemic. We have acted swiftly and decisively and as a result are well positioned to emerge strongly as the impact recedes. None of the macro trends in favour of public transport have been changed by Covid-19, and there are three fundamental reasons for this optimism.

Firstly, well run, quality public transport can change lives. We enable people to travel to work, school, and leisure activities by providing safe, reliable, and great value services in a way that helps them reduce their carbon footprint. Secondly, governments are looking for ways to retain the gains made in air quality in 2020. This will continue to drive policy commitments around clean air and public transportation funding. Thirdly, we continue to see opportunities for further diversification, either filling the spaces in our current markets with services we offer elsewhere, or expanding into new, proximate markets such as Portugal and France.

It is encouraging to see that when restrictions are lifted, demand for our services quickly returns and I am confident of a full recovery, with many of the actions we have taken in the past year resulting in a more efficient business. Finally, it is clear to me after these first few months that I have a great team to lead us forward at all levels of the organisation.

Decisive action in challenging circumstances

We remain confident that demand will return to pre-pandemic levels. Until it does, we will continue to take action to ensure a strong liquidity position, manage costs and work closely with customers to protect the business and build back stronger.

 See more on:

[Principal risks pages 38 to 41](#)

[Viability and going concern page 42](#)

[How the Board engages with stakeholders pages 44 to 45](#)

Ensure the safety and welfare of staff and customers

Our ambition is to be the safest mass transit operator in the communities we serve.

The safety and welfare of our customers and colleagues remained our priority:

- Enhanced cleaning and disinfecting regimes were quickly established
- Vehicle layouts were reconfigured to enable social distancing
- PPE was promptly sourced and distributed, ahead of public health guidance
- Staffing patterns were changed to protect the most vulnerable
- Colleagues were encouraged to work from home where possible
- Technology and processes to enable flexible working were rapidly deployed and engagement with remote colleagues increased
- The employee welfare programme was enhanced, including for furloughed colleagues
- Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles and medical transport

Ensure the Group has sufficient liquidity

We have a strong Balance Sheet and we are committed to protecting our investment grade ratings.

During the year, liquidity was boosted with over £1.5 billion of new facilities including:

- Commitment from the Bank of England to purchase commercial paper up to £600 million from the UK Coronavirus Corporate Finance Facility (CCFF), none of which was utilised at 31 December 2020
- A highly over-subscribed 19.99% share placing raising £230 million in equity capital
- A highly over-subscribed £500 million hybrid capital facility securing the lowest ever coupon for a debut issuance

Covenants have been renegotiated out to 31 December 2021:

- Gearing covenant waived by lenders throughout 2020 and 2021 and will next apply in June 2022
- Interest cover covenant amended to 1.5x for and 2.5x for June 2021 and December 2021 test periods respectively

The Group has a total of £1.9 billion in cash, committed facilities and £0.6 billion of undrawn CCFF at 31 December 2020. Given the Group's

January

20 January

- First case confirmed in the USA

29 January

- First case confirmed in the UK

31 January

- First case confirmed in Spain

February

- National Express Group reports record 2019 results

March

11 March

- WHO declares a pandemic

13 March

- USA declares a national emergency and states start to close schools

14 March

- Spain declares lockdown and approves ERTE (furlough) scheme

16 March

- Restrictions on public gatherings introduced in the USA

- UK Government urges people to work from home and avoid unnecessary travel

20 March

- UK Job Retention Scheme announced

23 March

- UK declares three-week lockdown

27 March

- US introduce \$2 trillion CARES Act stimulus bill

30 March

- Majority of US states issues 'stay at home' directives

April

3 April

- UK regional bus funding package announced

– £600m CCFF approved

- £200m additional bank funding secured

- Moody's and Fitch maintain ratings at Baa2/BBB

- Covenant waivers agreed

- £414m US private placement drawn down

May

- Share placing raises £230m

June

9 June

- USA states start to roll back lockdowns

21 June

- Spain ends the state of alarm

- National Express announces Dean Finch to stand down



strong liquidity position the Directors intend to allow the CCFF to lapse at the end of March 2021.

Rapidly adjust the cost base

We took swift and decisive action to limit the flow-through of revenue decline:

- At the peak, 40,000 employees across the Group were either furloughed or temporarily laid off where such schemes did not exist
- Over £100 million cut from planned capital purchases
- Over £300 million of operating costs were removed from the business in Q2
- Around £100 million in structural costs were taken out of the business
- The Board, the executive management and the senior management team all accepted salary sacrifices
- 2020 bonus and Long-Term Incentive Plan (LTIP) schemes were cancelled
- Dividend was suspended for 2020

Secure customer and government support

The response to the pandemic has reaffirmed the essential nature of the services we provide to local communities and the strength of our customer relationships, enabling the Group to partially mitigate the impact of severe travel restrictions on revenue.

At the peak of national lockdowns in Q2, passenger numbers were down by 80% but revenue decline was limited to 50% through a number of factors that continued throughout the year including:

- Bilateral agreements reached with North American school boards for continued payments during closure, with 61% of pre-Covid revenue received in Q2

- Bilateral agreements with North America transit and shuttle customers to continue to pay despite service suspension
- In Spanish urban bus, contracted terms were renegotiated to be based on services run rather than passengers carried where they were not already configured that way
- In UK bus, the COVID-19 Bus Services Support Grant enabled the service to continue to run at breakeven despite social distancing measures limiting occupancy

Build agility to respond to changing circumstances

We have constantly re-assessed our response as government's response to the pandemic has changed over the months:

- The UK coach network was fully mothballed during Q2 during which time we continued to support our third party operators through Covid-19 support grants
- Both the UK and Spanish coach networks were rapidly scaled up and back down in response to changing patterns of local lockdowns
- The UK coach network was dynamically scaled up to bring students home for Christmas
- National Express Transport Solutions coaches were repurposed to provide extra capacity in the West Midlands as customer demand for buses during social distancing drove network requirements beyond 100% of pre-Covid maximums
- 75% of all schools operating in Q4 required new, dynamic network routing to cater for temporary hybrid schooling models

Set exit trajectory to emerge stronger

We are confident that our reputation for service and safety, close relationships with customers and improved Balance Sheet mean we are well placed to prosper post pandemic.

During the period we have secured nearly £900 million of contracted revenue:

- We retained our CalPita regional concession for at least a further 10 years
- We had significant school bus wins in Boise, Idaho; Fairbanks, Alaska; and Oakland, California
- We won a school bus contract where a small operator went into liquidation and where a competitor fell out with the customer in dealing with Covid-19
- We have also seen an increase in school boards contacting us to explore the potential outsourcing of their in-house services
- We won a capital-light paratransit contract for up to five years in North Carolina
- We won two seven-year urban bus contracts in Portugal, a new market

July

17 July

- UK Government removes advice to avoid public transport
- Further covenant waiver/amendments agreed

August

- Dean Finch leaves, Chris Davies appointed interim Group CEO

September

14 September

- New social distancing policies enacted in the UK (including the 'rule of six')

22 September

- UK Government reinstates guidance to work from home

30 September

- Spanish ERTE scheme extended until 31 January 2021

October

14 October

- Tiered local lockdowns enforced in the UK

25 October

- State of alarm re-imposed across Spain

November

5 November

- Second lockdown introduced in the UK
- UK furlough scheme extended to 31 March 2021

£500m hybrid capital issuance

- Ignacio Garat appointed Group CEO

December

2 December

- End of second lockdown and introduction of local tiers limiting mobility

8 December

- Margaret Keenan becomes the first person in the world to receive a clinically approved vaccine

19 December

- Majority of people in England under tier 4 travel restrictions



Our Belief: quality mass transit is fundamental to a safe, green and prosperous future



The key challenges remain unchanged

Urban areas face the same long-term challenges from congestion, carbon emissions and the imperative for clear air as they did prior to the pandemic.



Infrastructure constraints remain, populations continue to grow, children need to go to school, and populations are ageing and need access to medical care.



Cars emitted over 70% of surface transport emissions in the EU prior to the pandemic. Although the pandemic has temporarily shifted modal share back to the private car, this is unsustainable as mobility continues to rise.

72bn

more passenger
km in the UK

20yrs

worth of car and
van traffic growth

If the modal shift seen through the pandemic were to persist when volumes return to normal, this would result in 72 billion more passenger km in the UK alone. This would set us back two decades.

More than ever, integrated, accessible, safe, reliable transport networks are vital for prosperity.

What have we learned through the pandemic?

The services we provide are essential. During the pandemic, we have continued to operate in order to provide vital services, backed by our loyal customers, and both local and national governments.



We have not changed our long-term view on the demand for transport

Demand for transport is expected to increase by 25% by 2030 in wealthy cities, and by 80% in developing countries. This demand cannot be satisfied by increased car use.



Accelerating change

Our products and services will continue to adapt to meet the changes that the pandemic has brought into focus:

More flexible working, but generally for the wealthy. Essential workers need to travel to work. People who work from home part time will welcome flexible, convenient transport solutions.



Digitalisation: move to cashless transaction and frictionless journeys.



25%

increase in demand for transport

70%

of surface transport emissions emitted by cars prior to Covid-19



National Express will continue to be the trusted partner for cities and school boards that share our vision of a prosperous, clean, green future.

We will continue to provide environmental leadership, and to invest for a cleaner, greener, safer tomorrow.

Desire for clean air and liveable spaces: people want to live in greener towns and cities

We can see from the data that as lockdowns ease, demand returns. We provide an essential service.

Technology is helping deliver better ways to serve the customer



Public transport is the solution

Zero emission buses will provide the backbone of clean, reliable, safe transport networks. Technology, range and cost are improving, and we estimate that electric buses will reach Total Cost of Ownership parity with diesel by 2024/25, and hydrogen technology is rapidly improving its cost effectiveness.



Differentiated sources of value...

Our Purpose and Vision

At National Express we share a fundamental belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future. There is growing recognition by policy makers around the world that public transport is critical in achieving climate targets and in making cities better places to live. Public transport has always played a key role in social mobility and in these unprecedented times it is ever more important in enabling economic recovery by providing safe access to work, education, retail and leisure. We believe that the Group has created a number of value drivers that differentiate us from our peers as a leading operator in this critical sector.

Our key strengths and resources

Participation diversified by sector and geography...

...with market-leading positions where we choose to compete and with around half of Group revenues anchored in long-term contracts

Deep experience of value-adding, compounding growth through carefully selected acquisitions...

...fuelled by historically strong cash flow generation

Trusted to deliver transport solutions by government, corporate and individual customers...

...underpinned by strong B2B and B2C capabilities

Sophisticated technology improving customer service, driving efficiency and enabling revenue growth...

...and underpinning a relentless focus on retaining our Industry-leading safety position wherever we operate

Strong ESG credentials – trailblazing environmental and living wage commitments...

...and embedding these commitments in executive remuneration

The best people

Over 200 years of public transport experience on the Group Executive Committee supported by passionate and committed teams



Underpinned by our values



Safety



Excellence



Customers



People



Community & Environment

...deliver for our stakeholders

How we create value

Growing revenue...

Over half of the Group's revenue is generated through multi-year contracts with school boards, transit authorities and corporate customers. This revenue is generated either on a per mile/kilometre basis, or per route travelled with little or no demand risk. In a normal year the Group generates a further 40% of revenue through ticket sales to the public. In these, National Express assumes revenue risk. Our Revenue Management Systems (RMS) enable us to better understand purchasing behaviour to drive revenue through differential pricing depending on time of journey, ticket type, buying channel etc. whilst our customer facing apps support our customers in getting the product they need at a price they can afford.

...converting it to profit...

National Express has long enjoyed industry-leading margins driven by a focus on operational excellence. Sophisticated network optimisation is a key factor whereby we optimise peak vehicle requirements and occupancy through review and redesign of our networks, reducing the cost of delivering a high quality service to our customers. We use scheduling software to optimise routes in our student transportation and transit markets in North America. Our diversity and scale are an important factor in managing indirect costs, enabling us to optimise cost and quality across the Group's supply base.

...and delivering cash flow...

National Express has a track record of consistently generating cash flow from its operations. The Group delivered an average of over £150 million of free cash flow each year prior to the impact of the pandemic in 2020.

...to fund returns and reinvestment

We invest cash back into the operations to grow, having invested over £800 million both organically and inorganically since 2015. This has created our transit and shuttle business in North America; strengthened our market-leading positions in Spain; built our key hub positions in North America student transport; and enabled us to create the leading urban bus business in Morocco. In addition, over the five years prior to 2020, the Group returned £327 million through dividends.

Delivering for all our stakeholders

Customers

Safe, clean and reliable service at a fair price

 See KPIs on page 19 (Pax KPI, FWI KPI)

Passengers

Consistent delivery, proactive innovation and transparent communication underpinned by great value for money

 See KPIs on page 19 (Pax KPI, FWI KPI)

Governments & Regulators

A partner to help to solve the challenges of congestion, carbon, clean air and inclusive growth

 See KPIs on page 19 (Pax KPI, FWI KPI, GHG KPI)

Suppliers

A long-term partner, investing in collaborative innovation

 See KPIs on page 18 (ROCE KPI)

Employees

A workplace that values diversity, champions inclusion and respects the rights of all employees, creating opportunities for progression and rewards fairly

 See KPIs on page 19 (FWI KPI) and Human Capital on pages 53 to 54

Communities

Enables broader positive community impact and greater social mobility

 See more on our communities on page 52

Driving our business forward through our three strategic priorities

Objective

Performance



Delivering operational excellence

We aim to be the safest, cleanest, most reliable, convenient and best value transport provider in the modes in which we operate.



- Swift response to the pandemic across all businesses, putting actions in place to prioritise safety of customers and employees, such as enhanced cleaning regimes and prompt distribution of PPE
- Strong engagement with customers and stakeholders ensuring appropriate service levels with, for example, UK bus running higher levels of service and patronage than industry average
- Both UK bus and coach re-awarded the British Safety Council five-star rating; ALSA re-awarded the EFQM¹ five-star rating
- North America school bus restart requiring dynamic route scheduling for schools choosing to return with a hybrid model
- Rolling out our World Class Operations Manager programme



Deployment of technology

We utilise technology to raise customer and safety standards, drive efficiencies in our business and facilitate growth.



- New mobile websites and ticketing apps are driving higher online transactions, enhanced user experience and higher conversion rates, and lowering costs
- Proportion of journeys through digital channels in UK bus increased to over 70%; and running at 48% in ALSA, up from 45% last year
- Roll-out of a Driver Fatigue alert system in our UK coach operations
- Deployment of analytic software to improve scheduling, dispatch and on-time performance in our North America school bus business
- All new UK buses in 2020 were electric vehicles (EV), with up to a further 170 EVs to come as Coventry becomes one of two first electric cities in the UK; Birmingham will see the arrival of 20 new hydrogen-powered buses in 2021
- ALSA launched the first ever autonomous bus in Spain, at the Autonomous University of Madrid



Growing our business through acquisitions and market diversification

We continue to grow our diversified, international portfolio of transport businesses through selective acquisitions and diversification into complementary markets.



- We acquired one business in February before suspending our M&A activity in order to focus on existing operations and conserve cash
- We continued to win new contracts throughout the pandemic:
 - Significant school bus wins in a number of US states
 - Paratransit contract win in California
 - Entry into the urban bus market in Portugal, with contract wins in Porto and Lisbon to start operating in Q4 2021
 - Contract wins in the UK in corporate shuttle, accessible transport and new routes
- Further mobilisation of our urban bus operations in Casablanca, our largest contract in Morocco
- Successful mobilisation of RE4, our third service for the Rhine-Ruhr Express (RRX), in German Rail

¹ European Foundation for Quality Management – recognises operational excellence and awards ratings to businesses based on a number of criteria, including quality of leadership and strategic direction together with development and improvement of people, partnerships and processes in order to deliver value-adding products and services to their customers

Future outlook

- ‘Driving Excellence’ programme in North America, to optimise process efficiency across all depots
- Returning to full operations across each of our businesses as we emerge from the pandemic, stronger and more efficient
- Network reviews driving efficiency across our bus and coach operations in the UK
- Development of on-demand services and multi-modal solutions
- Increased ancillary revenue drivers in UK and ALSA, as well as charter and charter school revenues in North America
- Further advances in partnership working to address common challenges and cement our position as a trusted partner
- Demonstrating environmental leadership e.g. with Coventry becoming one of two first electric cities in the UK
- Further investment in electric and hydrogen buses
- Ambition to be zero carbon emissions in UK bus by 2030 and in UK coach by 2035

- Further optimisation and automation of RMS to drive incremental demand and higher fleet utilisation as we emerge from the pandemic and beyond
- Increasing use of analytic software and digitalisation to enhance operations, driving safety, efficiency and process improvements and reducing costs e.g. using AI and big data to redesign routes to optimise running times and driver hours
- Continuing enhancements to websites, apps and ticketless payment systems
- Completion of the roll-out of Lytx DriveCam; rolling out of a Driver Fatigue alert system in our Spanish coach operations
- Building technology platforms, capabilities and expertise to provide integrated transport solutions
- Ongoing development of multi-modal solutions and on-demand services

- Further selective acquisitions as we emerge from the pandemic, principally in North America and Spain
- Extending our offering into new regional and adjacent markets and cities or building further scale in existing markets and cities
- Mobilisation of our new contracts in Portugal
- Pioneering new ways to access transport with multi-modal services within big cities, providing complete mobility solutions, through integrated platforms e.g. developing a Mobility as a Service (MaaS) platform in the West Midlands in partnership with Transport for West Midlands
- Investments in assets that provide platforms for future growth

Measuring our progress

We believe securing modal shift to cleaner, greener and safer vehicles is both a social good and will drive further profits in passengers, profit and cash.

+ See KPIs pages 18 and 19

FWI

Reduction in GHG emissions

A rising proportion of sales transacted through our digital channels demonstrates that our customers value more convenient and faster ways to pay. At the same time, the transfer of transactions away from traditional ticket offices and third party sales agents to digital channels is driving operational efficiencies, reducing costs and increasing the opportunity for new commercial partnerships and revenue streams.

+ See KPIs pages 18 and 19

Passenger journeys

We maintain a disciplined approach to investing and target project returns well above our cost of capital, targeting returns of 15%. Across the business as a whole, disciplined allocation of capital is measured through a focus on return on capital employed (ROCE), a key element of executive remuneration.

+ See KPIs pages 18 and 19

ROCE

Mitigating risks



See Risks
pages 38 to 41



See Risks
pages 38 to 41



See Risks
pages 38 to 41



² Fatalities and Weighted Injuries Index

Measuring our progress

Financial

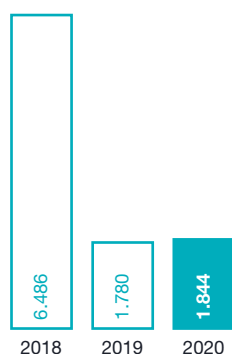
| | | |
|--|--|---|
| <div><div></div></div> <div>Underlying Operating Profit (£m)</div> <div>£(50.8)m</div> <div>2019: 295.3m</div> <div><div><div>257.7</div><div>295.3</div><div>(50.8)</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div> | <div><div></div></div> <div>Free cash flow (£m)</div> <div>£(178.7)m</div> <div>2019: 178.7m</div> <div><div><div>198.6</div><div>178.7</div><div>(178.7)</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div> | <div><div></div></div> <div>Return on capital employed (%)</div> <div>(2.1)%</div> <div>2019: 12.4</div> <div><div><div>12.4</div><div>12.4</div><div>(2.1)</div></div><div><div>2018</div><div>2019</div><div>2020</div></div></div> |
| <div>KPI definition</div> <div>Group Underlying Operating Profit from operations.</div> | <div>KPI definition</div> <div>Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 25.</div> | <div>KPI definition</div> <div>Return on capital employed (ROCE) is underlying operating profit, divided by average net assets excluding net debt and derivative financial instruments, translated at average exchange rates. See reconciliation on page 244.</div> |
| <div>Relevance to strategy</div> <div>A key measure of the overall performance of the business.</div> <div>We are focused on driving growth in operating profit in order to generate higher and sustainable returns for our shareholders and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.</div> | <div>Relevance to strategy</div> <div>Strong cash generation provides the funding to invest in initiatives to drive our strategy.</div> <div>This focus on strong cash generation ensures that we are running the business efficiently, converting profit to cash to enable investment into the business; returns to shareholders; and providing the platform for further growth for all our stakeholders.</div> | <div>Relevance to strategy</div> <div>Demonstrates how efficiently the Group is deploying its capital resources to generate operating profit.</div> <div>A focus on ROCE ensures that we maintain a disciplined approach to capital investment and continue to invest in those areas in which we deliver the best returns. This ensures that we maximise returns to shareholders for the capital they invest.</div> |
| <div>Performance</div> <div>Profit performance has been significantly impacted by lower revenue as a result of the pandemic with the ensuing travel restrictions and closure of schools and businesses. As a result the Group recognised an underlying operating loss of £51m.</div> | <div>Performance</div> <div>Underlying operating cash outflow of £115 million reflects the operating loss of £51m.</div> <div>Free cash outflow of £179 million after investing £216 million in capital expenditure to maintain our fleet, together with a working capital outflow of £78 million reflects the temporary change in revenue streams to subsidy income with a longer payment cycle.</div> <div>Generated over £770 million of free cash flow in the previous five years.</div> | <div>Performance</div> <div>ROCE of (2.1)% – reflects the operating loss in the year.</div> <div>Invested £216 million of net maintenance capital, predominantly in replacing our fleet in our existing operations.</div> <div>Invested £35 million in growth capital expenditure including vehicles to service new contracts in ALSA and North America and mobilisation costs in Morocco and German Rail.</div> |
| <div>Remuneration linkage</div> <div>Group underlying profit before tax is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.</div> | <div>Remuneration linkage</div> <div>Free cash flow is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.</div> | <div>Remuneration linkage</div> <div>ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.</div> |

Non-financial

Safety – Fatalities and Weighted Injuries (FWI)*

1.844

2019: 1.780



KPI definition*

The Fatalities and Weighted Injuries (FWI) Index weights injuries by severity to give an overall standard based score. The definition has been amended in the year to excluded non-responsible minor injuries, with prior year numbers restated to give a like-for-like comparison.

Relevance to strategy

Safety is of paramount importance to a public transport operator and is a core measure of our strategic priority: Delivering operational excellence.

Safety is at the heart of our Values and is our priority for both our customers and our employees.

High safety standards also help to drive sustainable growth through customer loyalty and new business wins.

Performance

- In 2020 we saw a small increase in the score to 1.844
- This score compares to the best ever score recorded in 2019 and remains significantly better than historical scores as the second lowest score
- The 2020 scores represents a 71.9% improvement since 2018
- For the second year running, our businesses in North America and Morocco both recorded their lowest ever scores, improving by 32% and 82% respectively on the prior year

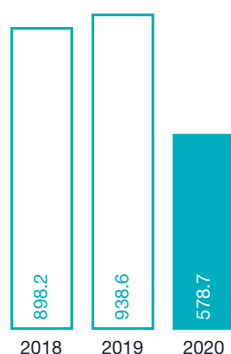
Remuneration linkage

FWI is an input into the Executive Directors' and senior managers' annual bonus structure.

Passenger journeys

578.7m

2019: 938.6 million



KPI definition

Passenger numbers as measured by the aggregate of passenger journeys across each of our operating divisions.

Our numbers for North America are estimated as our school bus services are non-ticketed.

Relevance to strategy

Growth in passenger journeys is a leading indicator for growing our business and hence driving modal shift from cars to buses and coaches.

National Express is targeting increased passenger ridership as a longer-term driver of sustainable value for both the business and the environment, with public transport a key solution to lowering carbon emissions and easing travel congestion.

Performance

- Passenger numbers were down 38% in 2020 with the impact of Covid-19 resulting in:
 - numerous national and local lockdowns in the UK and Spain
 - school closures in North America in Q2, followed by delayed new school year start backs with some schools choosing either hybrid or online teaching; and
 - reduced demand in our transit and corporate shuttle services in North America
- Growth in Morocco of 1% reflects the full year impact of new contracts in Casablanca and Rabat mostly offset by falls elsewhere due to Covid-19

Remuneration linkage

The Executive Directors' and senior managers' annual bonus structure typically includes a component of personal objectives relating to business development metrics.

Reduction in GHG emissions*

23.93

2019: 19.06



KPI definition

Total Scope 1,2 and 3 greenhouse gas (GHG) emissions divided by the total number of passenger kilometres travelled across each of our operating divisions.

* Measured as tCO₂e / million passenger km

Relevance to strategy

Reducing the environmental impact of transport is core to our Purpose. Per passenger, bus and coach travel is vastly less polluting than cars and, as such, modal shift is the single most important thing we can do. But we are also committed to making public transport greener. We have adopted targets through to 2025 that are 'science based' and aligned with limiting global warming in line with the Paris Agreement.

Performance

- Total Group carbon emissions reduced by 33% due to the reduction in operations as a result of the pandemic
- 26% increase in tCO₂e / million km to 23.93 due to significantly reduced load factors, particularly where social distancing restrictions applied
- We expect to make further progress against our targets in 2021 and 2022 as Covid-19 restrictions change
- At the start of 2020 we committed never to buy another diesel bus in the UK and to be zero emission in bus by 2030 and coach by 2035. We have started in the UK but will drive a similar level of ambition across the Group

Remuneration linkage

25% of the Executive Directors' and senior managers' Long-Term Incentive Plan is linked to reducing GHG emissions.

Operating review



Ignacio Garat
Group Chief Executive Officer

“We proactively engaged with customers and authorities in order to secure support and limit revenue loss and we took swift and decisive action to adjust the cost base to limit the flow-through of revenue decline.”

Summary

Revenue for the year declined 29% vs. 2019 driven by the extreme travel restrictions in response to the pandemic. After significant cost reduction activity, this flowed to EBITDA of £186.6 million, at the higher end of guidance, with the trajectory of both revenue and EBITDA delivery improving each quarter. This means that after last year's record £295.3 million Underlying Operating Profit, the Group delivered an Underlying Operating Loss in 2020 of £50.8 million and a statutory loss after tax of £326.7 million (2019: £148.3m profit). The Balance Sheet was strengthened with £1.5 billion of new equity and committed borrowing facilities and net debt has been reduced by over £280 million year-on-year with £1.9 billion in cash and undrawn committed facilities available at the year end.

Performing strongly before Covid

The year started very strongly, with revenue up 17% in the first two months of the year and with all businesses performing well. In ALSA, revenue grew by 23%, driven by underlying growth of 6% boosted by the new contracts in Rabat and Casablanca; in North America revenue was up 16%, largely driven by growth in our transit and shuttle businesses, where the renewal of our two largest transit contracts in the fourth quarter of 2019 flowed through and the acquisition of WeDriveU in April 2019 boosted growth; and our UK businesses saw revenue grow by over 5%, with broad-based underlying growth in both our bus and coach businesses augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

Navigating the crisis

Covid-19 had an immediate and unprecedented impact on all our businesses from March onwards, with an 80% drop in passenger demand following the introduction of lockdown measures. We took swift action to protect the safety and wellbeing of customers and colleagues, with PPE promptly distributed, cleaning regimes enhanced, and vehicle layouts reconfigured to enable social distancing. Wherever possible colleagues have been encouraged to work from home, with technology and processes rapidly deployed, while employee welfare programmes have been enhanced. Across the Group services were repurposed to meet community needs

such as food parcel delivery, health worker shuttles and medical transport.

We proactively engaged with customers and authorities in order to secure support and limit revenue loss, and we took swift and decisive action to adjust the cost base to limit the flow-through of revenue decline. While revenue declined by around £790 million, only around 40% of this flowed to reduced EBITDA as a result of a number of wide-ranging cost reduction measures. At the peak, 40,000 employees across the Group were either furloughed or temporarily laid off, helping to drive out over £300 million of operating costs from the business in the second quarter. We have also sought to ensure that the Group had sufficient liquidity and a strengthened Balance Sheet to navigate the crisis. During the year liquidity was boosted with over £1.5 billion of new facilities including the equity raise, and covenants have been renegotiated with the gearing covenant test waived by lenders until June 2022.

All of these measures have served not only to protect our business but will also assist in the return to normal levels of service across each of the businesses. Momentum has built throughout the second half of the year and we have seen an improving trajectory, with revenue, EBITDA and cash generation at their strongest levels in the fourth quarter of the year.

Positioning for the future

As a result of the actions we have taken and the learnings we have developed through 2020, the business is now well placed to react to future changes to the operating environment and is poised to return to sustainable growth. In particular, I would note four areas in which this has manifested itself:

Firstly, we have developed a greater agility to respond rapidly to changing restrictions. This has been most evident in our long-distance operations in the UK and Spain where discretionary travel has seen the greatest impact in terms of revenue decline. As the first lockdown hit, we mothballed our UK coach network and significantly reduced services in our Spanish long-haul operations. As restrictions were lifted over the summer, services were promptly scaled back up in both the UK and Spain and pleasingly we



“I have been impressed by the overall stability and resilience of the business in the face of unprecedented challenge.”

saw demand returning rapidly. Both networks have been subsequently scaled up and back down in response to changing patterns of local lockdowns. Vehicles in our National Express Transport Solutions (NETS) business were repurposed to provide extra capacity in our UK bus operations as customer demand for buses combined with social distancing measures drove network requirements to a peak of 103% of pre-Covid levels. In North America we have had to be fleet of foot in responding to rapidly changing patterns of school returns, flexing staffing levels up and down depending on the levels of payments forthcoming from school boards.

Secondly, we have reduced fixed costs and improved processes that will continue to benefit the Group as restrictions are lifted. We are taking out a significant portion of structural costs from across the business as well as improving the efficiency of a number of operating processes, for example through the ‘Driving Excellence’ programme of process optimisation across our portfolio of school bus depots in North America. Each division has made permanent reductions to central costs, redesigning and relocating support operations for lasting benefit. These are significant restructuring programmes, delivering annualised cost savings of c.£100 million when fully implemented.

Thirdly, we are continuing to win business through the crisis, securing nearly £900 million of contracted revenue. We won new contracts in Portugal in Lisbon and Porto (awarded on a provisional basis), worth nearly £270 million, gaining access to a new market for us. Both of these contracts are set to start operating in the fourth quarter of this year and run for seven years. In North America, we have won significant school bus contracts in Idaho, Alaska and California, and in Transit we won a capital-light paratransit contract for up to five years in California. In the UK,

our NETS business secured a major contract to run employee shuttle services for the world’s largest online retailer, while NEAT secured its first accessible transport contracts outside of the West Midlands.

Finally, good progress has been made in the year on our environmental ambitions, with 29 electric buses now running across our networks in the West Midlands and more to come. Looking ahead, Coventry is set to become the first electric bus city with significant funding secured for up to 170 EVs over the next two to three years; and our UK bus business won the bid to operate the new hydrogen-powered bus service in Birmingham, with our first 20 vehicles ordered, funded by Birmingham City Council, and entering service later in 2021.

We were delighted to welcome the Prime Minister to our operations in Coventry this week, and show him our electric buses in action. Last year we committed to never again buy a diesel bus in the UK, and we are well on track to deliver our target of a fully zero emission bus fleet by 2030. We fully embrace the national bus strategy and the proposals for operators to work in partnership with local authorities to deliver cleaner, greener public transport solutions. This is exactly the partnership approach that has worked so well for many years across the West Midlands, where we have continually improved services while keeping fares down.

Outlook

I have been impressed by the overall stability and resilience of the business in the face of unprecedented challenge. Strong customer relationships have enabled revenue to perform well ahead of the significant reductions in patronage driven by travel restrictions, and disciplined cost management has limited the extent to which this revenue decline has flowed to profit and cash. However, the situation we find ourselves in is not one that we can ultimately control and the timing of full

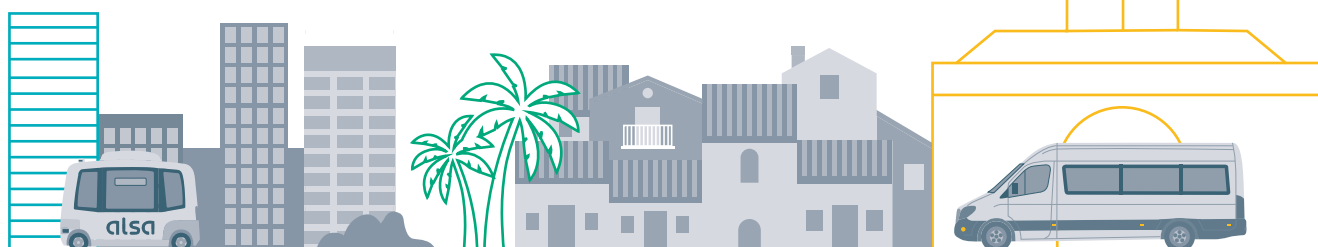
recovery remains uncertain as we are still subject to lockdowns and related restrictions in every market we operate in.

I believe that the trajectory is improving, with the fourth quarter of 2020 our strongest of the year and the global vaccination roll-out accelerating. We have seen this momentum continuing into 2021 with slowly improving revenue trends and positive EBITDA in January and February. Further, we have sufficient liquidity to see us through our most pessimistic scenarios and have further strengthened our Balance Sheet in 2020.

Given the unprecedented financial implications of the pandemic, the Board has not recommended a dividend in 2020. We understand the importance to shareholders of reinstating dividend payments as soon as economic conditions allow. It is clear that 2021 will represent a ‘transition year’ to a post-pandemic future and much will depend on the effectiveness of mass vaccination programmes to enable travel restrictions to be lifted. Against that backdrop the Board has determined the Group will resume dividend payments as soon as it is prudent to do so.

Ignacio Garat

Ignacio Garat
Group CEO
18 March 2021



Financial review



Chris Davies
Group Chief Financial Officer

“Decisive action taken to reduce costs and conserve cash.”

In summary

- Strong start to the year with double-digit revenue growth before Covid-19
- Decisive action taken to reduce costs and conserve cash
- £187 million EBITDA; towards the top of guidance
- After separately disclosed items, a statutory loss after tax of £327 million
- H2 free cash flow positive and net debt reduced to £942 million
- £1.5 billion of equity and additional borrowing facilities raised
- £1.9 billion in cash, undrawn committed facilities and undrawn CCFF available
- Improving trajectory into 2021 with strong Q4 revenue, EBITDA and cash flow

Summary income statement

| | Underlying result ¹ 2020 £m | Separately disclosed items ¹ 2020 £m | Total 2020 £m | Underlying result 2019 £m | Separately disclosed items 2019 £m | Total 2019 £m |
|----------------------------------|--|---|---------------------|---------------------------------|--|---------------------|
| Revenue | 1,955.9 | – | 1,955.9 | 2,744.4 | – | 2,744.4 |
| Operating costs | (2,006.7) | (330.6) | (2,337.3) | (2,449.1) | (53.0) | (2,502.1) |
| Operating (loss)/profit | (50.8) | (330.6) | (381.4) | 295.3 | (53.0) | 242.3 |
| Share of results from associates | (2.1) | – | (2.1) | 0.4 | – | 0.4 |
| Net finance costs | (53.2) | (8.0) | (61.2) | (55.7) | – | (55.7) |
| (Loss)/profit before tax | (106.1) | (338.6) | (444.7) | 240.0 | (53.0) | 187.0 |
| Tax | 29.3 | 88.7 | 118.0 | (55.2) | 16.5 | (38.7) |
| (Loss)/profit for the year | (76.8) | (249.9) | (326.7) | 184.8 | (36.5) | 148.3 |

¹ To supplement IFRS reporting, we also present our results on an Underlying basis which shows the performance of the business before separately disclosed items, comprising amortisation of intangibles for acquired businesses and, for 2020, certain costs arising as a direct consequence of the pandemic. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on pages 243-244.

In a year shaped by the travel restrictions imposed to slow the spread of Covid-19, Group revenue was £1,955.9 million (2019: 2,744.4m), a decrease of £788.5 million (29%). After a strong start to the year, with Group revenue up 17% in January and February, extensive lockdowns were imposed by governments in each country in which we operate.

During this extraordinary period, we were well supported by customers and governments and for the Group overall this meant that despite passenger numbers declining by nearly 80% during Q2, the revenue decline was mitigated to around 50%. As lockdowns were lifted in the summer, revenue started to recover steadily. After a 50% year-on-year drop in revenue in

Q2, this improved to a 37% reduction in Q3 and a 32% reduction in Q4.

In the UK, the Group recognised £84.7 million from the Covid-19 Bus Services Support Grant (CBSSG), and the Scottish equivalent, in return for maintaining bus services at around 100% of pre-pandemic levels with social distancing provisions in place. In addition, the Group recognised £15.3 million and £15.6 million for Covid-19 government compensation in ALSA and German Rail respectively. Had these various revenue-related grants not been available the Group would have operated a significantly lower level of services in order to further reduce costs. There was no revenue support provided by the Government for UK coach.

As set out in the table below, the Group recorded positive EBITDA in every quarter. The greatest year-on-year decline of EBITDA in 2020 was in Q2 during the peak of the restrictions on travel. Q3 is typically the Group's smallest quarter for profit because of the school holidays in North America. Q4 recovered strongly and contributed nearly 50% of the full year EBITDA.

| Quarterly summary | Revenue year-on- year | EBITDA £m |
|--------------------------|-----------------------------|--------------|
| Q1 (January to March) | +7% | 69.5 |
| Q2 (April to June) | -50% | 18.8 |
| Q3 (July to September) | -37% | 5.4 |
| Q4 (October to December) | -32% | 92.9 |
| Full year 2020 | -29% | 186.6 |

The Group recorded an Underlying Operating Loss for the year of £50.8 million (2019: £295.3m profit). The year-on-year reduction of £346.1 million reflected the net of £788.5 million lower revenue partially offset by £442.4 million lower underlying operating costs. After £330.6 million (2019: £53.0m) of separately disclosed items, the statutory operating loss was £381.4 million (2019: £242.3m profit).

Operating costs were originally budgeted to grow proportionately with budgeted double-digit revenue growth, but immediately as the impact of the pandemic took hold in late March, we took action to reduce operating costs by c.£100 million per month relative to budgeted levels throughout the second quarter. All variable costs were reduced in line with service reductions and all discretionary expenditure was stopped. For several months in the year the Board and senior management agreed to pay sacrifices, and salary deferral schemes were in place across the Group.

Significant numbers of employees were temporarily laid off or furloughed utilising government income protection schemes. At peak, we had furloughed or temporarily laid off 40,000 staff from a global workforce of c.55,000. The furlough arrangements in place differ by country. In the UK, the Government provides companies with funding to pay employees that would otherwise be laid off. In Spain, companies agree temporary lay-off numbers with the Government which then provides enhanced benefits directly to the impacted employees with employers partially compensated for continued social security payments. In North America, the Government put in place a package to provide funding to employers who continued to provide benefits to employees who were temporarily laid off. The table below outlines the cost support recognised in the year.

| Government Covid-related cost support | £m |
|---|-------------|
| UK – Covid Job Retention Scheme | 27.1 |
| ALSA – job retention schemes in Morocco, Spain and Switzerland | 9.3 |
| North America – employee retention credits in US (and equivalent in Canada) | 18.5 |
| Total | 54.9 |

As well as scaling back variable costs as revenue fluctuated during the year, we also undertook a review of the fixed cost base, identifying up to £100 million of annualised savings which will be fully realised in 2021.

The majority of these savings were in payroll costs, driven by headcount reductions in managerial, administrative and customer service roles and through efficiency savings from process improvements. Other cost savings have been derived from property rationalisation, travel costs and professional fees, along with process improvements driving efficiencies in areas like repairs and maintenance.

Underlying net finance costs decreased by £2.5 million to £53.2 million (2019: £55.7m) reflecting the net of higher interest costs in the first half caused by the partial double-carry of Sterling bonds offset in the second half by the impact of lower net debt.

After finance costs and a loss of £2.1 million from the share of results from associates (2019: £0.4m profit), the Group recorded an Underlying Loss Before Tax of £106.1 million (2019: £240.0m profit).

The Underlying tax credit was £29.3 million (2019: £55.2m charge) representing an Underlying effective tax rate of 27.6% (2019: 23.0%). The statutory tax credit was £118.0 million (2019: £38.7m charge), an effective tax rate of 26.5% (2019: 20.7%). Tax losses in most jurisdictions have been recognised as deferred tax assets with forecasts of future profits supporting their utilisation.

The statutory loss for the year, after the separately disclosed items explained below, was £326.7 million (£148.3m profit).

Separately disclosed items

£338.6 million (2019: £53.0m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £126.9 million (2019: £7.2m) represented cash outflows in the year.

| | Income Statement 2020 £m | Income Statement 2019 £m | Cash 2020 £m | Cash 2019 £m |
|---|-----------------------------------|-----------------------------------|--------------------|--------------------|
| Separately disclosed items | | | | |
| Intangible amortisation for acquired businesses | (52.6) | (53.0) | – | – |
| Directly attributable gains and losses resulting from the Covid-19 pandemic | (262.5) | – | (109.6) | – |
| Restructuring costs | (14.0) | (8.8) | (10.8) | (7.2) |
| Other separately disclosed items | (1.5) | 8.8 | – | – |
| Separately disclosed operating items | (330.6) | (53.0) | (120.4) | (7.2) |
| Interest charges directly resulting from the Covid-19 pandemic | (8.0) | – | (6.5) | – |
| Total (before tax) | (338.6) | (53.0) | (126.9) | (7.2) |

Consistent with previous years, £52.6 million (2019: £53.0m) of amortisation of intangible assets arising upon consolidation of acquired businesses is included in separately disclosed items.

The directly attributable gains and losses resulting from the Covid-19 pandemic are comprised as follows:

| Directly attributable gains and losses resulting from the Covid-19 pandemic | Income Statement 2020 £m | Cash 2020 £m |
|---|-----------------------------|-----------------|
| One-off costs, cancellation charges and compensation payments | (46.4) | (28.1) |
| Discontinuation of fuel trades | (17.3) | (14.6) |
| Onerous contract provisions and associated impairment | (133.4) | (66.9) |
| Impairments and associated charges | (99.3) | – |
| Re-measurement of the WeDriveU put liability | 33.9 | – |
| Total | (262.5) | (109.6) |

One-off costs, cancellation charges and compensation payments include items such as compensation payments to third party operators and provision for Covid-related claims. The imposition of travel restrictions reduced operated mileage and hence trades were placed to reduce hedged fuel volumes in line with updated mileage and the original trades were recycled to the income statement, giving rise to a £17.3 million charge.

Onerous contract provisions were recognised in relation to contracts that, due to the impact of Covid-related restrictions, are now evaluated as loss-making for the rest of the relatively short remaining term prior to renewal and hence where there is no ability to recover to a profitable position. Where there were assets dedicated to onerous contracts, these assets were impaired where applicable. Further impairments and associated charges were recorded where there were dedicated assets, other than those related to onerous contracts, associated with contracts that have been terminated or not renewed due to the impacts of the pandemic or where subsequent strategic restructuring has changed the Group's usage of such assets.

The put liability resulting from the acquisition of WeDriveU is required to be re-measured at each reporting date. Whilst in the medium term we remain confident in the prospects and growth potential of the shuttle business, we have adjusted short-term projections for the business disruption due to the pandemic which impacts the two remaining years of the exercise period.

A further £8.0 million of interest charges directly resulting from the Covid-19 pandemic were recorded for items including arrangement fees on new Covid-19-related facilities, fees to amend covenants, and interest costs on the short-term financing under the Bank of England Covid Corporate Financing Facility (CCFF) programme that was drawn and repaid during the year.

In addition £14.0 million (2019: £8.8m) of restructuring costs were incurred as well as £1.5 million (2019: £8.8m credit) of other items principally comprising, in both the current and prior year, losses/gains on disposal of subsidiaries.

Segmental performance

| | Underlying Operating (Loss)/ Profit 2020 £m | Separately disclosed items 2020 £m | Segment result 2020 £m | Underlying Operating Profit 2019 £m | Separately disclosed items 2019 £m | Segment result 2019 £m |
|---------------------------------|--|---------------------------------------|---------------------------|--|---------------------------------------|---------------------------|
| ALSA | 6.7 | (100.2) | (93.5) | 109.5 | (15.7) | 93.8 |
| North America | 12.4 | (188.4) | (176.0) | 123.0 | (35.0) | 88.0 |
| UK | (49.0) | (50.4) | (99.4) | 85.0 | (0.9) | 84.1 |
| German Rail | (4.9) | (19.1) | (24.0) | 5.0 | (1.4) | 3.6 |
| Central functions | (16.0) | 27.5 | 11.5 | (27.2) | – | (27.2) |
| Operating (loss)/ profit | (50.8) | (330.6) | (381.4) | 295.3 | (53.0) | 242.3 |

ALSA recorded an Underlying Operating Profit of £6.7 million (2019: £109.5m) despite a 33% reduction in revenue. Separately disclosed items totalled £100.2 million (2019: £15.7m) and comprised £17.1 million (2019: £15.7m) of amortisation of intangible assets arising from acquired businesses; £55.4 million of onerous contract provisions and associated impairments of assets; £10.8 million of impairments of vehicles and intangible assets; £3.9 million of restructuring costs, reflecting actions to reduce the cost base going forwards and £13.0 million of other Covid-related expenses including incremental health and safety costs and discontinuation of fuel hedges. After separately disclosed items,

ALSA recorded a loss of £93.5 million (2019: £93.8m profit).

In North America an Underlying Operating Profit for the year of £12.4 million (2019: £123.0m) was achieved. Separately disclosed items totalled £188.4 million (2019: £35.0m) and comprised £32.7 million (2019: £35.0m) of amortisation of intangible assets arising from acquired businesses; £50.0 million of onerous contract provisions and associated impairments of assets; £79.1 million of impairments of intangible assets and property, plant and equipment; £4.4 million restructuring costs; and £22.2 million of other Covid-related expenses such as incremental health and safety costs and discontinuation of fuel hedges.

During the year the Group undertook a review of its transit businesses and contracts, which culminated in a decision to exit, dispose or close down certain operations that were deemed no longer strategically core and/or which were low margin businesses that had been severely impacted by the pandemic and were projected to consume cash over the medium term. Furthermore the Group reviewed its portfolio of school buses, resulting in an impairment of the most aged and least energy efficient vehicles. Together, these two activities principally drove the £79.1 million of impairments of assets referred to above.

After separately disclosed items, North America recorded a loss of £176.0 million (2019: £88.0m profit).

The UK Underlying Operating Loss of £49.0 million (2019: £85.0m profit) was driven by an operating loss in UK coach, where revenue declined 67%, partially offset by a small operating profit in UK bus reflecting strong pre-pandemic trading and profits on disposal of property. Separately disclosed items in the UK totalled £50.4 million (2019: £0.9m) and comprised £0.5 million (2019: £0.9m) of amortisation of intangible assets arising from acquired businesses; £12.7 million of support payments to third party coach operators; £11.2 million of onerous

contract provisions and associated impairments of assets; £5.1 million of restructuring costs; £9.3 million of impairment of vehicles and £11.4 million of other Covid-19 related expenses such as incremental health and safety costs, contractual penalties and discontinuation of fuel hedges. After separately disclosed items, the UK business recorded a loss of £99.4 million (2019: £84.1m profit).

German Rail's Underlying Operating Loss of £4.9 million (2019: £5.0m profit) reflected an adjustment to the phasing of subsidies due to the re-assessment of the Rhine-Münster Express contract life revenues and profitability in light of the pandemic. Excluding this adjustment German Rail recorded a small underlying operating profit, reflecting the net of a loss of passenger revenue in the RME contract offset by compensation provided by the Government and transport authorities. The £19.1 million (2019: £1.4m) of separately disclosed items comprised £2.3 million (2019: £1.4m) of intangible amortisation and £16.8 million of asset impairments arising from an onerous contract assessment in respect of RRX. Over its remaining life, the RRX contract was assessed to generate positive EBITDA but to be loss-making after taking account of the amortisation of contract mobilisation costs, resulting in the impairment of these assets. After separately disclosed items, German Rail recorded a loss of £24.0 million (2019: £3.6m profit).

Central functions Underlying costs of £16.0 million (2019: £27.2m) were £11.2 million lower than the previous year reflecting cost savings and lower charges in respect of bonuses and long-term share-based incentive schemes. Separately disclosed items totalled a £27.5 million profit (2019: £ nil) comprising a £33.9 million credit in respect of revaluing the WeDriveU put liability, partly offset by incremental costs attributable to the pandemic and restructuring.

Cash management

| | 2020 £m | 2019 Re-presented £m |
|---|----------------|----------------------------|
| Funds flow | | |
| Underlying Operating (Loss)/Profit | (50.8) | 295.3 |
| Depreciation and other non-cash items | 237.4 | 214.8 |
| EBITDA | 186.6 | 510.1 |
| Net maintenance capital expenditure | (215.9) | (211.4) |
| Working capital movement | (78.3) | (42.0) |
| Pension contributions above normal charge | (7.4) | (7.6) |
| Operating cash flow | (115.0) | 249.1 |
| Net interest paid | (56.0) | (45.4) |
| Tax paid | (7.7) | (25.0) |
| Free cash flow | (178.7) | 178.7 |
| Growth capital expenditure | (35.3) | (24.7) |
| Net inflow from discontinued operations | – | (1.2) |
| Acquisitions (net of cash acquired) | (52.4) | (166.4) |
| Disposal of subsidiaries (net of cash disposed) | 4.4 | 21.7 |
| Separately disclosed items | (126.9) | (7.2) |
| Proceeds from equity instruments | 725.6 | – |
| Dividends | – | (78.3) |
| Other, including foreign exchange | (54.3) | 18.6 |
| Net funds flow | 282.4 | (58.8) |
| Net debt | (941.6) | (1,224.0) |

Note: 2019 is re-presented for the transfer of £17.5 million out of net debt in respect of vehicle leases entered into in 2019 to fulfil contracts that have been deemed to be in scope of IFRIC 12. The effect of this re-presentation is to reduce 2019 net growth capital expenditure and closing net debt by £17.5 million compared with the previously reported figures.

The Group generated EBITDA of £186.6 million in the year (2019: £510.1m).

The majority of the £215.9 million maintenance capital investment was in respect of fleet replacement in ALSA and North America. The ratio of maintenance capital expenditure to depreciation of 0.9 (2019: 1.0) was a slight reduction year-on-year reflecting actions taken to reduce capital expenditure following the onset of the pandemic. Given the long payment terms on fleet purchases these actions are anticipated to take greater effect on the maintenance capital expenditure ratio in 2021. Additions of property, plant and equipment in 2020 for both maintenance and growth purposes combined totalled £209.9 million (2019: £311.5m), a year-on-year reduction of £101.6 million. At the year end there was £289.6 million (2019: £263.3m) owing to vehicle suppliers, with the year-on-year increase reflecting growth capital additions in respect of new contracts such as Casablanca; the maintenance capital component has reduced, reflecting the capital reduction actions during the year.

The Group recorded a working capital outflow of £78.3 million for the year (2019: £42.0m outflow), the net of a £139.6 million outflow in the first half and a £61.3 million inflow in the second half.

Over the year as a whole, strong cash collection was more than offset by a decrease in payables, reflecting the cost saving measures implemented (the benefit of which is recorded in EBITDA), and a change in the mix of revenue away from cash-upfront passenger revenue to subsidies and compensation paid in arrears. The diversified nature of the Group's revenue streams and the predominantly government-backed or blue-chip profile of the customer base helps mitigate the potential credit risk impact of the pandemic on receivables, but we continue to keep it under close review. Consistent with previous periods the Group makes use of non-recourse factoring arrangements on receivables and advance payments. The usage of these arrangements was broadly unchanged on the previous year; the total draw down at the year end was £111.6 million (2019: £107.1m).

Net interest paid increased by £10.6 million to £56.0 million (2019: £45.4m), reflecting the final interest payment on the 2020 bond maturing in June (payable annually in arrears) whilst at the same time making interest payments on the new borrowings. This was partly offset by the benefit of lower draw down on the revolving credit facilities (RCFs), reflecting the strong liquidity position during the year.

The net impact of the factors outlined above was a free cash outflow of £178.7 million in the year (2019: £178.7m inflow), comprising an outflow of £193.0 million in the first half and an inflow of £14.3 million in the second half.

Growth capital expenditure of £35.3 million included vehicles to service new contracts in ALSA and North America, and infrastructure and other costs incurred with the mobilisation of new contracts in German Rail and ALSA. We made one acquisition early in the year, prior to the pandemic, of a coach company in the UK for upfront consideration of £25.3 million (net cash payments of £9.6 million plus the absorption of £15.7 million of borrowings) with up to a further £7.5 million of deferred payments. Subsequently we paused our acquisition strategy in order to conserve cash and protect liquidity within the business. In addition, deferred consideration paid in the period for acquisitions made in previous years was £27.3 million in respect of a number of acquisitions made in prior years, including Monroe School Transportation and Cook-Dupage Transportation. In December, the Group sold its Dundee bus business to a Group with more scale in Scotland. The cash inflow of £4.4 million from disposals reflects the net of the proceeds from the sale of the Dundee business, plus the final settlement in respect of the sale of Ecolane in 2019.

A cash outflow of £126.9 million was recorded in respect of the items excluded from Underlying results as explained above. The Group received £725.6 million from a combination of the share placing in May 2020, delivering £230.1 million, and the hybrid issue in November 2020, which raised £495.5 million net of costs. Other cash outflows of £54.3 million principally reflect the significant movement in the closing rate of Sterling against the Euro from 31 December 2019 to 31 December 2020, which increased the value of debt denominated in Euros.

Net funds inflow for the period of £282.4 million (2019: £58.8m outflow) resulted in net debt of £941.6 million (2019: £1,224.0m).

Reconciliation to statutory cash flow statement

Statutory cash generated from operations for the year was an outflow of £96.7 million (2019: £356.2m inflow) as shown in the Group Statement of Cash Flows and expanded further in note 13. Free cash flow for the year was an outflow of £178.7 million. A reconciliation of free cash flow to net cash flow from operating activities is set out on page 244.

The principal differences are that the free cash flow includes net maintenance capital expenditure (£215.9 million outflow) but excludes the cash outflow in respect of separately disclosed items.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns, reducing net debt to within our revised target range of 1.5x to 2.0x EBITDA and paying a growing dividend to shareholders. As previously guided, in light of the exceptional economic circumstances and conditions attaching to our amended covenants, the Group will not be paying a dividend in respect of 2020. Looking ahead, the Board recognises the importance of the shareholder returns and will reinstate the dividend when economic conditions permit and it is appropriate to do so. Such a decision will be based upon the Group's prevailing and expected free cash flow generation as well as gearing returning to within pre-amendment covenant levels.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating. Both Moody's and Fitch twice reaffirmed their investment grade ratings during the year whilst revising the rating outlook to negative from stable in line with their views on the transport sector as a whole (Baa2/ negative) and (BBB/negative).

In light of the impact of the pandemic on EBITDA generation, the Group has renegotiated its covenants. The gearing covenant has been waived by the lenders throughout 2020 and 2021, and will next apply as at 30 June 2022. The interest cover covenant has been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum net debt test during the waiver period. In addition the Group has agreed to pay no dividend during the period of the amendments if gearing exceeds 3.5x or interest cover is below 3.5x. At 31 December 2020, the gearing ratio was 5.1x (31 December 2019: 2.4x) on a reported basis and 6.4x on a covenant basis (the principal difference being that the impact of IFRS 16 is removed in the covenant basis). Interest cover at the end of the year was 2.7x (31 December 2019: 9.6x); this compares to an amended covenant of 1.5x. All covenants are on a pre-IFRS 16 basis.

At 31 December 2020, the Group had £2.8 billion of debt capital, committed facilities and Bank of England CCFF. Excluding the specific short-term Covid-related facilities, the average maturity is 5.2 years. At 31 December 2020, the Group's RCFs were undrawn and the Group had available a total of £1.9 billion in cash, undrawn committed facilities and the undrawn CCFF. The CCFF is available until 21 March 2021 to be drawn for 12 months. However, given the other committed funding facilities available to the Group and the ample liquidity headroom projected, including in downside scenarios, the Directors do not intend to draw upon it and will instead allow it to lapse.

The table below sets out the composition of these facilities.

| Funding facilities | Facility £m | Utilised at 31 December 2020 £m | Headroom at 31 December 2020 £m | Maturity year |
|-------------------------------|----------------|--|--|---------------|
| Core RCFs | 495 | – | 495 | 2025 |
| Short-term Covid-related RCFs | 287 | – | 287 | 2021 |
| 2023 bond | 400 | 400 | – | 2023 |
| 2028 bond | 247 | 247 | – | 2028 |
| Private placement | 406 | 406 | – | 2027–2032 |
| Private placement | 71 | 71 | – | 2021 |
| Leases | 311 | 311 | – | various |
| | 2,217 | 1,436 | 781 | |
| CCFF | 600 | – | 600 | 2021 |
| | 2,817 | 1,436 | 1,381 | |
| Cash and cash equivalents | | (521) | 521 | |
| Total | | 915 | 1,902 | |

In the first half of the year the Group received the proceeds of the delayed draw US private placements, comprising £406 million of funding (translated at closing exchange rates) in a mixture of Sterling, Euro and US Dollar. To secure additional liquidity through the Covid-19 crisis, the Group obtained funding of up to £600 million under the Bank of England CCFF, of which £300 million was initially drawn in April and repaid in December. In addition, £287 million of additional short-term RCFs were secured. During the first half of the year, a £225 million Sterling bond and £250 million floating rate note matured and £100 million of term loans were repaid. In December a \$100m term loan was repaid.

The Group also raised £726 million through equity or equity-like instruments: firstly through a share placing in May that raised £230 million, and secondly through the issuance of a hybrid instrument in November that raised £496 million. The hybrid instrument has been recorded within equity because the contractual terms allow the Group to defer coupon payments and the repayment of the principal amount indefinitely. The instrument has a coupon of 4.25%, which is payable annually. The coupon payments are treated the same as an equity dividend distribution, but will be deducted from earnings for the purposes of calculating earnings per share.

To ensure sufficient availability of liquidity, the Board requires the Group to maintain a minimum of £300 million in cash and undrawn committed facilities at all times. This does not include factoring facilities which allow the without-recourse sale of receivables. These arrangements provide the Group with more economic alternatives to early payment discounts for the management of working capital, and as such are not included in (or required for) liquidity forecasts.

At 31 December 2020, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 31 December 2020, the proportion of Group debt at floating rates was 7% (2019: 24%).

Group tax policy

We adopt a prudent approach to our tax affairs, aligned to business transactions and economic activity. We have a constructive and good working relationship with the tax authorities in the countries in which we operate and there are no outstanding tax audits in any of our main three markets of the UK, Spain and the USA. The Group's tax strategy is published on the Group website in accordance with UK tax law.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2020 was £135.1 million (Dec 2019: £90.0m), with the increase being principally driven by a reduction in discount rates. The two principal plans are the UK Group scheme, which is closed to new accrual, and the West Midlands Bus plan, which remains open to accrual for existing active members only. The deficit repayments will be around £7 million per annum, rising with inflation, until 2026. The IAS 19 valuations for the principal schemes at 31 December 2020 were as follows:

- WM Bus: £141.6 million deficit (2019: £99.1m deficit); and
- UK Group scheme: £12.3 million surplus (2019: £14.2m surplus).

Fuel costs

Fuel cost represents approximately 7% of revenue. Clearly it is more complex than in previous years to forecast volume in the current environment, but based on 'base case' modelling, the Group is 99% hedged for 2021 at an average price of 38.3p per litre; around 60% hedged for 2022 at an average price of 30.2p; and around 25% hedged for 2023 at an average price of 29.9p. During the year, hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption due to the pandemic. As a result, accumulated fair value movements were recycled from other comprehensive income to the Income Statement. The resulting impact was an Income Statement charge of £17.3 million in the year which has been treated as a separately disclosed item.

Brexit

Given the diversified nature of our business model and the fact that we no longer run scheduled operations between the UK and the Continent, we do not believe that the recently agreed UK-EU trade agreement presents any direct material risk to our business. The main risks to the Group relate to suppliers of parts and vehicles, as we purchase some vehicles from European manufacturers for UK operations, and cross-border data sharing. We have active mitigation plans in place for these issues.

Going concern

The Board continues to believe that the Group's prospects are positive. We are diversified geographically, by mode of transport and by contract type, and no single contract contributes more than 3% to revenue. Furthermore, a large proportion of the Group's contracts have some form of protection from volatility in passenger numbers. The Group is well positioned to benefit from the future trends in transportation. Public transport is key to increasing social mobility as well as being fundamental to addressing the challenges of congestion and poor air quality.

The Financial Statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Financial Statements. Details of the Board's assessment of the Group's 'base case', 'reasonable worse case', and 'reverse stress tests' are detailed in note 2 to the Financial Statements on pages 149 to 151.

Outlook

With the continuing uncertainty of the impact of Covid-19 across the countries in which we operate, it remains difficult to forecast financial performance with any level of certainty. The going concern analysis outlined in note 2 to the Financial Statements on pages 149 to 151 provides a range of potential scenarios. In our base case we anticipate the macro situation to be similar in the first half of 2021 to the second half of 2020, with varying levels of lockdowns and travel restrictions remaining in place. Accordingly we anticipate performance in the first half of 2021 to be similar to that achieved in the second half of 2020. Our base case scenario assumes that vaccines will reduce infection rates by the summer, with a consequent lifting of travel restrictions allowing a steady recovery in revenue in the second half such that by December 2021 Group revenue recovers to levels similar to December 2019. Under this scenario we anticipate robust positive free cash flow in 2021 as EBITDA improves through the year and the capital expenditure reduction actions taken in 2020 take effect on the maintenance capital outflows.



Chris Davies

Group Chief Financial Officer
18 March 2021

ALSA



Francisco Iglesias
Chief Executive,
ALSA

ALSA is the leading company in the Spanish road passenger transport sector, and was acquired by National Express in 2005.

With over 100 years' experience, it operates long-distance, regional and urban bus and coach services across Spain and in Morocco and Switzerland. In 2021, we will also start to operate urban bus services in Portugal. Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

Revenue

£559.3m

2019: £824.7m

Underlying Operating Profit

£6.7m

2019: £109.5m

Statutory Operating (Loss)/Profit

£(93.5)m

2019: £93.8m

Revenue

€629.3m

2019: €940.6m

Underlying Operating Profit

€7.5m

2019: €124.9m

Statutory Operating (Loss)/Profit

€(105.2)m

2019: €106.9m

Underlying Operating Margin

1.2%

2019: 13.3%

Pre-Covid

ALSA was performing very strongly ahead of the pandemic, with revenue up 23% in the first two months of the year, driven by underlying growth of over 6% boosted by the new contracts in Rabat and Casablanca and acquisitions made in 2019. Our Spanish business was performing strongly across all segments but particularly in long haul where revenue was up 7%, passenger journeys up 5% and occupancy up 2%.

Navigating the crisis

As the first lockdown hit, we saw an immediate impact with passenger numbers falling by more than 90% in Spain. Demand came back quickly when restrictions were lifted but reduced just as quickly when they were re-imposed. Overall for the year, passenger journeys were down by 44% in Spain, and were particularly badly impacted by restricted inter-regional travel on our long haul routes, with a 62% year-on-year reduction. Patronage in Morocco grew slightly, driven by the new contracts in Rabat and Casablanca. Overall, and taking into account the fact that around 40% of ALSA's revenue is protected, year-on-year revenue decline was 33%. Wide-ranging actions were taken in order to reduce operating costs, which helped to deliver Underlying Operating Profit of €7.5 million (2019: €124.9m) despite seeing revenue decline by over €310 million. After accounting for separately disclosed items of €112.6 million, of which

€93.5 million represented one-off Covid-related exceptional items (detailed on page 24, the segmental result for the year was an operating loss of €105.2 million (2019: profit of €106.9m).

Protecting staff and customers

Our first priority was to protect our employees and customers, and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- the provision of Covid tests to nearly 7,000 employees in Spain and Morocco;
- new policies and processes rapidly deployed to facilitate remote working;
- the roll-out of ‘For Your Health’ and ‘ALSA Helps You’ weekly communications to all staff;
- the redesign and update of websites to feature travel restrictions, rules and recommendations for passengers, ALSA safety measures, changes and cancellations, and FAQs;
- revised communication on buses and stations enforcing the mandatory use of face masks and related safety guidelines, and reassuring passengers on air quality and renewal; and
- monitoring social distancing measures on fleet and stations through mystery shopper audits.

Securing support

In our urban bus operations in Spain, terms were renegotiated for our Madrid Consortium contracts such that revenue is based on mileage operated rather than passengers carried, meaning that all urban services in Spain as well as a proportion of regional services carry no demand risk. Across ALSA, therefore, over 40% of revenue is now sheltered from demand risk and this figure will increase once Casablanca is fully mobilised in 2021. We have also worked closely with the Ministry of Transport throughout the year to ensure that when successive lockdowns and travel restrictions were implemented and subsequently lifted, service levels on our regulated long haul routes were flexed to the appropriate level. Working with all the relevant authorities, we received revenue subsidies representing around 3% of revenue in 2020 and we will continue to work to secure further subsidies in 2021. In addition to the revenue support, in flexing service levels to meet changing levels of travel restriction, we have made use of the Government’s ERTE (furlough) scheme to enable staffing levels to vary with volume. At the peak of the first lockdown, over 11,000 ALSA employees were furloughed.

Reducing the cost base

In addition to the temporary staff savings enabled by the ERTE scheme, we took rapid and decisive action to cut operating costs. Direct operating costs such as fuel and maintenance were reduced in line with service reduction and all discretionary costs were stopped. We also reconfigured services to utilise internal resources and hence materially reduced third party operator costs – a material saving that will continue into 2021. In addition, ALSA initiated a major restructuring programme to reduce central costs by up to 50%, the benefits of which will be fully felt in 2021. This initiative has involved a full review of central functions with the integration and streamlining of a number of teams to improve processes and increase efficiency. Together, the structural cost reductions across ALSA will reduce annual operating costs by €25 million.

Supporting the community

Throughout the crisis we have sought to provide assistance in the communities we serve, for example:

- the ‘Travelling with a Companion’ initiative provided free tickets for assistants accompanying passengers with learning disabilities;
- the ‘Madrid Thanks You’ initiative offering substantial discounts for key workers and medical staff;
- ALSA employees across Spain have delivered thousands of kilos of food parcels to food banks, homeless shelters and other emergency operations;
- we have supported a large number of employees in volunteering to support the Red Cross help people through the pandemic; and
- provision of buses to the army, to help transfer Covid patients and medical staff.

Preparing for the future

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have continued to win and retain contracts as well as taking a number of other actions in 2020 that position the business for a strong rebound once restrictions are lifted.

During the year we successfully completed the mobilisation of Rabat and mobilised the first phase of our largest urban bus contract in Casablanca (which made a positive profit contribution in its first year). We will complete mobilisation of our operations in Casablanca with 700 new buses to be delivered in 2021, the first 400 of which start service in March, transforming the quality and safety of transport for our customers in this city.

We have successfully opened new markets in 2020. We have provisionally won new contracts in Portugal in Lisbon and Porto, with revenue of €44 million per annum and limited demand risk, providing access to a new market for us. Both of these contracts are set to start operating in the fourth quarter of 2021 and run for seven years. We also successfully mobilised our first urban bus contract in France which started operating in December. We have a strong pipeline of opportunities for 2021, including further revenue protected contracts.

In Spain, we retained our CalPita regional concession in Galicia for a further 10 years, worth €96 million over the life of the contract. This is particularly significant as Galicia is a region where ALSA had no presence prior to the strategic acquisition of CalPita in 2018, and it is pleasing to see we now have a long-term foothold in this region. The long haul concession renewal process restarted in 2020 and was then subsequently cancelled, as the authorities absorb the impact of the pandemic on transport, with no stated intention to restart the process in the near term. This will allow a level of stability to build back service levels as travel restrictions are lifted.

We are working towards a greener future, with the ambition to be the environmental benchmark in public transportation in Spain. To that end, we have added a small number of electric buses in 2020 and are also trialling hydrogen buses in Madrid. Further investment is planned for 2021 and beyond as we progressively move our urban fleet to zero emission vehicles.

We have also continued to invest in improving our digital capabilities and during the year we have invested in a new website and customer app, with enhanced functionality, improved customer experience and faster purchasing. This helped drive digital revenue up to 48% of ALSA’s total (up 7% year-on-year). 2021 will see digitalisation of sales extended to some regional routes and ALSA will join forces with Mastercard in a bid to promote social mobility in public transport, with contactless payment made via the ALSA app, driving further digitalisation of sales and further cost efficiencies.

North America



Gary Waits
Chief Executive,
North America

Our business in North America has three areas of activity: student transportation, transit and shuttle services.

We operate in 33 US states and three Canadian provinces.

The student transportation business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students, and is the second largest private operator in North America.

Our transit business operates predominantly paratransit services across the USA.

Our shuttle business, operating predominantly through WeDriveU, offers corporate employee shuttle services and is also growing in the universities and hospital shuttle market.

Revenue

£869.2m

2019: £1,230.1m

Underlying Operating Profit

£12.4m

2019: £123.0m

Statutory Operating (Loss)/Profit

£(176.0)m

2019: £88.0m

Revenue

\$1,116.0m

2019: \$1,569.7m¹

Underlying Operating Profit

\$15.9m

2019: \$157.0m¹

Statutory Operating (Loss)/Profit

\$(226.1)m

2019: \$112.3m

Underlying Operating Margin

1.4%

2019: 10.0%

¹ Revenue and Underlying Operating Profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Pre-Covid

North America was performing strongly ahead of the pandemic, with revenue up 16% in the first two months of the year, largely driven by continuing growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing revenue by over 20% in the first two months).

Navigating the crisis

As the first lockdown hit in March, we saw schools rapidly close with no services running from mid-March through to the end of the 2019/20 school year, while demand for our transit and shuttle services fell dramatically in the second quarter with volumes declining by around 75% and 85% respectively at the low point. As the second wave of Covid-19 cases hit in July, we saw significant delays to the school start back, with only 26% of schools returning fully. Whilst we have secured significant revenue from customers where services have not operated, this has resulted in a decline in revenue of 29% for the year. A series of measures were taken to reduce costs, which helped to deliver

Underlying Operating Profit of \$15.9 million (2019: \$157.0m) despite revenue declining by over \$450 million. After accounting for separately disclosed items of \$242.0 million, of which \$200.1 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of \$226.1 million (2019: profit of \$112.3m).

Protecting staff and customers

Our first priority was to protect our employees and customers, and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- setting up the ‘coronainfo’ service to share our response to the virus and educate our employees on how to prevent its spread;
- establishing a crisis reporting protocol for all Covid-19 positive tests as well as potential exposures;
- establishing daily screening procedures to prevent those with symptoms from entering our workplace and criteria they must certify prior to returning to the workplace;
- establishing and communicating social distancing guidelines and maximum capacities for each work area;
- creating customised Covid-19 Prevention Plans at each depot;
- working with districts to establish protocols for social distancing and provision of sanitiser on our vehicles;
- thorough disinfecting of each bus twice daily and conducting spot-disinfecting of high-touch areas on the vehicle during routes; and
- spot-checks to enforce district and client procedures for wearing of masks by passengers.

Securing support

In school bus, we immediately engaged our customers on a contract by contract basis, negotiating and securing 61% of pre-Covid revenues for the second quarter. Ahead of the start back to the new school year, we agreed a tiered approach with any customers not returning to full classroom operating, explicitly linking services retained to revenue secured and temporarily laying off staff where revenue support was not forthcoming. Through the new school year we secured 73% of revenue with around 68% of services running in Q3, rising to 75% in Q4, through a combination of traditional and hybrid (mixture of traditional and online) learning.

In our transit operations, we worked with customers to amend contracts to allow for more flexibility to respond to rapid changes in volumes and demand including re-balancing of fixed and variable components of our remuneration. We renewed and expanded our Boston contract in 2020 with 150 more (customer supplied) vehicles and renegotiated contracts in Chicago, moving to a fixed fee plus variable rate model to mitigate risk under new or changing service levels. For the year as a whole across Transit, we ran around 61% of service (up to 72% by the year end) and secured 80% of pre-Covid revenue. In shuttle, the strength of our customer relationships saw us secure 80% of pre-Covid revenue despite only 24% of services operating.

We received a total of \$24 million in government grants under the US CARES Act and the Canadian Emergency Wage Subsidy programme, with these grants helping to support the continued employment and retention of our drivers and support staff during the periods of reduction in service caused by the pandemic.

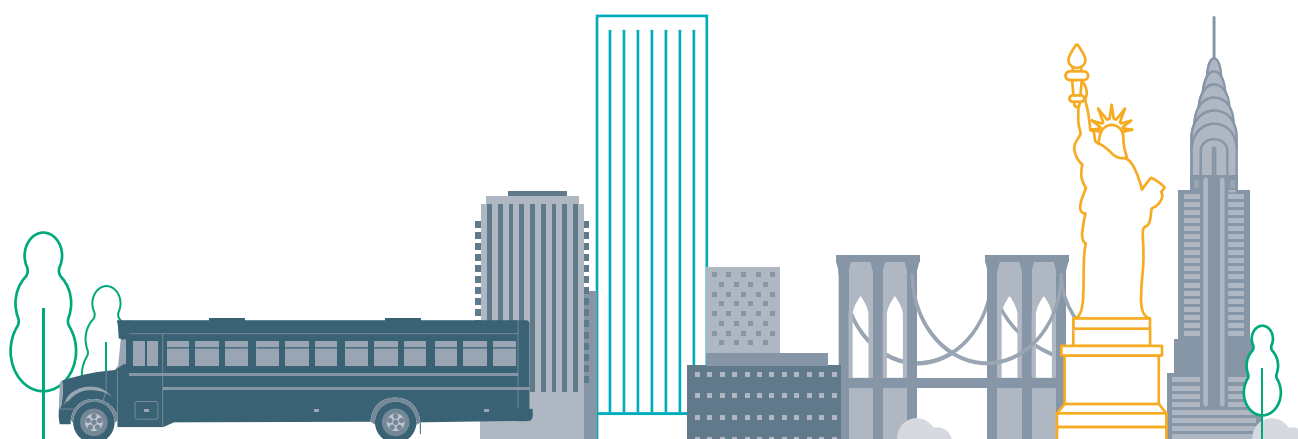
Reducing the cost base

We took swift action to reduce variable costs in line with service reductions. Where customers have not paid to retain staff, employees have been temporarily laid off, benefitting from improved welfare payments during the pandemic. At peak during the second quarter of 2020, we had temporarily laid off nearly 24,000 of our employees (over 80% of our workforce). In addition to flexing variable costs, we removed \$20 million of annualised fixed costs, predominantly through a reduction in headcount in central and support roles. During the year we undertook a full review of the contracts within our transit operations, and have taken steps to sell or shut down those operations where we do not believe that we can recover the impact of the pandemic in a reasonable period of time. The contracts in this category related to regional coach, retail taxi operations and some low margin fixed route contracts.

Supporting the community

Through these testing times we have also supported our local communities in many ways, including:

- the delivery of over half a million meals across a number of states to vulnerable people and families in need;
- delivery of school homework packs and lesson plans in Tennessee and Kansas; and
- providing shuttle services for key workers to hospitals in Chicago and employees in the biotech and manufacturing sectors in California.



Preparing for the future

Clearly, the new administration's pledge to get children back into schools in its first 100 days is a very positive development, as is the desire to electrify the entire nation's fleet of school buses. Funding packages are being finalised to help drive both of these outcomes.

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have continued to win and retain contracts. In addition, although revenue will be reduced as a result of the transit exits, the elimination of loss-making and low margin contracts as well as the impact of restructuring and sustainable cost control will improve ongoing profitability.

We won significant new school bus contracts in Boise, Idaho (150 buses); Fairbanks, Alaska (10-year contract, 150 buses); a 90-bus contract in Oakland, California; a 70-bus contract in Norwalk, Connecticut; a 100-bus contract in House Springs, Missouri; and most recently another 10-year contract in Alaska which starts in 2022. In addition, we won a 100-bus school bus contract where a small operator went into liquidation (in New York) and another where a competitor fell out with the customer in dealing with Covid-19 pressures (in Michigan, 60 buses). We also won a capex-light paratransit contract in Fresno, California, for up to five years. These wins were partially offset by losses of contracts where we could not meet expected returns thresholds; our overall retention rate was 91%.

In terms of school bus bidding, during the 2020/21 bid season we secured rate increases on expiring contracts of 3.8% which translated into 3.1% across the full portfolio, compared with average wage increases of 2.7%. In the current bid season for the school year 2021/22, 28% of the portfolio is expected to go to bid with some likely to negotiate extended contracts, and initial signs are positive on both pricing and wage demands. Earlier in the year, we saw an increase in the number

of school boards contacting us to explore potential outsourcing of their in-house services. Not surprisingly, in the last few months, school boards have focused on the day-to-day challenges of school restart and changing requirements in the face of rising Covid cases. Going forward, we believe that the pressures brought about by Covid-19 with regard to logistical challenges and school board budgets are likely to see some school boards move to outsource their school bus services. This, in combination with the ongoing pressure on smaller operators, should provide opportunities for future growth.

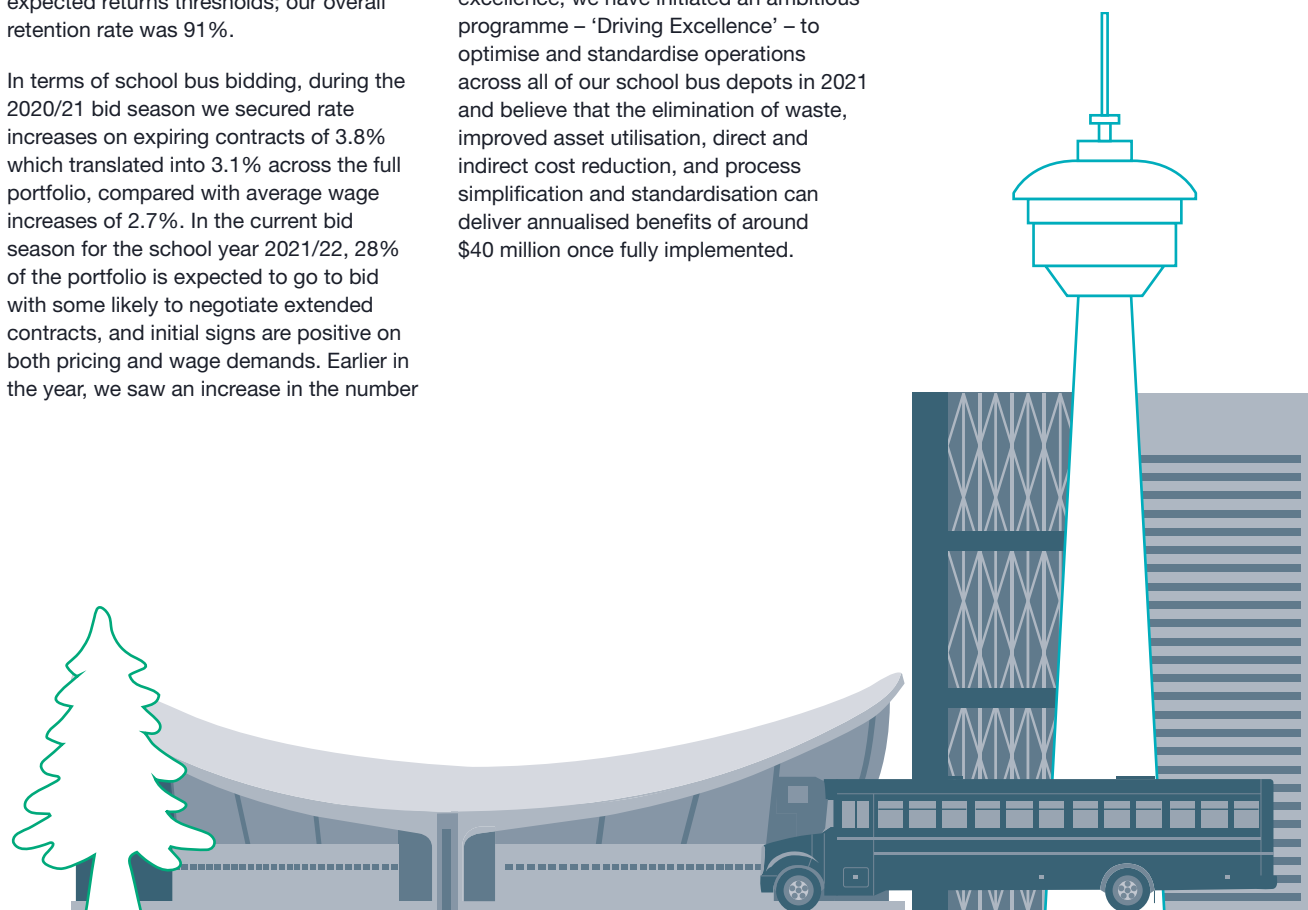
We continue to see plenty of growth opportunities in our shuttle business, where our customers are continuing to grow and are taking on additional office space to accommodate a growing workforce, despite some level of continued home-working. We have continued to win new shuttle contracts, most notably a five-year contract with Genentech, as well as a five-year contract with Gilead Sciences (further expanding our reach into the pharmaceutical sector), and have increased our exposure to the universities sector, winning a five-year contract with Princeton University. We see significant scope to expand in both the universities and hospitals sectors, with a strong pipeline of bid opportunities in the next 12 months.

Building on our tradition of operational excellence, we have initiated an ambitious programme – 'Driving Excellence' – to optimise and standardise operations across all of our school bus depots in 2021 and believe that the elimination of waste, improved asset utilisation, direct and indirect cost reduction, and process simplification and standardisation can deliver annualised benefits of around \$40 million once fully implemented.

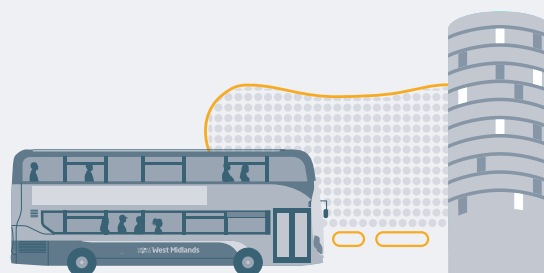
Finally, significant funding packages have been made available under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA), December 2020, which will underpin the profitable recovery in our sectors:

- the extension and expansion of the Employee Retention Tax Credit (ERTC) will help to maintain the flexibility in the cost base to respond to changing service across schools;
- transportation-specific packages include funding for multiple modes of transport, the most pertinent to us being \$2 billion in relief for coaches and school buses; and \$14 billion to provide operational aid to transit agencies; and
- education funding of \$82 billion to be used on a variety of services that underpin the ongoing functionality of school districts, colleges and universities.

In addition there are numerous local funding packages to assist with the electrification of the fleet.



UK



Tom Stables
Managing Director,
UK and Germany

National Express operates both bus and coach services in the UK. In UK bus, National Express is the market leader in the West Midlands – the largest urban bus market outside of London. We also operate in the accessible transport market. In UK coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services across the country. We operate non-scheduled coach operations under one brand – National Express Transport Solutions – serving the fragmented commuter, corporate shuttle, private hire and holiday markets.

In 2020, we have introduced the first of our electric vehicles into the fleet, and it is our ambition to be zero carbon emissions in our bus business by 2030 and in our coach business by 2035.

Revenue

£388.2m

2019: £599.7m

Underlying Operating Profit

£(49.0)m

2019: £85.0m

Statutory Operating (Loss)/Profit

£(99.4)m

2019: £84.1m

Underlying Operating Margin

(12.6)%

2019: 14.2%

Pre-Covid

Our UK business was performing well ahead of the pandemic, with revenue up by 5% in the first two months of the year. Broad-based growth in both our bus and coach businesses was augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

Navigating the crisis

As the first lockdown hit in March, we saw an immediate impact in both bus and coach with passenger numbers dropping dramatically. At the peak of the lockdown our bus operations saw patronage fall by more than 80% with 47% of service operating, while in coach, the nationwide travel ban effectively cut demand to zero. Demand came back quickly when restrictions were lifted but reduced just as quickly when they were re-imposed. For the year as a whole, passenger numbers were down 47% in our bus operations and 71% in our core coach operations. Overall, and taking into account the fact that our bus operations received revenue support through the COVID-19 Bus Services Support Grant (CBSSG), revenue declined by 35% in the year to £388.2 million, with almost all of the

revenue decline seen in our coach operations, down 67%. Wide-ranging measures were taken to reduce variable costs, made all the more necessary due to the imposition of social distancing on public transport which has enforced occupancy well below levels required to break-even. This has been particularly acute in our coach business, with the decline in revenue for the UK as a whole of over £210 million resulting in an operating loss of £49.0 million (2019: operating profit £85.0m), all of which was driven by performance of coach. After accounting for separately disclosed items of £50.4 million, of which £49.9 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of £99.4 million (2019: profit of £84.1m).

Protecting staff and customers

Our first priority was to protect our employees and customers and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- nightly fogging to deep clean vehicles and introduction of UVC air-con filtration systems;
- reconfiguring vehicle layouts to allow reduced seating capacity to comply with social distancing requirements;
- enforcing social distancing and mandatory wearing of face masks for customers on board, at bus stops and in our bus and coach stations;
- redesigning boarding procedures for coach passengers;
- monitoring passenger numbers on board buses, implementing dynamic duplicate services where necessary for social distancing;
- securing priority Covid testing for bus drivers as front-line key workers;
- temperature screening of employees and customers before boarding our coach services;
- installing protective screens on vehicles for drivers and in coach stations for customer facing staff; and
- issuing weekly email updates to all colleagues including latest health and safety advice and FAQs.

Securing support

In our UK bus operations we have proactively engaged and worked closely with Transport for West Midlands (TfWM) and the Department for Transport (DfT) to ensure the appropriate levels of service were provided in a socially distanced environment in line with changing travel restrictions. Funding was secured through the CBSSG to enable services to run at break-even, with the DfT recognising the vital role bus services provide for local communities and economies. Even at the peak of the first lockdown we operated 47% of services, rising to 103% of pre-pandemic service levels in the third quarter. With patronage close to 60% of pre-pandemic levels in the autumn, we have consistently operated services at a higher occupancy level than the industry average.

We have also made use of the Government's Covid Job Retention Scheme (CJRS) or 'furlough', most notably in our coach business where travel restrictions and lockdowns have severely reduced demand. In the first lockdown we suspended services for the whole of the second quarter and placed colleagues

onto the furlough scheme, up to 96% of coach employees at the peak. While a reduced and socially distanced service resumed over the summer, subsequent restrictions have seen more staff return to furlough with around 87% of coach employees currently furloughed. We also made use of the furlough scheme in bus in the second quarter when service levels were running at 47% of pre-Covid levels, but with service levels quickly returning to pre-Covid levels, this support was not required in the second half of the year.

In total, we have received revenue support of £83.2 million through the CBSSG in England, with a further £1.5 million from the equivalent arrangement in Scotland, together with cost support of £27.1 million through the CJRS. In partnership with TfWM, we are also currently in negotiations with the DfT to secure future funding through new recovery partnerships whilst the impact of Covid-related travel restrictions and social distancing persists.

Reducing the cost base

In addition to the temporary staff savings enabled through the Government's CJRS, we took rapid action to cut operating costs, most notably in our coach operations where operating costs have been reduced wherever possible to reflect service reductions. Whilst the most significant cost saving was in payments made to third party coach operators, we have provided specific Covid support grants to these operators to cover a proportion of their fixed costs. We believe that without making these payments to our partner operators, a number of them would have gone out of business with significant implications for service resumption once restrictions are lifted.

In addition, we introduced a number of cost initiatives which will also flow into 2021 and beyond, including: the closure of our Bordesley depot, with all employees and services transferred to other sites; the consolidation of our coach and bus head offices into one single site, providing not only cost savings but also better opportunities for collaborative working; network redesigns enabling more efficient services; the outsourcing of non-core functions such as cleaning and fuelling; and further digitalisation efficiencies through digital tickets and also engineering processes. These combined initiatives should deliver annualised cost savings of around £30 million.

We also made the strategic decision to dispose of our small, remote bus operations in Dundee.

Supporting the community

Throughout the crisis we have provided assistance to the communities we serve: our NEAT operations provided direct shuttle services for NHS workers to hospitals; transported the children of key workers to school; delivered food parcels to vulnerable children and families in need; and most recently, we have been transporting vulnerable and elderly people to vaccination centres.

Preparing for the future

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have taken a number of actions in 2020 that position our UK businesses for growth once restrictions are lifted.

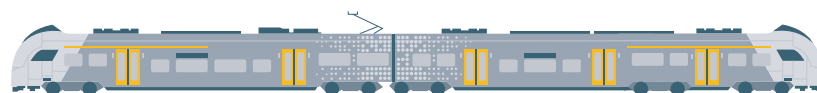
We restructured our non-scheduled coach operations to form a single operation, launching National Express Transport Solutions (NETS) to leverage our brand and presence in the fragmented commuter, corporate shuttle, private hire and holidays markets. And we are already seeing early success with a significant pick-up in advance holiday bookings – with nearly three times the normal level of advance bookings seen in the first two months of the year, with customer confidence boosted by the rapid roll-out of vaccines across the UK.

Our NETS business secured a major contract for employee shuttle services with a major retailer. Significantly, this is the first time this retailer has contracted with a single supplier for these services. Our accessible transport business, NEAT, has won new contracts outside of the West Midlands for the first time, extending the footprint into Warwickshire with two new contracts – and we see further opportunities ahead in this £900 million market. Bus has won some small new contracts and tenders as well as launching a number of new commercial routes, including an express service from Walsall to Wolverhampton.

Our coach operations have had to be very agile in the last year in response to constant changes in travel restrictions, with services flexing up and down, often at very short notice. Bolstered by these learnings coach stands ready to rapidly ramp up services once restrictions are lifted, and our experience in the last year demonstrates that there is pent-up demand for our services. Our investment over the years in network management tools and processes means that we can dynamically optimise as the service scales back and we are targeting an 8% reduction on annualised network costs as we build back to full scale to deliver c.£10 million of the cost savings noted above.

We have made good progress on our environmental ambitions. Not only have we launched the first 29 electric buses (EVs) on our bus networks in the West Midlands, but working in partnership with TfWM, Coventry is set to become the first electric bus city in the UK. This will secure funding for up to 170 EVs, with the new fleet starting to be delivered in 2022, not only bringing significant environmental benefits to Coventry but also reducing operating costs in our business. We are also delighted to have won the bid to operate 20 new hydrogen Platinum buses in Birmingham, all funded by Birmingham City Council (BCC), and entering service later in 2021. We continue to work with the Mayor, Councils and TfWM to secure additional funding for further zero emission buses, with the ambition for the West Midlands to become the first zero emissions region in the UK. June 2021 will see the launch of the Clean Air Zone in Birmingham and we are working closely with both BCC and TfWM to optimise the modal shift away from cars onto buses.

The investment we have made in digital in recent years is continuing to drive a greater proportion of sales via digital platforms, with over 70% of customers now purchasing digital tickets in bus, helping to reduce costs. 2021 will see the launch of new and more flexible contactless products with weekly and three-day price capping, adding to our already popular daily capped product (the first and largest of its kind outside London), making it easier and cheaper for customers to travel on our services. And we have raised the level of digital capability across the UK, implementing a common UK website platform which has enabled rapid roll-out of new websites across each of our businesses, improving the performance and security of our websites and lowering costs.



Germany

National Express has been operating rail services in Germany since Dec 2015.

We operate a number of lines in North-Rhine-Westphalia through our contracts for Rhine Munster Express and Rhine-Ruhr Express.

The German regional and urban rail market is worth around 9 billion Euros, with contracts awarded by regional passenger transport authorities.

Reported revenue is up 52.8% to €156.6 million (2019: €102.5m), reflecting the start-up of two services in 2019 for Rhine-Ruhr Express (RRX) services, with a third service mobilised in December 2020. The Underlying Operating Loss of €5.5 million in 2020 compared with the 2019 Underlying Operating Profit of €5.7 million is driven by contract accounting. In essence the positive adjustments to full lifetime contract profitability that were made in 2019 have been offset by a similar size reduction this year as we flow through the impact of the pandemic. Without these accounting adjustments, the business generated a small underlying operating profit in both years.

As an immediate response to the pandemic, services on our networks were reduced to around 70% of pre-Covid levels in March and April. However, since May, our rail operations have run services at 100% of their pre-Covid levels with 29 million passenger journeys made during the year.

Our German Rail operations have built on their reputation for high performance and reliability with the successful mobilisation of the third service in our RRX contract; crucially ensuring no issues on driver recruitment and training; and helping to further strengthen our relationship with the local passenger transport authorities (PTAs); positioning the Group well for future growth.

Committed to managing risk effectively

The Board recognises that the appropriate management of risk is key to the delivery of the Group's strategic objectives. As set out on pages 12 and 13, we actively capitalise on the opportunities impacting our industry to ensure that the Group remains well positioned to deliver on the evolving needs of our customers. Our diversified business model means that we have low operational leverage with no single contract material to the Group. This enables us to take on a level of financial leverage in expanding the business. As a leading international transport company, however, the Group is exposed to an evolving landscape of risks, whether industry-wide or more specific to the Group, which could potentially impact performance or reputation negatively as well as positively.

The Board remains ultimately responsible for the effective management of risk in the Group, and is committed to driving continuous improvement and adopting best practice in this crucial area. In addition to the broad strategic responsibilities of the Board, two or three times annually the Board:

- reviews the principal risks faced by the Group and approves the Group Risk Register;
- approves the Group Risk Appetite Statement; and
- reviews and approves the Group Emerging Risk Register.

The Audit Committee reinforces the process further by conducting 'deep dive' reviews, either on specific risks such as cyber security, or through discussions with divisional leadership teams to challenge their divisional risk registers.



Risk management framework

The effective management of risk is embedded in many ways in day-to-day management activities, for example the usage of very granular, detailed KPI tracking in monthly divisional reports, or robust due diligence on acquisitions. This is the 'first line' of the Group's risk management structure where internal control and risk management processes are based on the 'Three Lines Model', summarised below.

| Defence | Responsibility | Actions |
|-------------|---------------------------------|--|
| Oversight | Board | <ul style="list-style-type: none"> – Sets strategic objectives – Determines overall risk culture and appetite – Establishes organisational structure with defined lines of responsibility, delegated authorities and clear operating processes – Reviews and approves Group Risk Register, Risk Appetite Statement and Emerging Risk Register, two or three times annually |
| | Audit Committee | <ul style="list-style-type: none"> – Conducts 'deep dive' reviews of divisional risk registers, or specific Group risks |
| Third line | Group internal audit | <ul style="list-style-type: none"> – Provides reasonable assurance that systems of risk management, internal control and governance are effective |
| Second line | Group Executive Committee | <ul style="list-style-type: none"> – Support divisions with 'first line' responsibilities – Coordinate and report on Group-level risks |
| | Group functions including Risk | <ul style="list-style-type: none"> – Build risk capability and understanding |
| First line | Divisional Executive Committees | <ul style="list-style-type: none"> – Identify, assess and report key risks – Regularly review and update divisional risk registers |
| | Divisional management | <ul style="list-style-type: none"> – Implement risk mitigation plans |



Risk appetite

The Board recognises that continuing to deliver superior returns for shareholders and other stakeholders is dependent upon accepting a level of risk. Our risk appetite sets out how we balance risk and opportunity in pursuit of our strategic objectives.

Zero tolerance

The Group has zero tolerance for risk which may impact:

- the safety of our employees, customers or the general public;
- our reputation and brand; and/or
- our legal and regulatory compliance.



Core business/operational excellence

The Group has low tolerance for risk in its core operations.



Technology

The Group accepts a moderate level of risk in investing in and adopting technologies that will enhance customer service or improve operational and safety performance.



Strategic growth/M&A

The Group accepts a moderate level of risk in pursuing new opportunities, including potential new markets.

Prioritising and reporting risks

The management of risk is embedded in the day-to-day operations of divisional management teams. A key element of this is the regular review and update of detailed 'risk registers' in each division, in which risks are identified and assessed in terms of both the probability of the risk occurring and its potential impact.

Group-level risks are either derived from a 'top-down' review, or from the divisional risk registers, because either the risk affects multiple divisions, or is of a materiality in itself that is considered of Group significance. Each of these Group-level risks is then assessed by the Board in terms of its potential impact on the Group and its key stakeholders. The Group prioritises risk mitigation actions by considering risk likelihood and potential severity.

Covid-19

The Covid-19 pandemic has had a significant impact on the public transport sector with mobility significantly restricted by lockdowns across the world. The Group has limited the impact of the pandemic by renegotiating contracts, entering in new arrangements with transport authorities and other customers to continue to operate on a pay-per-mile basis, and taking swift and decisive cost reductions.

Whilst there is good reason to believe that the deployment of vaccination programmes,

and the development and introduction of new therapeutic treatments and drugs will speed recovery from the pandemic, the risk remains that new virus mutations or problems with the delivery of the vaccine may delay the recovery. We have introduced a new moderate likelihood, significant impact risk to cover both a materially slower recovery than base forecasts and lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home.

Emerging risk

The Emerging Risk Register is reviewed and approved by the Board. The Group considers an emerging risk to be one that is not currently having a material impact on the business, but has a reasonable likelihood of impacting future strategy or operations. The Group's approach to managing emerging risk exposure is to:

- establish a wide universe of potential emerging risk, using horizon scanning techniques, published external research and peer/competitor review;
- assess these risks taking into account our industry sector and market position, and our strategy, to determine broad relevance;
- consider the potential impact of each risk on the Group's strategy, finances, operations and reputation, taking into account the likelihood of the risk occurring, and the speed with which it may manifest; and

- develop actions to address the risks where appropriate.

As with the Group's principal risks, many of the emerging risks present equal or greater opportunities. For example, climate change and ageing population demographics, which are risks fundamental to many sectors, are more of an opportunity than a threat to the Group.

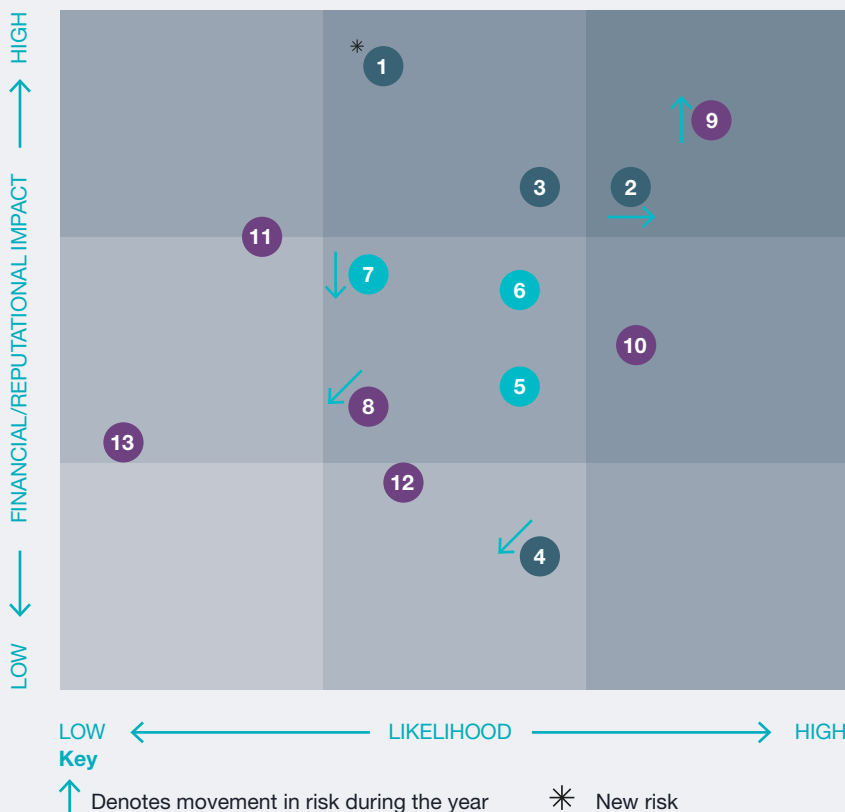
As part of the process to identify emerging risks, Group businesses continue to monitor events that may develop anywhere in the world which have the potential to become global (e.g. a health pandemic, political conflict, climate/weather catastrophes) or to impact the markets where the Group operates.

From a very wide universe of potential emerging risks, the Group has, through the above process, identified a number of risks that warrant closer review. These have been further segregated into those requiring only a monitoring approach at present and those where actions are being developed alongside the principal risks. There are four risks that currently fall into the latter category.

These broadly cover the risk of disruption from integrators and/or demand-responsive MaaS operations as well as the future possibilities offered by autonomous vehicles.

It should be noted that the Group considers all these areas to be significant opportunities as well as risks.

Principal risk matrix



Principal risks and uncertainties

Macro/external risks

Key



Core business/
operational excellence



Technology



Strategic growth/
M&A



New risk in the year



Increase in risk
during the year



Reduction in risk
during the year

Potential impact

Management/mitigation

Opportunity

Change in risk in the year

1 Extended Covid-19 impact



– Once restrictions are lifted and mobility recovers, there may be lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home

– Re-balance investment across our portfolio in the short term, e.g. less reliance on airport work
– Remain flexible to scale service up and an down in line with changing demand
– Continued focus on customer service, highlighting the benefits to society of quality public transport
– Relentlessly work with customers and staff to ensure safety is paramount

– The Group's leadership positions in many diverse and attractive markets are likely to strengthen, as other operators are unable to withstand the impact of the pandemic
– When the world emerges out of the pandemic it will be confronted with the need to power an economic recovery with high quality, cleaner and greener public transport at its heart. The alternative is inefficient, congested towns and cities with dirty air.

– This is a new risk for 2020

2 Economic conditions



– Declining economic conditions, particularly following the current pandemic, potentially impact demand for discretionary travel
– Improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs

– Geographical diversification of the Group provides a natural hedge to some economic risk
– Strategic plans are stress tested for differing economic and pandemic scenarios
– Strong strategic focus on people/talent management and recruitment/retention
– Delivery of excellence in service and operations

– Despite a generally unsettled and a deteriorating economic outlook due to the pandemic, private consumption and demand conditions for public transport, particularly urban, continue to be strong
– Higher unemployment rates relieve pressure on staff costs and turnover

– Due to the pandemic, economic growth is expected to slow or even reverse in our major markets in the short to medium term

3 Political/geopolitical/regulatory landscape



– Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency
– Franchise renewal risk in Spain
– UK bus franchising or alternative models
– Financial or reputational cost of failure to comply with changing regulations or legislation

– Constant monitoring of the political landscape and focus on effective stakeholder management
– Political risk is specifically considered when considering bids or new market entry
– The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government
– Focus on operational excellence and delivering value in our franchises and contracts, and to our fare paying customers

– Political and social pressure continues to grow on congestion and clean air, which favours public transportation
– Increasing city regulation and investment in bus and Bus Rapid Transit (BRT) schemes
– Continued liberalisation of markets in many territories

– The Spanish franchise renewals process has paused and is the process is being reviewed
– Continued strengthening of our relationships with key political stakeholders and our reputation as a high quality, innovative partner
– Birmingham's Draft Transport Plan is pro public transport, demonstrating the direction of travel amongst enlightened local authorities
– Significant support of public transport by governments during the pandemic

4 Brexit



– An economic downturn in the UK could adversely impact demand for our services
– Reduced travel volumes to/from UK airports could affect demand for our UK coach services
– Supply chain disruptions could result in respect of imports from the EU

– Ongoing close monitoring of specific Brexit-related risk issues
– Geographical diversification reduces Group-level risk; exposure to the UK market is less than 25% of total revenue
– Supply chains risk assessed

– Not applicable

– Whilst the achievement of a deal between the EU and the UK has eliminated much of the uncertainty, the full impact of the changes continues to create risks, albeit significantly more limited

Key



Core business/
operational excellence



Strategic growth/M&A



Increase in risk during the year



Technology



New risk in the year



Reduction in risk during the year

Strategic risks

| | Potential impact | Management/mitigation | Opportunity | Change in risk in the year |
|---|--|---|---|--|
| 5 Changing customer expectations in a digital world <div> </div> | <ul style="list-style-type: none"> Increasing expectations of customers to be able to buy tickets and manage their travel plans through a variety of digital platforms Failure to develop applications and digital channels that meet these increasing expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives | <ul style="list-style-type: none"> Comprehensive digital strategies developed in each division Divisional 'digital scorecards' are reviewed monthly by the Group Executive Committee to monitor the effectiveness of various digital channels Developing strategies for demand responsive services Oversight by Chief Digital Officer | <ul style="list-style-type: none"> Leadership in adopting new technologies will enhance our service to existing customers and attract new ones Millennials are an increasingly important target market and more inclined to use public transportation if the service is right | <ul style="list-style-type: none"> Innovation programmes implemented in North America, UK and Spain are improving the customer digital experience Continued increases in bookings through online and digital mobile platforms Continued roll-out of ticketless operations |
| 6 Alternative fuel vehicles (AFVs) <div> </div> | <ul style="list-style-type: none"> Increasing popular, political and customer demand for alternative fuel (electric, hydrogen etc.) vehicles Transition involves potentially material changes in financing, maintaining and operating the assets, creating execution risk Requires significant change to infrastructure | <ul style="list-style-type: none"> Environmental leadership with pledge to never again buy a diesel bus in the UK and launch electric vehicle procurement competition in UK coach. Ambition to reach zero emissions in UK bus by 2030 and UK coach by 2035 Cross-division executive leadership of AFV strategy Close engagement with new and existing original equipment manufacturers Pilot testing in a number of areas | <ul style="list-style-type: none"> AFVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment Total Cost of Ownership equivalence versus net present value (NPV) by around 2024 Commitments in other divisions | <ul style="list-style-type: none"> Electric vehicles entered service in Coventry, Birmingham and Bilbao EV pilot project underway in New York First autonomous electric bus service in Madrid university campus |
| 7 Competition and market dynamics <div> </div> | <ul style="list-style-type: none"> Competition arises from direct price competition; inter-modal (e.g. coach vs. rail); and emerging threats such as new market entrants or disruptive technologies Changes in customer demographics impact demand and the nature of services required Potential 'disintermediation' risk created by aggregators seeking to 'own' the customer relationship | <ul style="list-style-type: none"> Commitment to service excellence, providing the best solutions to our customers Price leadership and value for money Revenue trends are closely monitored and RMS deployed Investment in technology Focus on operational excellence – even with an aggregator model, service delivery is critical Targeted acquisitions and growth in the most attractive markets | <ul style="list-style-type: none"> Ageing population in major markets creates additional paratransit opportunities Continuing urbanisation drives cities to partner with high quality transportation operators Weaker transport operators become targets for acquisition | <ul style="list-style-type: none"> Operators without strong financial position and backing are more unlikely to survive in the current climate, reducing competition |

Key

Core business/
operational excellence

Strategic growth/M&A



Increase in risk during the year



Technology



New risk in the year



Reduction in risk during the year

Operational risks

| | Potential impact | Management/mitigation | Opportunity | Change in risk in the year |
|--|---|--|--|---|
| 8 Attraction/ retention of talent/HR/ labour relations | <ul style="list-style-type: none"> – Lack of available management talent/ leadership skills can inhibit growth – Shortages in drivers and other key staff can disrupt operations and lead to wage and benefits cost inflation – Increased unionisation and/or poor labour relation presents increased risk of strike or operational disruption | <ul style="list-style-type: none"> – The Group is committed to employee engagement and invests in a number of retention programmes – Appropriate training is provided for managers and supervisors – Reward and recognition programmes are established to further enhance employee engagement – Focus on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary | <ul style="list-style-type: none"> – Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities | <ul style="list-style-type: none"> – Higher unemployment levels in key markets due to the pandemic have led to lower pressures on recruitment, retention and cost inflation – Established diversity and inclusion programmes |
| 9 Cyber/IT failure/ General Data Protection Regulation (GDPR) | <ul style="list-style-type: none"> – Major IT failure could disrupt operations and lead to loss of revenue, especially in the coach businesses – Data compromise involving a loss of customer information could result in reputational damage and significant remedial costs – Breach of the EU General Data Protection Regulation (GDPR) or the US California Consumer Privacy Act (CCPA) could result in a regulatory investigation and financial losses | <ul style="list-style-type: none"> – Continuous investment in organisational and technical measures to protect data assets – Revised cyber security strategy aligned with the threat landscape (including the Covid-19 pandemic) – Regulatory compliance plans in place, tailored to each division's exposure (GDPR or CCPA) | <ul style="list-style-type: none"> – Strengthened resilience against cyber threats and IT outages increases awareness and leverage of technology across the Group | <ul style="list-style-type: none"> – The pandemic, and in particular the material rise in home-working, has led to an increase in remote access exploitations and phishing campaigns – An adaptable cyber security programme supported improvements in our resilience and risk management |
| 10 Terrorism | <ul style="list-style-type: none"> – Direct impact through asset damage, disruption to operations and revenue loss – Potential indirect impact from a general reduction in the public's appetite to travel reducing demand and revenue | <ul style="list-style-type: none"> – Close liaison with government agencies and industry partners – Major incident/emergency plans are developed in all divisions – Insurance coverage is available and in place for some terrorism-related risks – Risk assessment of any new business growth opportunity | <ul style="list-style-type: none"> – n/a | <ul style="list-style-type: none"> – UK Government threat level increased from 'substantial' to 'severe' in November (but returned to 'substantial' in February 2021) – In Spain and the USA the threat levels have remained unchanged |

Key



Core business/
operational excellence



Strategic growth/M&A



Increase in risk during the year



Technology



New risk in the year



Reduction in risk during the year

| | Potential impact | Management/mitigation | Opportunity | Change in risk in the year |
|--|--|--|--|---|
| 11 Safety, litigation and claims | <ul style="list-style-type: none"> Major safety-related incident could impact the Group both financially and reputationally Higher than planned claims or cash settlements could adversely affect profit and cash outflow Covid-related claims from employees or customers Non-compliance with regulations can create legal and financial risk | <ul style="list-style-type: none"> Very strong safety culture Dedication to leading edge safety technology PPE and other anti-Covid procedures in place across the Group Appropriate insurance coverage for accident-related claims to employees and third parties with experienced claims management and legal teams in each division All divisions have established safety audit programmes, validated by Group internal audit Full adherence to government guidelines and regulation regarding Covid-19, and continued monitoring of change to relevant legislation | <ul style="list-style-type: none"> Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering | <ul style="list-style-type: none"> The pandemic has resulted in new, or broadened, claims exposures including claims from passengers or employees who contract Covid-19 The Group was able to achieve satisfactory insurance renewals due to our commitment to safety and to effective litigation/claims management |
| 12 Natural catastrophe /extreme weather /loss of key facility | <ul style="list-style-type: none"> Loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss and lost revenue Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged | <ul style="list-style-type: none"> Geographical diversification of the Group provides a natural hedge to this risk Established emergency and continuity plans in each division Insurance coverage is available and in place for some hazard-related risks | <ul style="list-style-type: none"> n/a | <ul style="list-style-type: none"> Continued general increase in extreme weather events around the globe, including hurricanes, storms and wildfires |
| 13 Credit/financing | <ul style="list-style-type: none"> Contract-based operations such as North America and Spanish urban are exposed to late or non-payment risk from customers, impacting Group liquidity A material increase in interest rates would increase the Group's cost of borrowing Material tightening in investment grade credit markets could impact the Group's liquidity | <ul style="list-style-type: none"> Close monitoring of receivables and appropriate provisions made for possible non-collection Strong relationships with a number of banks Continued monitoring and scenario analysis over covenants Appropriate liquidity maintained through committed bank facilities, finance lease programmes and debt capital market issuances | <ul style="list-style-type: none"> Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth | <ul style="list-style-type: none"> Bank facility (RCF) extended for a further year £190 million one-year committed bank facilities executed in response to Covid-19 £600 million commercial paper available under the HM Treasury and Bank of England's CCFF programme; this will be allowed to lapse in March 2021 £230 million equity placing £500 million hybrid issuance to structurally reduce net debt Lending covenants amended/waived until December 2021 |

Viability Statement

Assessment of prospects

The Board continues to believe that the Group's prospects are positive in the medium to long term.

We are diversified:

- No one contract contributes more than 3% to revenue
- Other than during the Covid-19 pandemic, the Group receives only 4% of its revenue in the form of grants and subsidies
- The Group operates in eight countries and across multiple modes or usages of transport
- We are positioned to benefit from the future trends in transportation
- Transport demand continues to grow whilst private car ownership is beginning to decline; the gap will be filled by public transport
- Even following the pandemic, public transport is fundamental to the long-term solution for the urban challenges of congestion and poor air quality; our ambition to be the world's greenest transport company places us at the forefront of this opportunity

We invest in the business to secure its future:

- Over the five years prior to 2020, 90% of free cash flow has been reinvested into the business
- We invest in technology to allow customers to access our products at competitive prices and to deliver our services safely and efficiently
- We continue to selectively bid for and win new business; notable wins over recent months include contracts in Lisbon and Porto that mark our entry into the Portuguese urban bus market, new employee shuttle contracts in WeDriveU and new school bus contracts

The Group has strong liquidity, with £1.9 billion of cash and undrawn facilities available as at 31 December 2020. £0.6 billion of this is the Bank of England CCFF, which the Directors will allow to lapse in March 2021, given the strong liquidity position. The Group's credit rating is investment grade.

Principal risks and assessment period

The Board reviewed the Group's principal risks (pages 38-41), looking at each risk's impact, likelihood and the timeframe over

which the risk was likely to reduce Group cash flows. On this basis, the highest impact and highest likelihood risks were considered in modelling a severe but plausible downside to assess the Group's future viability.

The Board concluded that three years would continue to be an appropriate timeframe over which to assess the Group's ongoing viability, as within that timeline a number of risks' impact/likelihood was expected to reduce:

- Pandemic: the impact of Covid-19 is expected to have substantially subsided in any scenario
- Regulatory: the outcome of the majority of the major Spanish concessions renewals is expected to have become more certain
- Brexit: the immediate and medium-term impact of Brexit will be felt

Assessment of viability

In assessing viability the Directors have considered the Group's three-year financial projections (the base case) and have then applied stress tests.

These stress tests have been derived from the Group's principal risks and uncertainties and the Group's estimates of the impact of Covid-19, using external forecasts (such as those published by the IMF and OECD) to help inform the shape of these assumptions.

Covid-19 assumptions

We have specifically not modelled a new 'black swan' event whereby a brand new pandemic surfaces with little to no notice and for which there is no vaccine; rather, we have modelled a protracted recovery from the current pandemic due to weaker-than-expected efficacy of the vaccines and/or shortages in their availability and/or new strains of the virus.

In this downside scenario we assume that Group revenue (on a like-for-like basis) does not recover to pre-pandemic levels until the end of 2022; this is broadly a year later than our base case. This is in line with the OECD's downside forecasts, as of late 2020, for recovery in global GDP.

The base case assumes that there will be government support in 2021; this is detailed in the going concern assumptions in note 1 to the Financial Statements.

No government support beyond pre-pandemic levels is assumed beyond 2021 in any scenario.

All other stress tests

Economic environment: driver wage inflation continues in North America, and high speed rail aggressively undermines profitability in Spanish long haul coach travel.

Regulatory landscape: material margin loss in ALSA following resolution of long haul franchise renewal process.

Terrorism: terrorism event hits both UK and Spanish consumer confidence, resulting in lower levels of discretionary travel.

Cyber: IT system failure and data loss following cyber attack in UK and Spain causes significant revenue loss and financial penalties.

Credit/financing risk: material increase in the cost of borrowing and reduction in liquidity following a period of reduced cash generation and profitability, combined with a loss of factoring facilities.

Climate change: increase in the economic disruption from extreme weather.

Conclusion

In the unlikely event of this concurrence of events, the Board would mitigate through reduced operating costs and capital expenditure. During assessment, the Group's continued cash generation, access to liquidity and funding, and mitigation actions demonstrated that it could tolerate the impact of the risk scenarios without exhausting liquidity or breaching covenants. However, if the concurrence of events listed above were to collectively occur, the covenant headroom would be narrow in the second year. Should a covenant amendment be required, the Directors consider it likely that one would be granted, given the strength of the relationships with lenders, the support provided to date and the fact that the covenant amendment would only be required as a result of temporary Covid-19-induced EBITDA pressure, whilst liquidity remained robust and long-term prospects continued to be strong.

Viability Statement

Based on the results of the analysis, the Board has a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the three-year period of assessment.

Non-financial information statement

The new non-financial reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006 require us to provide information to help stakeholders understand our position on non-financial matters. The table below sets out where you can find this information:

| Requirement | Policies which govern our approach | Further information |
|--|--|--|
| Environment | <ul style="list-style-type: none"> Group Environmental Policy Health & Safety Policy | <ul style="list-style-type: none"> Environment page 51 Safety & Environment Committee Report pages 90 to 94 Environmental performance data pages 48 to 51 |
| Employees | <ul style="list-style-type: none"> Equal Opportunities & Diversity Policy Workplace Rights Policy | <ul style="list-style-type: none"> Social capital pages 53 to 54 |
| Human rights | <ul style="list-style-type: none"> Human Rights Policy Modern Slavery Policy Whistleblowing Policy Privacy Policy | <ul style="list-style-type: none"> Social capital pages 53 to 54 Audit Committee Report pages 83 to 86 |
| Social matters | <ul style="list-style-type: none"> Rather than a specific policy, our approach to social matters is framed by our Community and Environment Value | <ul style="list-style-type: none"> Social capital page 53 to 54 |
| Anti-corruption and anti-bribery | <ul style="list-style-type: none"> Anti-bribery and Corruption Policy Purchasing Policy | <ul style="list-style-type: none"> Social capital page 53 to 54 Audit Committee Report pages 83 to 86 |
| Policy implementation, due diligence and outcomes | <ul style="list-style-type: none"> Anti-bribery and Corruption Policy Purchasing Policy | <ul style="list-style-type: none"> Corporate Governance pages 56 to 75 (including Board activity during the year page 62 and Audit Committee Report pages 83 to 86) |
| Principal risks and impact on business activity | | <ul style="list-style-type: none"> Risk management pages 36 to 41 Audit Committee Report page 83 to 86 |
| Description of business model | | <ul style="list-style-type: none"> Our business model page 14 to 15 |
| Non-financial key performance indicators | | <ul style="list-style-type: none"> Key performance indicators pages 18 to 19 Environmental performance data pages 48 and 51 |



Engaging our stakeholders

Our partnership approach to stakeholder relations

Our drive to be a trusted partner to all our stakeholders is rooted in our Purpose. We form relationships based on mutual understanding and respect and, by engaging meaningfully, we gain valuable insights which influence decision-making at every level of the business from the Board to local management teams. Acting on these insights helps us continuously improve what we offer to stakeholders, further reinforcing this virtuous circle.

How our Board of Directors engages with and has regard to stakeholder views

While the majority of engagement with stakeholders takes place within the business divisions and is led by divisional management, the Company's Board engages directly with certain stakeholders, as described on pages 67 to 72 of the Corporate Governance Report. The Company's Directors are also kept regularly apprised of all stakeholders' views through divisional reports to the Board, so that Directors are able to have regard to such views in their decision-making, as illustrated by reference to various stakeholders' interests in our Section 172(1) statement on pages 46 and 47 of this Strategic Report.



Our people

Our greatest asset is our experienced, diverse and dedicated workforce. Their commitment drives the delivery of a safe and reliable transport service. We are committed to personal development, ensuring colleagues are appropriately supported and rewarded for all they do.

They told us they value

- A workplace that values diversity, champions inclusion and respects the rights of all employees
- Opportunities for progression
- Fair pay and reward
- Health, safety and wellbeing

How we engage with them

Engagement is executed locally against global policies:

- Frequent newsletters and feedback opportunities in each division
- Regular corporate communications to keep colleagues informed about how the Group is performing
- Regular communication with local management
- Wellbeing pulse surveys
- Diversity and inclusion surveys
- Open and constructive dialogue with trade unions

Engagement focus in 2020

With the unprecedented changes in working practices driven by our response to the pandemic we significantly increased engagement:

- Enhanced health and safety briefings for front-line workers
- Support for remote working practices to balance childcare/home-schooling etc.
- Wellbeing support during periods of furlough
- More frequent business updates

The value of engagement

The overwhelming feedback from our colleagues was praise for our response to the pandemic and specifically how we have engaged them. We believe we have maintained and even enhanced our colleagues' trust, resulting in a more engaged workforce which will reinforce talent retention.

Links to our KPIs

FWI
Passenger journeys



Passengers

As a public transport company, our ongoing success is grounded in continuing to exceed passengers' expectations for safe and reliable services at a fair price on clean and increasingly green vehicles.

They told us they value

- Safe and reliable services at a fair price
- Consistent service performance that builds trust
- Prompt and pragmatic response to changing demands
- Open and honest communication, especially during times of uncertainty and disruption

How we engage with them

Engagement is tailored to specific segments in each market and is increasingly digital in nature:

- Increased communication via websites, apps and social media, particularly on service changes
- Rapid updates on travel restrictions and up-to-date advice on health and safety measures
- Continual review of customer feedback via customer service centres
- Ongoing customer panels and focus groups

Engagement focus in 2020

We increased engagement with our passengers as government responses to the pandemic have materially impacted our services:

- Reassurance of safety measures for passengers
- No quibble reimbursement for cancelled travel
- Continuous, real-time updates on service changes

The value of engagement

Our passengers have communicated a pent-up demand for our services providing a strong base from which to rebuild revenue once restrictions are lifted. Throughout the pandemic, we have seen positive feedback on how we have run our services.

Links to our KPIs

FWI



Customers

Public transit authorities, school boards and other corporates are key customers and we aim to earn their loyalty by providing safe, reliable and great value services transportation solutions on clean and increasingly green vehicles.

They told us they value

- Safe and reliable services that represent great value for money
- Consistent delivery that builds trust
- Accurate and open dialogue about successes and challenges
- A good company, giving something back

How we engage with them

Given the nature of our business, customer relationships are managed locally in each division:

- Direct bilateral dialogue with school board, transport authority and corporate customers
- Engagement through existing and newly created industry bodies
- Ongoing customer surveys tailored to understand the impact of the pandemic and our response

Engagement focus in 2020

We have been in near constant contact with our customers to understand their changing needs in the context of the pandemic:

- Reassurance on safety measures for passengers
- Flexing services and schedules in line with changing travel restrictions
- Negotiating support packages to enable us to retain colleagues where services are not running

The value of engagement

We have received praise for communication levels during the pandemic and we believe we have preserved and even enhanced customer relationships through the crisis. This should provide a strong platform for growth once travel restrictions are removed.

Links to our KPIs

FWI
Passenger journeys



Governments & regulators

Public transit authorities, in addition to being customers in some cases, are key partners through their role of setting transport policies and providing grant funding for transport initiatives. Regulators also monitor the high standards we operate by.

They told us they value

- Safely delivering reliable transport services for communities
- A partner to help to solve the challenges of congestion, carbon, clean air and inclusive growth
- Broader positive community impact

How we engage with them

We engage in dialogue with central and local government departments and transport authorities in each market in which we operate both as a company and through industry associations:

- Bus Alliance in the West Midlands
- Transport for London (for UK coach)
- North America Transit Alliance
- National Student Transport Association
- CONFEBUS for the Spanish transport industry

We also comply with our reporting obligations to regulators

Engagement focus in 2020

Engagement has centred around working together to respond to the pandemic:

- Clarifying evolving laws and guidance on travel restrictions and associated safety guidelines
- Securing critical funding for transport providers and their employees adversely affected by government-imposed travel restrictions
- Evolving partnership models to speed the introduction of zero emission buses and associated infrastructure

The value of engagement

We have received significant positive support from governments and feedback from elected members who have recognised our people as key workers. We believe our partnership approach has been reinforced and rewarded which will assist us to deliver our strategy going forwards.

Links to our KPIs

FWI
Passenger journeys
GHG emissions



Suppliers

Our suppliers, which range from large multinational companies to small independently run businesses, partner with us in delivering innovative solutions for our customers from the latest in zero emission buses to cutting edge technology development.

They told us they value

- A long-term partner, investing in collaborative innovation
- Fair engagement and payment terms
- A responsible and sustainable supply chain

How we engage with them

Dedicated relationship managers for Group-wide suppliers coordinated through our central procurement team:

- An e-procurement platform is utilised to assist robust supply chain tenders
- Structured contract reviews are conducted to monitor and improve service levels
- In our UK coach business, 60% of the network is run by third party operators who we supported during shut-downs

Engagement focus in 2020

We have worked closely with our suppliers to mitigate the impact of the pandemic on the Company's resources:

- Delaying orders
- Extending payment terms and adjusting contracts to reflect changed circumstances
- Developing critical new supplier relationships with PPE suppliers
- Supporting third party coach operators in the UK with exceptional funding whilst the UK coach network was mothballed

The value of engagement

We have reduced capital expenditure at a critical time, created new relationships and reaffirmed existing relationships with key suppliers. In addition, we have enabled smaller operators to survive the crisis, facilitating restart once restrictions are lifted.

Links to our KPIs

ROCE



Investors & debt holders

Efficient access to capital is critical to the long-term sustainability of our business and the delivery of our Vision and Purpose.

They told us they value

- Clarity of strategy and business model
- Consistent financial performance and returns
- Financial risk management and protection of investment grade rating
- Strong reputation and leadership on sustainability and 'ESG' performance

How we engage with them

The Group CEO and CFO, supported by Treasury and Investor Relations, maintain an active ongoing relationship with key investors:

- Financial results presentations and roadshows
- Dynamic investor relations programme with upwards of 100 meetings per year
- Periodic market updates when considered helpful
- Remuneration Committee Chair engages with major shareholders on Directors' remuneration

Engagement focus in 2020

Engagement has materially increased around Covid-related financing activities:

- Regular equity market updates as Covid scenarios evolved
- Seeking amendments to debt covenants
- Raising new financing both from equity shareholders and a debut hybrid issuance
- Incremental quarterly financial reporting to debt investors
- Our new CEO meeting with many of our major shareholders

The value of engagement

We have retained the confidence of equity and debt investors and strengthened our relationships with them, raising fresh capital and securing continued access to financial support.

Links to our KPIs

Underlying operating profit
Free cash flow
ROCE



Communities

As a public transport operator, we provide social mobility, transporting people to work, education and leisure activities and helping to combat air pollution and congestion as we make the modal shift away from single occupancy vehicles more attractive.

They told us they value

- Safe and affordable transport services
- Broader positive community impact
- Opportunities for rewarding employment

How we engage with them

Each division has well established partnerships with charities and community organisations. We support the delivery of their work via funding or employee volunteering, including the following:

- The Youth Promise in the UK
- Partners Beyond the Bus in North America
- ALSA's Integra Foundation partnership
- Our own National Express Foundation – helping young people to succeed in life

Engagement focus in 2020

Across the Group, we have supported communities broadly in response to the pandemic:

- Providing free shuttle services to hospitals for hospital staff
- Providing additional shuttle services for patients to and from healthcare facilities
- Delivering food parcels on behalf of local authorities

The value of engagement

By providing safe and affordable public transport solutions we are supporting social mobility in the communities we serve

Our support for charity partners funds the delivery of many social and community support services.

Links to our KPIs

GHG emissions

Our Section 172(1) Statement

In accordance with Section 172(1) Companies Act 2006, the Company's Directors must act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:



Long-term consequences

The likely consequences of any decision in the long term



Employees

The interests of the Company's employees



Other stakeholders

The need to foster the Company's business relationships with suppliers, customers and others



Community and Environment

The impact of the Company's operations on the community and environment



Reputation

The desirability of the Company maintaining a reputation for high standards of business conduct



Acting fairly between shareholders

The need to act fairly as between members of the Company.

Board decision

Section 172(1) factor



Further investment in health and safety

From early in the pandemic, the Board approved the implementation of additional health and safety measures to protect customers and colleagues from Covid-19. These included the distribution of PPE, enhanced cleaning regimes, social distancing measures and working from home measures. More detail of these measures is included in the Safety & Environment Committee Report.

This was particularly important for customers using, and colleagues providing, essential transport services throughout the pandemic.



Temporary shut-down of certain operations and furlough or lay-offs of colleagues

During lockdowns in the UK and Spain, the Board endorsed the shut-down or significant reduction of those of the Group's operations which involve discretionary travel, including the UK coach network and parts of the ALSA long haul coach network.

During these times, the Board also endorsed use of the UK Government furlough scheme and the similar Spanish Government scheme for colleagues working in businesses affected by government-mandated travel restrictions.

Where North America school boards, transit authorities and shuttle customers requested reduced services, the Board endorsed the reduction of these operations, with colleagues temporarily laid off with access to government enhanced unemployment benefits.



Strong liquidity and Balance Sheet protection, via increased debt facilities, equity placing, debt covenant amendments and hybrid issuance

In March 2020, the Board approved the Group securing £600 million of additional short-term standby debt facilities.

In May 2020, the Board resolved to undertake a placing of new shares, raising £235 million of new equity funding.

In May and July 2020, the Board approved amendments to the covenants in the Group's principal debt facilities and note programmes.

In late September 2020, the Board approved the issue of a hybrid instrument, raising £500 million of new debt funding, treated as equity for accounting and debt covenant purposes.



Careful capital allocation via investment in core businesses and cessation or sale of non-core businesses

The Board approved a selected number of new investments by the Company in its core businesses and the cessation or sale of non-core assets.

It also approved the cessation of trading or sale of certain non-core assets.



The Board's decisions are naturally made only after careful consideration of all relevant factors which include, but are not limited to, those specified in Section 172(1) Companies Act 2006. They also naturally include:



Financial Impact

The financial impact of decisions

In a year dominated by the challenges of the Covid-19 pandemic, many of the Board's principal decisions were taken in direct response to those challenges and the table below demonstrates which factors were considered and how those factors influenced the decisions taken.

Nature and impact of consideration of Section 172(1) factors

The Board believed that, as a direct result of decisions to invest more in Covid-19 related health and safety measures:

- fewer customers and colleagues would be exposed to Covid-19 in the short term;
- the Group's reputation as a trusted service provider and responsible employer would be maintained; and
- the Group would play its part in the vital efforts to reduce the spread of Coronavirus in the community.

such that:

- in the longer term, customer loyalty would be better preserved, and colleagues' physical and mental wellbeing would be better protected; and
- the additional costs involved in taking such measures would be more than offset by the benefits derived.

The Board decided that the temporary shut-down of certain transport services:

- was vital to reduce the variable costs and cash outflow connected with such services whilst the revenue from them was severely curtailed; and
- was in direct response to reduced customer demand and, where appropriate, after discussion and agreement with customers.

Both measures were crucial self-help measures, the taking of which were key to our ability to maintain support from our debt and equity investors.

As shut-downs and associated furloughs/lay-offs could result in the Group losing market share and the goodwill and loyalty of customers and colleagues alike in the longer term, the Board further authorised the resumption of the majority of its transport services as quickly as possible.

The Board also approved the use of furlough schemes or temporary lay-off of colleagues as this was key to the prospect of saving colleagues' jobs in the longer term and protecting local communities in this way.

Early in the pandemic when it was unclear how severe its impact might be, the Board determined that the Group should:

- raise additional short-term standby debt facilities to enhance access to cash should the need arise; and
- raise the maximum equity capital it could in accordance with Pre-Emption Group Guidelines (19.99%) via the quickest, most efficient means (a placing) to bolster the Balance Sheet and place the Group in the best possible position in the short and longer-term. In doing so:
 - it mandated its placing agents to comply with the Pre-Emption Group's and the FRC's guidelines on placing new shares as far as possible with institutional shareholders in proportion to their existing shareholdings; and
 - proceeded with the placing at a price of 230 pence per share, which was not at a discount to the market price so did not disadvantage retail shareholders unable to participate in the placing.

As the pandemic continued, the Board further determined that the Group should:

- secure amendments to its debt covenants to protect against their potential breach and secure ongoing access to the Group's major longer-term debt; and
- issue a new hybrid instrument to provide longer-term funding to refinance some of its maturing debt, to reduce gearing and strengthen the Balance Sheet

both of which measures:

- maintained the Group's ability to fund both its short-term response to the pandemic and its longer-term strategy; and
- reduced the prospect having to turn again to the equity markets for access to capital, potentially via a rights issue which would have diluted the holdings of those shareholders unable to take up their rights.

Throughout the pandemic, the Board was selective about how limited capital was allocated.

It approved the successful bids for, and capital investment in new North America school bus contracts in Alaska, Idaho and New York, ALSA's successful bids for new contracts in Lisbon and Porto and the UK bus business' successful bid for funding for new electric vehicles, as:

- contract wins would assist in delivering the Group's long-term strategy of growth and also enable us to foster relationships with new school board and transit authority customers and create new job opportunities; and
- investment in electric vehicles would assist in achieving the Group's targets to reduce its global carbon emission and to deliver on its promise never to buy another diesel bus in the UK.

The Board also approved the cessation of trading by the Group's small North America coach business, the cancellation of certain loss-making contracts and the sale of the Dundee bus business, as such decisions were important for the longer term ensuring the Group's more constrained capital resources could be dedicated to, and its US and UK management teams could focus on, our core businesses.

Environmental, Social and Governance

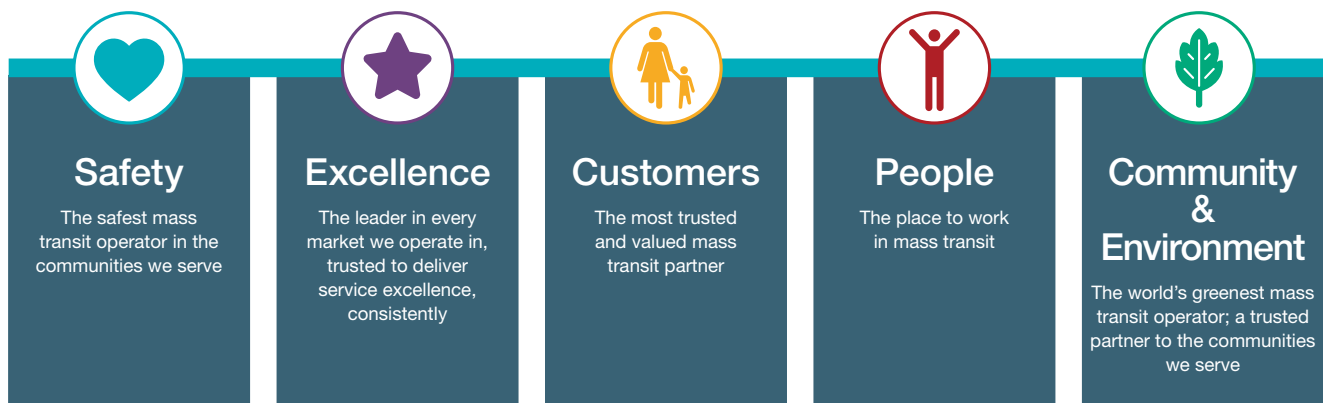
How we manage Environmental, Social and Governance (ESG) issues is not an 'add on' to how we operate, but at the heart of our business.

Focusing on our values

Our Vision is to be the world's premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value. This Vision is rooted in our Belief that driving modal shift to high quality mass transit is fundamental to a clean, green and prosperous future.

Our Purpose, therefore, is to help lead modal shift by making mass transit an increasingly attractive option for all our customers, whether they are individuals, transport authorities, school boards or businesses. We seek to do this by earning our customers' loyalty by providing safe, reliable and great value multi-modal services on clean and green vehicles.




We believe our Values still provide the best framework to deliver on our Vision and Purpose. They are well embedded in our business, and form the basis of our culture.



Contributing to Sustainable Development Goals









In 2015, the United Nations set its 2030 Agenda for Sustainable Development. Through this Agenda, 17 Sustainable Development Goals (SDGs) were adopted by UN member states to provide a framework to tackle the most pressing challenges the world faces. Successful delivery of the 2030 Agenda requires multiple stakeholders to take clear action to achieve the SDGs.

We have considered how our Vision, Purpose and Values align with the SDGs and how we can support their delivery. We have identified five of the targets across three goals where we can contribute to their achievement. The table below lists them and the associated Group metric.

| SDG Goal | Selected target | Group metric |
|---|---|--|
|  | 3.6. By 2020, halve the number of global deaths and injuries from road traffic accidents | FWI / million miles |
|  | 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value | Commitment to real Living Wage or 10% above national minimum wage where Living Wage does not exist |
| | 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment | Workplace Rights Policy and FWI / million miles target |
|  | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons | Passenger numbers |
| | 11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management | CO ₂ / million passenger km |

ESG priorities guided by the SASB Materiality Map®

We have used the Sustainability Accounting Standards Board's (SASB's) Materiality Map®, to focus on the aspects most critical to us. This map identifies the sustainability issues that are likely to affect – both as challenges and opportunities – the financial condition or operating performance of companies within specific industries. Below we have listed the key SASB dimensions relevant to our industry and set out our approach to addressing them:

| SASB dimension | Category | Summary | Our response |
|--|-----------------------------------|---|---|
| Environment  | GHG emissions | Direct (Scope 1) greenhouse gas (GHG) emissions that a company generates through its operations. | Public transport remains the best solution to cut emissions from travel. Encouraging modal shift to public transport takes more private vehicles off the roads. Reduction on GHG emissions is one of our KPIs and a key metric of our LTIP scheme |
| | Air quality | Air quality impacts resulting from pollutants such as oxides of nitrogen (NOx), oxides of sulphur (SOx) and particulate matter. | We are committed to making public transport cleaner and greener. During 2020 we progressed our commitment to invest in zero emission vehicles, with trials in Spain, the UK and the USA. |
| Social capital     | Access and affordability | Ensure broad access to products and services, specifically in the context of underserved markets and/or population groups. | Improving the accessibility and affordability of public transport is central to our business. Our services enable social mobility by providing good value travel solutions. |
| | Quality and safety | Offer products and/or services that meet customer expectations with respect to their health and safety characteristics. | During 2020, in addition to our existing high safety standards, we introduced a range of new measures to manage social distancing and increase cleaning regimes. |
| Human capital  | Labour practices | Minimum wage policies and provision of benefits which influence how employees are attracted, retained and motivated. | We take our duties to our 48,000 employees very seriously and measure our progress frequently through employee engagement surveys. We believe that our employees should be well rewarded for the job they do and continue to be a real Living Wage accredited employer, paying at least 10% above the national minimum wage in every market. |
| | Employee health and safety | Create and maintain a safe and healthy workplace environment that is free of injuries, fatalities and illness. | The safety of our people is a priority. Our Driving Out Harm initiative has created a strong safety culture which is evidenced by our low level of incidents. |
| Governance   | Critical incident risk management | Identify, understand, and prevent or minimise the occurrence of low probability, high impact accidents and emergencies. | We have a strong system of controls to manage and mitigate all types of risk, including the Board's review of Group-wide risk; the Audit Committee's reviews of divisional risk; and the Safety & Environment Committee's oversight of activities. |

Environmental



Community and Environment Ambition

The world's greenest mass transit operator

Aim (the NX Difference)

To deliver our ambition we target:

- industry leadership on the shift to zero emission vehicles
 - UK bus to be solely zero emission by 2030
 - UK coach to be solely zero emission by 2035
 - Progressing our zero emission plans for ALSA and North America

Approach (the NX Promise)

A year ago we reset our Vision and Purpose which made clear our ambition to lead modal shift from cars to multi-modal services on clean and green vehicles. That remains our ambition and as we set out on pages 12-13, this is fundamental to post-pandemic recovery and a safe, green and prosperous future.

We track our broader progress against our environmental plans using six environmental KPIs – three UN Sectoral Decarbonisation Approach (SDA) 'science-based' targets relating to total and traction carbon emissions and energy usage, and three 'non-science-based' targets relating to building-specific carbon emissions, water usage and non-hazardous waste to landfill volumes. These KPIs target improvement against the Group's baseline performance in 2018 over a seven-year performance period from 2019 to 2025.

External recognition

The Group's environmental credentials are also being recognised externally, for example via the Green Economy Mark given by the London Stock Exchange, the AA ESG Rating awarded by MSCI and the 'low risk' ESG score conferred by Sustainalytics.



Progress during the year

Reduced mobility during the pandemic highlighted the vast improvement in air quality that can be made by removing large numbers of vehicles from the roads and also highlighted how people still need to connect with their work, leisure, family and friends. It highlighted the importance of the Group's Vision and purpose of leading a modal shift away from cars to high quality mass transit and confirmed that our environmental ambitions must remain a key priority as we offer a solution to the otherwise competing demands of air quality and mobility.

During 2020, we took our next steps towards achieving a zero emission fleet. In the UK, we took delivery of our first 29 double-deck electric vehicles (EVs) and placed an order for 20 hydrogen-powered buses, in partnership with Birmingham City Council, to trial their use in normal service. In North America, we started our first electric school bus trial in White Plains, NY. The trial is helping us assess their operational capabilities and inform discussions with other school boards which are keen to improve their environmental footprint. Our North America shuttle operation has also introduced EVs to serve some of its contract customers. ALSA has introduced EVs in Bilbao and Madrid, and is launching trials in Almeria and Oviedo. These first steps we have taken across the divisions are providing valuable learning which is helping to shape our future operational and procurement plans.

Our progress against our environmental targets is set out in our environmental performance appendix on pages 238 to 240. This includes our report on our GHG emissions. Whilst the Group's total carbon emissions in absolute terms dropped significantly in 2020 due to the reduction in operations due to the pandemic, they increased when measured on a per passenger kilometre basis due to significantly reduced load factors. We expect to progress further against these measures in 2021 and 2022 once Covid-19 related restrictions change.

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Community & Environment Ambition

A trusted partner to the communities we serve

Aim (the NX Difference)

To deliver our ambition we target:

- 1% of PBT invested in community activities every year; and
- stakeholder surveys demonstrating high trust scores.

Approach (the NX Promise)

Across the Group, we engage with the communities in which we operate in a number of ways. This takes the form of financial donations, gifts in kind or through employee volunteering. Each division has its own approach to community engagement which reflects local needs and priorities. A common theme is our support for young people – helping them to progress and succeed in life.

Aside from the specific initiatives we support, we recognise that our core activity – in providing great value multi-modal services – supports social mobility in the communities we serve.

Progress during the year

Despite the restrictions which Covid-19 imposed, we have continued in 2020 to progress community initiatives within the divisions.

In North America, we launched Partners Beyond the Bus which links each depot to support a local cause. Local teams are able to build a relationship with a cause which is relevant to them, and provide support through volunteering or fundraising.

ALSA continued its partnership with the Integra Foundation which provides work experience placement leading to permanent jobs for people who are social excluded or have a disability. By 2020 we had provided employment for 40 people through this partnership.

In the UK, our partnership with The Prince's Trust continues to support the development of young people. With Covid-19 changing how fundraising events took place, we switched our provision of coaches for the Trust's Palace to Palace cycle ride to sponsorship of participant thank-you packs.

With Covid-19 creating specific needs to support vulnerable and shielding people, we mobilised our employees to provide assistance. In Spain, the UK and North America, vehicles were repurposed to provide transport for the health services and to make food deliveries. This support was publicly recognised and appreciated by many of our local stakeholders.



Safety Ambition

The safest mass transit operator in the communities we serve

Aim (the NX Difference)

To deliver our ambition we target:

- zero responsible fatalities;
- an annual reduction in FWI/million miles; and
- the leading safety credential in each market.

Approach (the NX Promise)

Safety remains our top priority. We seek to achieve our ambition through clear process and policies, investment in technology and systems, and a culture that prioritises safety.

Our Group CEO has overall responsibility for safety, supported by the Group Safety Director divisional leadership teams. Oversight of our safety performance sits with the Safety & Environment Committee. Details of how it conducts this role and the activity it has carried out during 2020 are included in the Safety & Environment Committee Report on pages 238 to 240.

Progress during the year

During 2020, we continued to progress and update our well established safety systems as well as introduce additional procedures and measures in response to the pandemic.

Our Driving Out Harm initiative, introduced in 2011, encompasses our policies and procedures and drives our safety culture over time. As part of its progression, in 2017 we launched five new Global Safety Policies (GSPs) covering a number of driver and vehicle standards with a target to fully implement these by the end of 2020. Despite the additional work needed to address Covid-19, we achieved this target.

We also continued the roll-out of the Lytx DriveCam driver monitoring and coaching system across our global fleet, and extended risk profiling which creates risk scores for individuals. In UK coach, we were able to introduce a driver fatigue alert system into more than 400 vehicles. This has already led to a 50% reduction in fatigue-related safety events.

To measure our safety performance we use a Fatalities and Weighted Injuries (FWI) index, based on an approach used by the UK rail industry. During 2020 we adjusted the index to remove non-responsible minor injuries, and have restated the prior year figures to reflect this.

Our score for 2020 was 1.824 (0.004 on a normalised million-mile basis) which is marginally higher than the score for 2019, which at 1.780 (or 0.003 on a normalised million-mile basis) was our best ever FWI score. Whilst this higher score is disappointing it is significantly better than our historical performance.

Social capital continued

Customers
AmbitionThe most trusted and valued
mass transit partner

Aim (the NX Difference)

To deliver our ambition we target:

- industry-leading customer scores in: net promoter (or equivalent); value for money; and reliability;
- growing organic patronage or customers in each division; and
- the industry's best and easiest to integrate customer platforms.

Approach (the NX Promise)

Customers lie at the heart of our business, and maintaining their loyalty is key to our success. Everything we do focuses on exceeding our customers' expectations for safe, clean and reliable services at a fair price.

Where we provide services for public transit authorities, school boards or corporate clients, we aim to earn and retain their loyalty through the delivery of first-class transportation solutions tailored to their needs.

We constantly review our performance to ensure the quality of delivery, and invest in new technology to improve the customer experience.

Progress during the year

Our focus on delivering an excellent customer experience remained unchanged in 2020, but Covid-19 brought about new priorities as we adapted our services to facilitate social distancing and enhanced our cleaning regimes. Our approach to the pandemic is set out on pages 10 to 11 and also in the Safety & Environment Committee Report on pages 90 to 94.

Whilst we needed to suspend or reduce our services at points during the year, we continued to progress projects which will enhance customer experience in future – particularly through technology:

- ALSA launched a new website and new customer app improving usability, and made its digital tickets clearer and easier to understand
- In the UK, the customer websites for bus and NEAT moved across to the same common platform as coach delivering improved performance and better usability. Over 70% of bus customers are now using digital tickets and paper travelcards have been retired
- In North America, new technology included the introduction of Zonar tablets to use Tyler Drive routing software. This optimises routes and punctuality which benefits our students. We survey our school board customers annually, and in 2020 saw our highest increase in CSCs achieving the maximum score of five

Human capital

People
Ambition

The place to work in mass transit

Aim (the NX Difference)

To deliver our ambition we target:

- industry-leading employee satisfaction scores;
- Investor in People status (or equivalent) in each division;
- a 'Best Place to Work' credential; and
- recognition as the industry leader in equality.

Approach (the NX Promise)

We firmly believe that delivering our Vision and Purpose is only possible if National Express is a good place to work. We recognise that our workforce is our greatest asset and we want each of our 48,000 employees to reach their full potential and to give their best. By investing in and rewarding our people appropriately, and engaging with them in strategy, we will continue to grow and succeed.

We recognise the value of a diverse and inclusive workforce which reflects the communities we serve, and have a clear strategy in place to increase our diversity at all levels.

Progress during the year

In 2020, we refreshed our Group diversity and inclusion strategy to promote further diversity and greater inclusion across the whole business. This strategy set 1, 3 and 10 year targets for which each division has developed detailed and measurable plans which reflect the shape of their workforce. In the UK, this work will progress in 2021 using the Stronger Together strapline. Similar initiatives are being progressed in the other divisions.

As a consequence of the pandemic, many people were furloughed as services were halted. For those who continued to work there were new health and safety measures to adopt. Due to the unprecedented situation, we focused more on wellbeing in the year, increased the frequency of colleague communication and promoted the use of the Employee Assistance Programme in North America and the UK and the 'ALSA Helps You' facility for ALSA employees. We also introduced more frequent surveys to assess the wellbeing of colleagues and identify concerns. More details on how we supported our employees are included in the Safety & Environment Committee Report on page 90.

We continue to operate fair pay structures which reflect the markets in which we operate. The Group has a long-standing commitment to pay the higher real Living Wage in the UK and in other countries to pay at least 10% above the prevailing national minimum wage.

Gender diversity at end of 2020

Directors



Senior managers



All employees



There is more information on page 79 about our commitment to diversity and inclusion including how we are progressing our Group wide strategy.



Excellence Ambition

The leader in every market we operate in, trusted to deliver service excellence, consistently

Aim (the NX Difference)

To deliver our ambition we target:

- the highest excellence credential in each country;
- 100% on-time performance; and
- zero in service failures.

Approach (the NX Promise)

We aim to lead the market in delivering excellence, which helps to increase standards and also drive revenue growth, margin progression and cash generation.

To become the trusted leader in our markets, we have to achieve operational excellence, day in, day out. This can only be achieved if we have the right supporting systems and processes in place in our business.

Our Delivering Excellence programme has continued to embed a culture of excellence across the Group by drawing on examples of best practice both within our existing businesses and adopting them from external organisations.

Progress during the year

Our Delivering Excellence team continued to drive a number of initiatives during the year. A significant focus was on improving the processes which manage employee scheduling and drive payroll costs in North America.

Across the Group our drive for excellence has resulted in recognition from a number of external bodies. ALSA received the European Sport and Healthy Company Award in 2020 awarded by ACES Europe for the 'For your Health' program.

Our UK bus and coach businesses retained five-star ratings in their British Safety Council audits.

In North America, 20 of our maintenance teams received Blue Seal of Excellence awards from the National Institute for Automotive Service Excellence – recognising the quality and standards we demand.

Our Group policies are published on our website at www.nationalexpressgroup.com

Progress towards reporting against TCFD

The Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), was set up to define how reporting could take account of climate-related issues. The Group will incorporate the TCFD recommendations fully into reporting next year. The table below gives an overview of where we stand today.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Climate-related risks and opportunities are managed as an integral component of strategy and performance at every level in the business. As a leading provider of public transport we have a fundamental Belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future. Our Purpose and strategy are rooted in this Belief. Oversight of climate-related issues is provided by the Safety & Environment sub-committee of the Board, details of which are on pages 90 to 94. Progress in 2020 has been slower than planned as we have diverted resources to dealing with the pandemic and reduced all non-mandatory expenditure. In 2021, to drive alignment through the organisation we have created an executive ESG committee to coordinate and review Group-wide activities and we will be appointing a Group Head of Environment to ensure that momentum is rebuilt.

Strategy

Disclose the actual and potential impacts of climate-related risks and on the Group's businesses strategy and financial planning, where such information is material.

The increased political and social focus on climate change presents a significant opportunity for the Group as modal shift to public transport is an imperative. The Group has made material investments to this end such as the significant ongoing investment in the corporate shuttle market in North America to continue to drive commuters out of cars.

Whilst modal shift is, in and of itself, beneficial to the environment, our Community and Environment Value sets out our ambition to be "the world's greenest mass transit operator; a trusted partner to the communities we serve" and the Group is making significant investments into further reducing emissions across the fleet. Last year we committed to never buy another diesel bus in the UK and during 2020 our UK business took delivery of its first 29 double-deck electric buses and placed an order for an initial 20 new hydrogen fuel cell electric vehicles (FCEV). With Coventry winning government funding as one of the two first all-electric bus cities in the UK, we expect to shortly be able to place orders for over 100 buses to enter service in the first half of 2022.

Outside of the UK, pilot schemes are in place in North America with our White Plains depot running a small fleet of electric school buses to test performance and other sites are considering pilots; whilst in ALSA we have deployed hybrid and lower emission vehicles (including six electric vehicles) in 2020. Zero Emission Vehicles are currently more expensive to purchase than diesel buses although we believe the total lifetime cost of ownership to be similar. We are working on innovative funding schemes with a number of organisations across the Group on options to increase the pace of change.

During 2021, we will further develop our Group environment strategy and from this work commit to targets across the rest of the Group to supplement those made last year for the UK business.

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks.

Climate-related risk management is part of the integrated risk management process outlined on pages 36 to 41. The Group prioritised climate risk and opportunity assessment within the existing 'emerging risk' processes and has engaged with Sustainalytics to understand how stakeholders perceive the Group's exposure to climate-related risk.

During 2021, we intend to develop specific climate change scenarios for input into existing risk and viability models.

Metrics and targets

The metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

In 2019, the Group adopted an SDA (Sectoral Decarbonisation Approach) methodology. This methodology is the only approach with transport sector-specific metrics, using climate science to set targets relevant to our industry. With an initial seven-year reporting period (from a 2018 baseline) our new targets met the 2018 Intergovernmental Panel on Climate Change (IPCC) goal of controlling the increase in global warming to below 2° Celsius (2DS). Three-year milestones along this path were agreed and committed to as an LTIP input.

The intention of this approach is that the absolute targets are reviewed regularly as technology and forecasting methods improve, and may need to change to stay in line with the 2DS, or if that 2DS level itself needs to change.

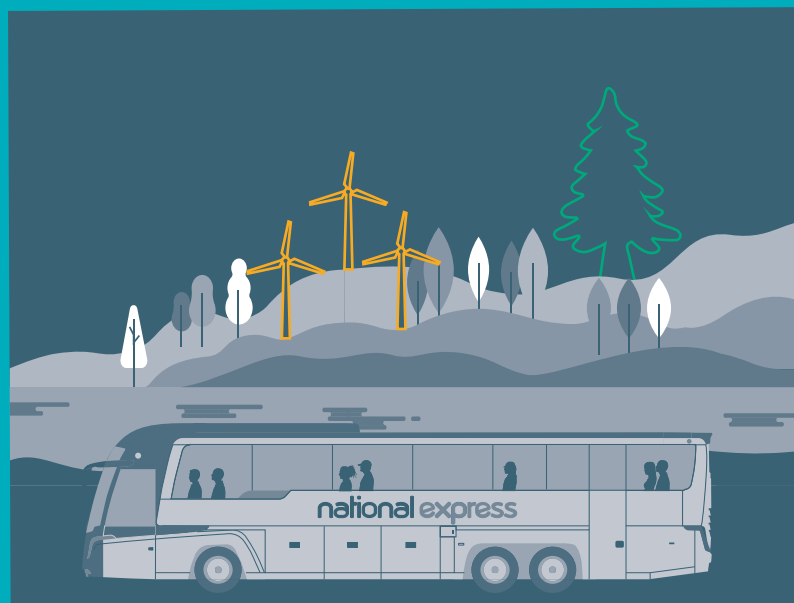
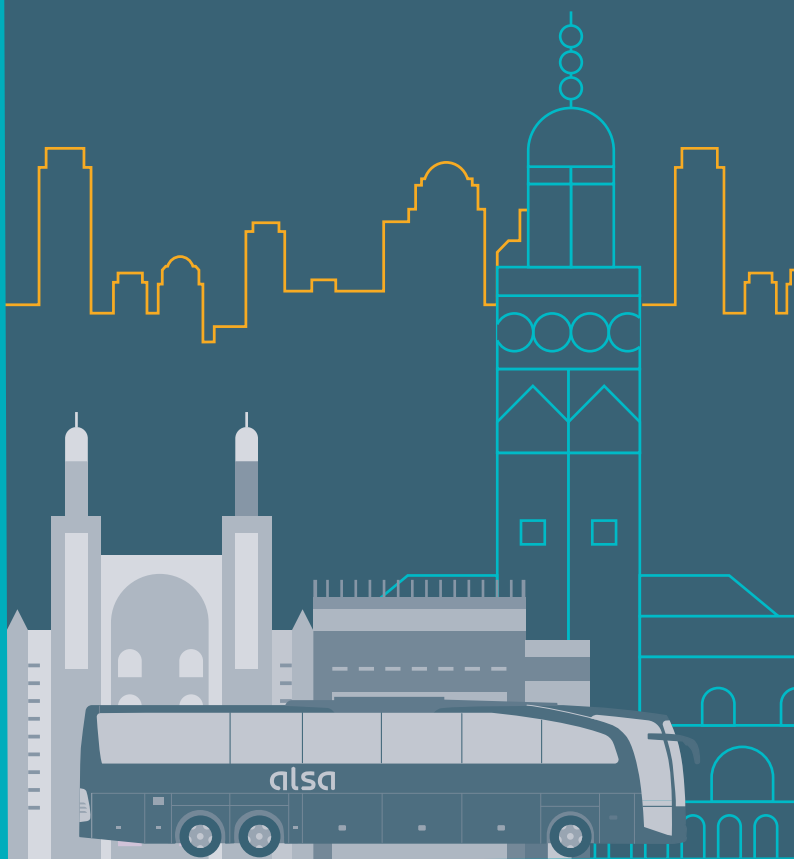
Further information on metrics and targets is on pages 18 to 19 in the Strategic Report.

Our 2020 Strategic Report, from the inside front cover to page 54, has been reviewed and approved by the Board.

Ignacio Garat

Chief Executive Officer
National Express Group
18 March 2021

Corporate Governance



Corporate Governance



Sir John Armitt CBE
Chairman

“It is a testament to our Company, our people, our strong Values and the relationships we have built with our stakeholders, as well as our strong corporate governance, that we have been able to weather the pandemic as we have.”

Looking back

2020 has been an extraordinarily challenging year for many companies, including ours, due to the significant impact of the Covid-19 pandemic and resulting measures taken by governments around the world to seek to control the spread of the virus, specifically those restricting mobility.

The Board of Directors has therefore needed to be agile and, during 2020, we have met significantly more often and via new means to quickly and effectively take the decisions necessary to enable the Company to respond to these challenges.

Our management teams and indeed all our colleagues, particularly those working on the frontline who have continued to provide vital transport services to key workers during lockdowns and to all others needing to travel outside of lockdowns, have also demonstrated incredible dedication and professionalism.

I believe it is a testament to our Company, our people, our strong Values and the relationships we have built with our stakeholders, as well as our strong corporate governance, that we have been able to weather the pandemic as we have.

Vision, Values, Purpose and culture

While the Board is conscious that the pandemic has caused many people's travel behaviours to change in the short-term, it also believes that providing transport solutions which connect people to their schools, work, family, friends and leisure activities in a safe, reliable and environmentally friendly way remains of critical importance to people's lives.

As such, our Vision, Values and Purpose endure, as leading a modal shift away from cars to high quality mass transit remains critical to balancing the need for social mobility with concern for the environment.

An assessment of how our Values have served us well during the pandemic and why our Purpose remains the right one is set out on page 64 of this Corporate Governance Report. How we, as a Board, have continued to monitor our culture during this critical time is also explained on page 65.

The Company's culture is one of safety first, which has benefitted our people, passengers and other stakeholders alike. We also greatly value diversity and inclusion and are taking proactive steps to ensure that inclusion is another embedded feature of our culture.

We, as others, witnessed during 2020 the way in which racial tensions around the world, exacerbated by the impact of Covid-19, created division and distrust in communities. Through our Diversity & Inclusion Council, the activities of which are described in the Nominations Committee Report, we are actively promoting diversity and inclusion across our global businesses to guard against division and distrust and reap the rewards that diversity and inclusion can bring to all.

Board composition and succession

2020 was a year of the change for the Board.

We were of course sorry to see our former Group CEO, Dean Finch, leave the Company at the end of August and, before him, Matt Ashley, both of whom left to pursue new opportunities. We are grateful to our Group CFO, Chris Davies, for his sound leadership as interim Group CEO and we were delighted, in November, to welcome our new Group CEO, Ignacio Garat. Ignacio brings with him a wealth of experience from an adjacent industry as well as strong commitment to the same Values the Company holds dear, including Safety, People and Customers. Ignacio's biography is included on page 59 and further information about his recruitment and induction are contained on pages 78 and 71, respectively.

Lee Sander and Chris Muntwyler also left the Board at the end of December after nearly 10 years of dedicated and valued service to the Company, although Mr Muntwyler continues in the role of an adviser to the Board on safety and environmental matters.

As part of the Board's ongoing succession plans, we intend to engage one additional Non-Executive Director in the year ahead to enhance our Board's diversity and, as I approach my nine-year tenure as Chairman, the Nominations Committee has also commenced the work to identify my successor. More information about Board and Senior Management succession plans is set out in the Nominations Committee Report.



Risk and internal control

The Company's principal and emerging risk registers were reviewed by the Board and updated in 2020 to take account of Covid-19 and other developments, as explained on page 36 of the Strategic Report.

Through its Audit and Safety & Environment Committees, the Board also reviewed new risks arising from the rapidly changing trading environment and working practices across the Company caused by Covid-19 and whether the Company's internal controls were appropriate or otherwise how they were being adapted to manage these new risks. Further information about the Company's management of risk and internal controls and the outcomes of such reviews are set out in the Audit and Safety & Environment Committee Reports.

Director and Senior Management remuneration

The challenges faced by the Company during the pandemic have naturally created focus on Executive and Senior Management remuneration. I am pleased that all Board members and our most Senior Managers voluntarily offered to take pay reductions at the height of the first wave of the pandemic and both our CFO and former CEO offered to forgo their 2020 pay increases.

The Board's Remuneration Committee also sought to achieve an appropriate balance between retaining and incentivising Executive Directors and Senior Management and exerting restraint on pay in the decisions it took in the year on the new CEO's, the CFO's and Senior Managers' remuneration, further details of which are set out in the Annual Statement by the Remuneration Committee Chair.

This year we are proposing a new Directors' Remuneration Policy for approval by shareholders, about which we have consulted with over 70% of our shareholders. The new Policy is set out on pages 104 to 112 and a summary of the changes from the current Policy is included on page 101.

Stakeholder engagement

The Covid-19 pandemic has made engaging with and understanding the views of our stakeholders more important than ever. By doing so, we have been able to respond to the needs of our customers, take care of our colleagues and partner effectively with other stakeholders through the pandemic. It has also ensured that we, as a Board, have taken account of our stakeholders in all our decisions and thereby properly discharged our duties under section 172(1) Companies Act 2006.

More information about our stakeholders and our section 172(1) statement are set out on pages 44 and 45 and pages 46 and 47 of the Strategic Report, respectively.

Annual General Meeting

This year's Annual General Meeting (AGM) is scheduled to be held at, and broadcast from, Ashurst LLP, London Fruit & Wool Exchange, 1 Duval Square, London E1 6PW at 2.00pm on Wednesday, 12 May 2021.

The Company is conducting the 2021 Annual General Meeting as a 'hybrid' meeting as permitted by our revised Articles of Association adopted at our 2020 AGM. A hybrid meeting would ordinarily gives shareholders (or their proxies or corporate representatives) the opportunity to attend and participate in the meeting both physically and virtually. However, in line with the UK government's roadmap out of the current UK national lockdown, it is unlikely that indoor public gatherings will be permitted on the date of the meeting. Accordingly, we currently expect to hold it as a 'closed' meeting with physical shareholder presence at the AGM venue restricted to the necessary quorum. Nevertheless, shareholders will still be able to attend and participate in the meeting virtually. Full details on how to attend and vote at the meeting virtually can be found in the Notice of Meeting. Any updates to the arrangements for the conduct of the meeting will be given by market announcement and communicated via our website: www.nationalexpressgroup.com/investors/agm/2021

Looking ahead

Before looking ahead, I wish to pause and remember once again the valued colleagues we have lost as a result of Covid-19 and to extend the Board's deepest sympathies to their families and friends. We will miss them.

We also remember that Covid-19 has affected many of our people's lives in other ways, with many hardships experienced and sacrifices made. We thank them for their endurance and commitment.

While the pandemic is not yet over and there are undoubtedly challenges still to come, I remain positive about the Company's ability to continue to respond to these challenges and ultimately to restore the Company's financial performance to match its continued exceptional operational performance.



Sir John Armitt CBE
Chairman
18 March 2021

Our Corporate Governance Compliance Statement

The Board is pleased to report that the Company has applied the Principles and complied with the Provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 (which can be found at www.frc.org.uk) for its financial year ended 31 December 2020, except in relation to:

- Provision 21 (by delaying its external Board evaluation beyond the normal three-year cycle, for the reasons explained on page 81); and
- Parts of Provisions 36 (formal post-employment shareholding policy for executive directors), 37 (general discretion to override formulaic outcomes in remuneration schemes) and 38 (alignment of executive directors' pensions with those available to the workforce), compliance with which will be achieved through the new Directors' Remuneration Policy if approved by shareholders (as explained on page 99).

This Corporate Governance Report as a whole explains how the Company has applied the Principles and complied with the Provisions of the Code, but the below acts as a guide to where the most relevant explanations are given:

Board leadership and company purpose

Principles A, B, C, D and E
Pages 59 to 72

Division of responsibilities

Principles F, G and H
Pages 73 to 75

Composition, succession and evaluation

Principles I, J, K and L
Pages 76 to 82

Audit, risk and internal control

Principles M, N and O
Pages 83 to 94

Remuneration

Principles P, Q and R
Pages 95 to 103

The Company's corporate governance framework, and its core component parts, are explained below:

Shareholders

The owners of the Company to whom the Board is ultimately responsible.

Chairman

Responsible for the leadership of the Board and ensuring that it operates effectively.

Board

Collectively responsible to the Company's shareholders for the long-term sustainable success of the Company, by providing effective leadership, establishing the Company's Purpose and Values and monitoring its culture, setting the Company's strategy and overseeing its delivery within a framework of internal controls, setting the Company's risk appetite and reviewing its principal and emerging risks and taking other decisions reserved to it. Board members act for the benefit of shareholders while taking into account the interests of a range of other stakeholders and other factors in accordance with their duties, including under section 172(1) of the Companies Act 2006.

+ Further information about the Board's activities in the year under review can be found on pages 62 to 63

Board Committees

Committees operate under the delegated authority of the Board and within formal terms of reference. Their key responsibilities are set out below:

Nominations Committee

Reviews the structure, size, composition and effectiveness of the Board and its Committees. Oversees succession planning for the Board and Senior Management, the development of talent and the promotion of diversity, and makes recommendations to the Board for the nomination of new Directors.

Audit Committee

Reviews and monitors the Group's financial accounting and reporting processes and the integrity of published financial statements. Reviews the Group's system of internal control, including the effectiveness of its internal audit function and the independence and effectiveness of its external auditor.

Safety & Environment Committee

Reviews and monitors the Group's strategies, policies and standards, and its risk exposures and opportunities, in relation to safety and environmental matters and the Group's performance of such matters.

Remuneration Committee

Reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, Executive Directors and Senior Management. Makes decisions within that framework and implements that policy.

Disclosure Committee

Maintains governance procedures and controls for the identification, treatment and disclosure of inside information in accordance with applicable laws and compliance of disclosed information with the UK Listing Rules.

+ Further information about the activities of the Board's principal Committees can be found on pages 76 to 103

Board Executive Committee

A Committee comprised of the Group Chief Executive Officer and Group Chief Financial Officer operating under the delegated authority of the Board and within formal terms of reference. It acts to review and approve various executive matters, including bids and contracts, acquisitions and disposals, financing arrangements, and capital and operating expenditure below the levels reserved to the Board.

Group Executive Committee

An advisory and reporting body to the Group Chief Executive Officer comprised of divisional management and Group heads of function. It acts to review and oversee the safety, operational and financial performance of the Group and discuss, formulate and approve proposals for onward consideration by the Board or its Committees.



Sir John Armitt CBE
Non-Executive Chairman
Independent on Appointment

Appointed: January 2013 and as Chairman February 2013

Experience: Sir John has extensive experience in the transport, engineering and construction sectors, including of working with government at ministerial level. He also has significant board-level experience both as a chairman and chief executive having held Chairman roles at the Government Commission on the Thames Estuary, Olympic Delivery Authority and Engineering and Physical Science Research Council, and Chief Executive roles at Network Rail, Costain Group and Union Railways.

Sir John was awarded a CBE in 1996 for his contribution to the rail industry and a knighthood in 2012 for services to engineering and construction.

Key strengths in support of Company strategy:

- Maintains effective leadership of the Board in its oversight of strategy and risk management by facilitating healthy debate, robust review and decisive direction by and from the Board
- Ensures appropriate support for and challenge of Executive management by Non-Executive Directors
- Manages robust corporate governance processes, including engagement with colleagues and understanding of wider stakeholder views

Current external appointments:

- Non-Executive Director, Berkeley Group Holdings PLC
- Non-Executive Director, Expo 2020
- Chairman, City & Guilds Group
- Chairman, National Infrastructure Commission

Committee membership:



Jorge Cosmen
Non-Independent
Deputy Chairman

Appointed: December 2005

Experience: Jorge has accumulated vast experience in international business. He currently serves as the Non-Executive Chairman of the Company's ALSA holding company, having also held that role in an executive capacity until ALSA was acquired by National Express in 2005. Prior to that, he was corporate manager of the ALSA Group and has worked in banking, sales and distribution.

Jorge has an international MBA from the Instituto de Empresa in Madrid.

Key strengths in support of Company strategy:

- Deploys his extensive experience and deep knowledge of the Group's business in supporting Executive management to deliver strategy
- Provides invaluable insight into international transport matters and assists in identifying opportunities and risks
- Assists the Company in building and maintaining strong stakeholder relationships

Current external appointments:

- Non-Executive Director, Bankia S.A.

Committee membership:



Ignacio Garat
Group Chief
Executive Officer

Appointed: November 2020

Experience: Ignacio has more than 25 years' management, operational, commercial, strategic and transformational growth experience within the freight and logistics industry. Previous roles include CEO Spain & Portugal, CEO Brazil at TNT and Senior Vice President for Southern Europe, France and Benelux at FedEx. In his last position, Ignacio had responsibility for a business operating in over 22 countries, with 22,000 employees and generating annual revenues of over €4.5bn. He has a track record of leading international, complex businesses with a clear strategic purpose and inclusive management culture. Ignacio has a degree in international business from the American University of Paris and a postgraduate diploma in management and business studies from the University of Warwick.

Key strengths in support of Company strategy:

- Dynamic catalyst of transformation into high performing culture
- Strong strategic and operational leadership with clear financial and service improvements delivered
- Experience of leading large-scale complex businesses across many different countries and continents, assisted by being multilingual
- Has a focus on safety and using data analytics and technology to innovate and drive service efficiency, customer experience and excellence
- Has a strong focus on people and culture and solid credentials in M&A and business integration

Current external appointments:

- None



Chris Davies
Group Chief
Financial Officer

Appointed: May 2017

Experience: Chris has more than 25 years' financial, treasury, commercial and IT experience. He has a strong global track record in these fields across developed and emerging markets, having previously served as Group Financial Controller and Treasurer and then interim Group Chief Financial Officer at Inchcape plc, and Chief Financial Officer (North America) at Diageo plc until 2012, where he held several other senior roles.

Chris is a qualified management accountant and has international strategy and IT consulting experience from working with Andersen Consulting, The Boots Company plc and Marakon Associates.

Key strengths in support of Company strategy:

- Strong financial support for the development and delivery of strategy, including clear direction for the allocation of capital and setting of parameters for achieving returns on capital
- Leadership of key internal control and risk management functions, including spearheading the Group's cyber security programme, providing a sound control and risk environment within which strategy can be delivered
- Has developed strong relationships with the Company's equity and debt investors, ensuring a clear understanding among them of the Company's strategy and performance against it

Current external appointments:

- Non-Executive Director, Motability Operations Group PLC (see page 75 for details)



Matthew Crummack
Senior Independent
Non-Executive Director

Appointed: May 2015

Experience: Matthew has extensive international management experience across multiple functions in consumer product and digital service industries. He has held a number of executive management roles including Group Chief Executive Officer at GoCo Group plc and Chief Executive Officer at lastminute.com. Prior to those, he was Senior Vice President (Lodging, Europe and US) at Expedia and he held various senior roles at Nestlé UK and Procter & Gamble.

Key strengths in support of Company strategy:

- Has extensive and recent executive management and operational experience, enabling him to provide advice and challenge to Executive management in their delivery of strategy
- Has proficiency in the management of technical operations and online customer sales and marketing platforms, supporting the Company's operational excellence and technology strategic pillars
- In his role as Senior Independent Director, contributes to Board dynamics to facilitate effective decision-making in setting strategy and overseeing its delivery

Current external appointments:

- None

Committee membership:

N R SE



Mike McKeon
Independent
Non-Executive Director

Appointed: July 2015

Experience: Mike has wide-ranging international experience in financial and business management across a number of different sectors, having previously served as Chief Financial Officer at Severn Trent plc and Chief Financial Officer at Novar plc. Earlier in his career, he held various senior business roles both in the UK and overseas at Rolls-Royce plc, CarnaudMetalbox, Elf Atochem and PwC. He also held the positions of Senior Independent Director and Chairman of the Audit Committee at The Merchants Trust PLC from 2008 to 2017.

Mike is a chartered accountant.

Key strengths in support of Company strategy:

- Provides strong oversight of the Company's financial management and internal controls, helping to sustain a controlled environment in which the Company's strategy can be delivered
- Has experience developing and delivering strategy in organisations with a strong customer focus and has oversight of operational excellence programmes designed to enhance customer service and manage cost, supporting the operational excellence pillar of the Company's strategy

Current external appointments:

- None

Committee membership:

N A SE



Dr Ashley Steel
Independent
Non-Executive Director

Appointed: January 2016

Experience: Ashley has significant international experience gained with KPMG at board and global executive level. She has acted as an adviser to FTSE listed and Fortune 500 boards, including in relation to strategy development, M&A, organisation effectiveness, risk management and HR, across multiple sectors including transport, infrastructure, technology, media, professional services and business services. She was previously a Non-Executive Director of the Civil Aviation Authority, the British Broadcasting Corporation (BBC) and GoCo Group plc.

Ashley has a PhD in management from Henley Business School.

Key strengths in support of Company strategy:

- Has significant experience consulting on the development and implementation of strategy, including for organisations in growth mode and operating in the technology sector, supporting the Company's growth and technology strategic pillars
- Offers wide-ranging insights based on the breadth of industries she has advised
- Has a strong focus on the retention, reward and incentivisation of management in the delivery of strategy

Current external appointments:

- None

Committee membership:

N A R SE

Committee membership¹ key

○ Committee Chair

A Audit

N Nominations

R Remuneration

SE Safety & Environment

¹ Committee membership is shown as at 18 March 2021



Karen Geary
Independent
Non-Executive Director

Appointed: October 2019

Experience: Karen is an experienced human resources professional, having served in a number of senior and executive HR roles in international transport and technology companies, including Stena Line Limited, The Sage Group PLC, WANDisco plc and Micro Focus International plc. She also served as a Non-Executive Director and Chair of the Remuneration Committee at Micro Focus prior to taking on the executive role there. She currently holds a number of other Non-Executive Director positions.

Key strengths in support of Company strategy:

- Maintains a crucial focus on people in the Boardroom, helping to ensure that the Company is retaining and rewarding people, developing their talent and promoting diversity among them, supporting the people who can deliver all three pillars of the Company's strategy
- Has implemented people management in organisations as they go through transition and growth, supporting the Company's growth strategy

Current external appointments:

- Non-Executive Director and Chair of the Remuneration Committee, ASOS PLC
- Non-Executive Director, Sabre Insurance Group plc

Committee membership:

N R SE



Ana de Pro Gonzalo
Independent
Non-Executive Director

Appointed: October 2019

Experience: Ana has significant financial and general management experience, having worked for a number of multinational companies across a variety of industries. She was Chief Financial Officer at Amadeus S.A. for over 10 years and, prior to that, was General Manager of Sacyr Vallehermoso, Chief Financial Officer of Metrovacesa S.A. and held a Non-Executive Director position at Merlin Properties SOCIMI, S.A. She also currently holds a number of other Non-Executive Director roles.

Key strengths in support of Company strategy:

- Adds strength to oversight of the Company's financial reporting, risk management and control environments supporting the delivery of Company strategy
- Offers valuable insights into the development of the Company's technology strategy
- Has implemented strategy in organisations as they go through growth, supporting the Company's growth strategy

Current external appointments:

- Non-Executive Director and member of the Audit and Compliance Committees, Indra Sistemas, S.A.
- Non-Executive Director and Chair of the Audit Committee, ST Microelectronics NV
- Independent Director, National Advisory Board representing Spain before the Global Steering Group for Impact Investment

Committee membership:

N A SE



Chris Muntwyler
Non-Executive Director
Until 30/12/20

Appointed: May 2011

Resigned: December 2020

Experience: Chris has extensive international experience in the transport and logistics sectors. Having previously held various senior executive roles at Swiss Air and the positions of Chief Executive of DHL Express (UK) Limited and Managing Director (Switzerland, Germany and Central Europe) at DHL Express, he is now a management consultant, specialising in strategy development, leadership guidance and customer and process orientation.

Key strengths in support of Company strategy until 30/12/20:

- Provided strong oversight of the Company's safety and environment programmes which support the sustainability of Company's business model and delivery of its strategy
- Brought his experience of corporate acquisitions, integrations and technology innovation to the Board, supporting the growth and technology pillars of the Company's strategy

Current external appointments:

- President and CEO, Conlogic AG
- Non-Executive Director, Österreichische Post AG
- Non-Executive Director, Descartes Systems Group Inc.



Lee Sander
Non-Executive Director
Until 30/12/20

Appointed: June 2011

Resigned: December 2020

Experience: Lee has a wealth of experience in the transportation, engineering and construction sectors. He currently serves as Senior Vice President (Americas) at Alstom and, prior to that, held a number of roles including President (Americas) at Bombardier Transportation (until it was acquired by Alstom), Group Chief Executive (Global Transportation) at AECOM and Chief Executive Officer at the Metropolitan Transportation Authority of New York.

Key strengths in support of Company strategy until 30/12/20:

- Deployed his extensive experience in North American transport in support of Executive management's development and delivery of strategy in North America
- Provided valuable insights into North American school board and transit authority customer relationships, supporting the growth and excellence pillars of the Company's strategy

Current external appointments:

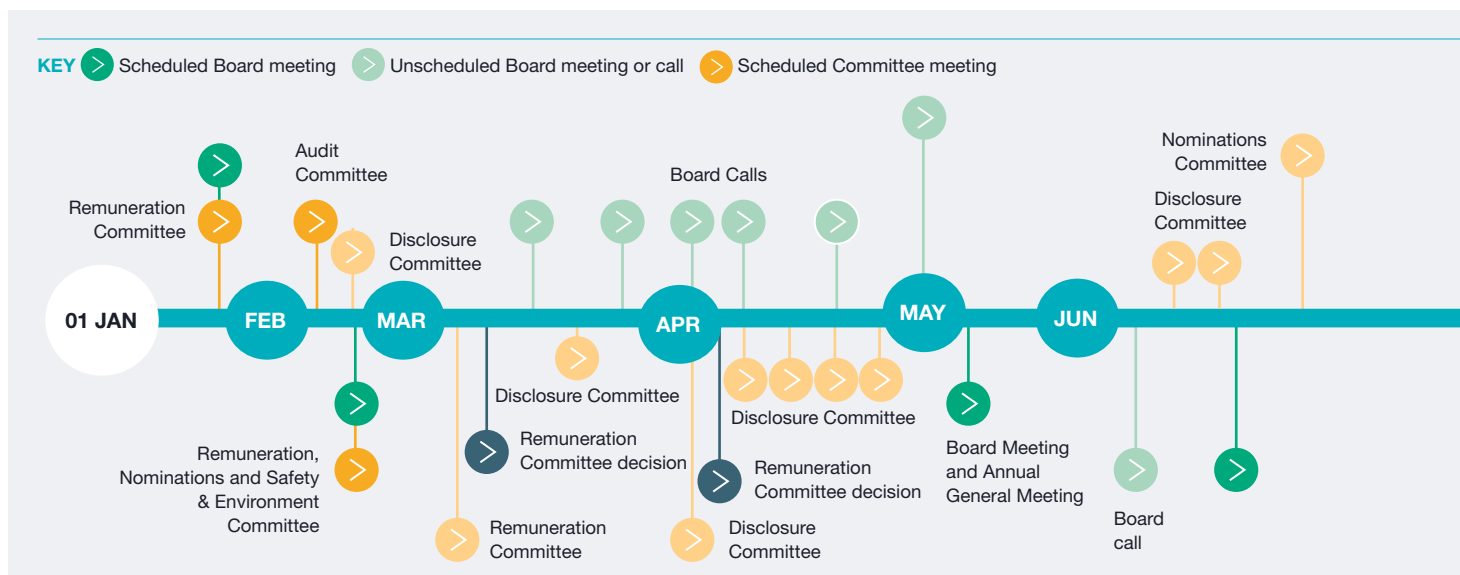
- Senior Vice President (Americas), Alstom
- Chairman Emeritus, Regional Plan Association
- Vice Chairman, Greater Jamaica Development Corporation

Further details about Directors' independence, conflicts of interest and commitment are set out on pages 74 to 75 of this Corporate Governance Report.

Board leadership and company purpose

Board activity in 2020

The Board and its Committees met considerably more often in 2020 to conduct both their ordinary business and significant additional business occasioned by the Covid-19 pandemic. The timeline below illustrates this and the table below details the nature of both the ordinary and Covid-related business discharged at the Board meetings.



Strategy and investor relations



- Assessed the strategic options for the Group in the context of Covid-19, including actions to protect short-term liquidity and to preserve maximum medium to longer-term liquidity to fund existing strategy and be best positioned to pursue new strategic development opportunities
- Reviewed and approved plans to pause new acquisitions, cancel or defer capital expenditure and reduce operating expenditure to make critical cost savings in response to revenue reduction caused by the Covid-19 pandemic
- Reviewed and approved strategically significant bids for new contracts for core businesses and proposals for the closure or sale of non-core businesses or assets
- Reviewed and approved a series of market updates to inform the market about the impact of the Covid-19 pandemic on the Group's operations and finances, and reviewed and responded as appropriate to feedback from investors and analysts throughout the year

Financial performance



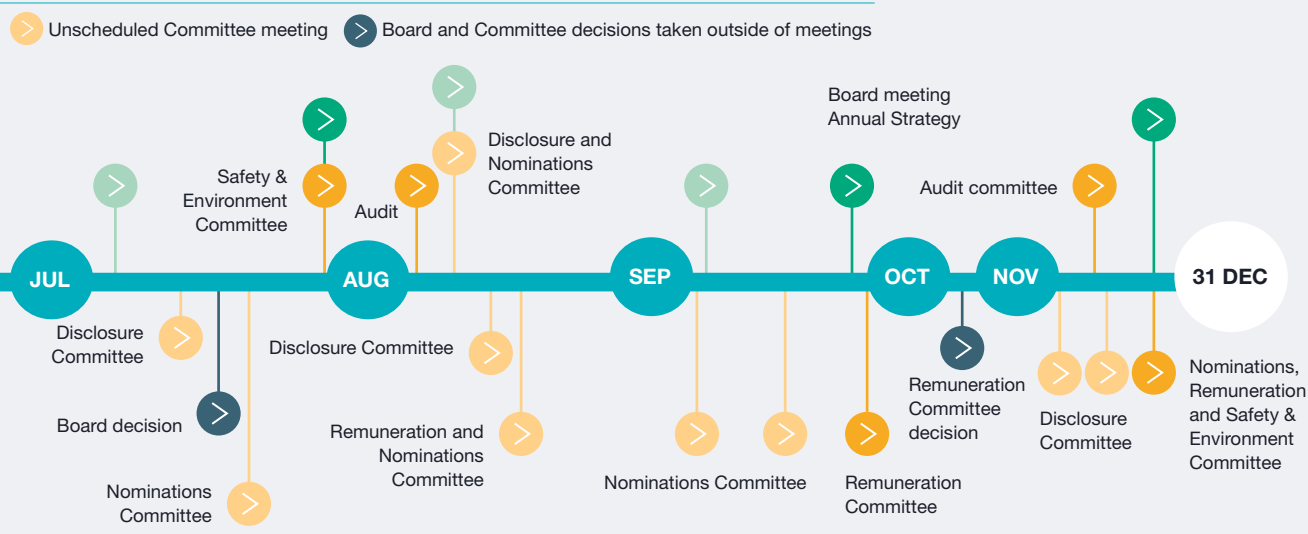
- Reviewed monthly financial results to review the actual impact of the Covid-19 pandemic and constantly evolving financial scenarios to reflect the projected impact of the Covid-19 pandemic
- Regularly assessed the likely impact of different financial scenarios on the Group's liquidity and compliance with its debt covenants and developed plans to protect against worst case scenarios
- Approved the Company obtaining several additional standby credit facilities and making a series of amendments to its debt covenants to protect against breach of such covenants and lack of liquidity
- Considered and approved the placing of new shares equal to 19.99% of the Company's issued share capital to raise £235m of equity funding
- Considered and approved the Company's issuance of a £500m hybrid instrument
- Reviewed the appropriateness of withdrawing the Company's 2019 final dividend and not paying a 2020 interim dividend
- Approved the Company's 2019 Annual Report, including its fair, balanced and understandable nature, and the Company's HY2020 results and FY2020 results, its going concern status and its viability
- Reviewed and approved the Group's 2021 budget

Operational and safety performance, risk management and internal control



- Reviewed each of the divisions' operational performance in response to Covid-19, including their scaling up and/or down their operations at different times in response to different phases of the pandemic and their dealings with their customers, colleagues and other key stakeholders
- Reviewed the business divisions' safety performance in the context of Covid-19, including the additional health and safety measures deployed to seek to protect customers and colleagues from Covid-19
- Reviewed and approved the Group's risk appetite and its principal and emerging risks in light of Covid-19 and approved the renewal of the Group's insurance policies
- Received reports from the Audit Committee on its activities, including on the effectiveness of the Group's system of internal control, particularly the integrity of its financial statements and robustness of its internal controls in the context of Covid-19
- Received reports from the Safety & Environment Committee on its activities, including its review of major safety incidents and the Group's new anti-Covid health and safety measures

From March 2020, in view of UK government mandates to 'stay at home' and related restrictions on travel and people gatherings and in the interests of health, safety and efficiency, all Board and Committee meetings were held via conference call or video conference.



Leadership, people and remuneration



- Received regular reports on the direct impact of Covid-19 on the Group's colleagues, including the numbers of colleagues in each business division unwell with or isolating due to Covid-19 and, tragically, colleague fatalities due to Covid-19
- Received and approved recommendations from the Nominations Committee on Board and Senior Management changes
- Received and approved further recommendations from the Nominations Committee on the broader composition of, and succession plans for, the Board
- Reviewed and considered Senior Management succession plans, Group talent management initiatives and Group diversity and inclusion initiatives
- Received reports from the Remuneration Committee on its activities, including its decisions on the new CEO's and CFO's remuneration arrangements, wider Senior Management remuneration arrangements and the proposed new Directors' Remuneration Policy

Engagement, environment and community



- Reviewed the outcomes of regular staff surveys to assess colleagues' wellbeing during the Covid-19 pandemic and their views on the Company's response to the pandemic
- Reviewed the actions taken by the Group to contribute to the wider community during the Covid-19 pandemic, including actions on transporting health workers and patients to and from hospitals and distributing food parcels
- Reviewed the activities of and approved a financial contribution to the National Express Foundation
- Reviewed progress against the Company's seven-year environmental KPIs and three-year LTIP environmental performance measures and considered legal and best practice developments in relation to environmental reporting
- Reviewed and discussed the observations and actions from the workforce engagement undertaken by Directors

Legal, regulatory and governance



- Received reports on the multitude of new laws and guidance developed by national governments and health authorities in response to the Covid-19 pandemic and oversaw the Group's response to them
- Received regular updates on legal matters affecting and litigation brought by or against the Group
- Conducted the annual review of the Board Reserved Matters and Board Committee Terms of Reference
- Reviewed the results of an internal evaluation of the effectiveness of the Board, its Committees, the Chairman and other Directors
- Reviewed emerging best practice on compliance with the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 and considered recommended developments to the Company's own corporate governance procedures

Further information about the work of the principal Board Committees is set out in their respective reports in this Corporate Governance Report. Further details about Directors' attendance at Board and Committee meetings and of the Board's and its Committees' processes are set out on pages 74 to 75 of this Corporate Governance Report.

Board leadership and company purpose

Purpose, Vision, Values and culture

Purpose, Vision and Values

As explained in the Chairman's introduction to Corporate Governance, the Company's Vision and Purpose, which are articulated at the beginning of this Annual Report, have not changed as a result of the Covid-19 pandemic.

Rather they have been reinforced by the Board's strong belief that leading a modal shift from cars to high quality mass transit as a means of connecting people to their schools, work, family, friends and leisure in

a safe, reliable and environmentally friendly way remains of critical importance to people's lives.

Furthermore, the Company's well established Values of Safety, Excellence, Customers, People and Community & Environment have served the Company well during the pandemic by focusing the Board's and all our colleagues' attention on what matters, as much if not more in the difficult times as in the good times.

Alignment of Purpose, Values and strategy

The diagram below demonstrates how the Company's Values support and are aligned with both its Purpose and the three core pillars of its strategy and also explains how those same Values have served the Company well during the Covid-19 pandemic and why our Purpose and Values remain the right ones.



Culture

The below table sets out the framework of policies and practices which underpin our culture and explains how the Board monitors culture:

| Culture framework | Board methods of monitoring culture |
|--|---|
| Our Values The Company's Values are promoted throughout the Group's operations and sites, via management measures and visual prompts, serving to constantly remind our people about our Values. The Company also holds the annual Group Values Awards, with people from across the global business nominating their colleagues for demonstrating behaviours which exemplify the Values and a panel choosing winners from among them (see page 66). | <ul style="list-style-type: none"> – Board members attend the Group Values Awards each year, giving them the opportunity to see first-hand the best examples of how our colleagues live by our Values. – Directors' visits to the Group sites and attendance at workforce engagement events also allow them to see and hear ways in which our colleagues are living by our Values on a daily basis. – Customer satisfaction surveys and scores are reported to the Board, revealing how well our customers consider we are living by our Values. |
| Our health and safety focus The Company's global safety policies and a wide range of associated health and safety practices and procedures implementing them set high and consistent standards of health and safety across our operations worldwide. | <ul style="list-style-type: none"> – The Safety & Environment Committee of the Board monitors the development, implementation and compliance with the Company's global safety policies. – The Safety & Environment Committee Chair performs annual safety tours focusing on different areas and aspects of safety culture each year and reports on them to the Board. – The Group CEO, assisted by the Group Safety Director, constantly monitors the Group's safety performance, including by reference to a series of KPIs, including FWI. |
| Our environmental ambitions The Company's seven-year environmental KPIs and the inclusion of environmental metrics in the LTIP and a programme of environmental compliance and reporting set clear targets for environmental performance. | <ul style="list-style-type: none"> – The Safety & Environment Committee of the Board monitors compliance with environmental regulation and progress against environmental targets. – The Group CFO, assisted by divisional teams and the new Group Environmental Sponsor, performs regular reviews of environmental compliance and develops action plans for achievement of KPIs, including tCO₂e reduction. |
| Our corporate policies The Company's corporate policies, including those on anti-bribery and corruption, anti-slavery and human trafficking, data protection and whistleblowing, set clear expectations, and mandates, for every member of the workforce to perform the Company's business with integrity and in accordance with applicable laws. | <ul style="list-style-type: none"> – The Company's corporate policies are reviewed and approved by the Board. – Any serious allegations of breach of corporate policy or other wrongdoing, whether identified through internal audits, the whistleblowing hotline (via which colleagues can raise concerns in confidence and anonymously if they wish) or otherwise, are duly investigated, acted upon and brought to the Board's attention. |
| Our employee policies and practices Fair and transparent employee policies and practices ensure that our colleagues' rights are respected in accordance with applicable laws, their contracts and recognised collective bargaining agreements. A number of programmes and initiatives also support their health and wellbeing, develop their talent, recognise their excellence and promote diversity and inclusion among them. | <ul style="list-style-type: none"> – The Board receive quarterly HR reports including analysis of, and KPIs on, all key HR matters. – The Board also receives reports on key HR matters as they arise, including the outcome of staff surveys and the progress of trade union relations. – The Group CFO chairs the Group Diversity & Inclusion Council and reports on progress of initiatives to the Board. – Directors also engage with colleagues directly via workforce engagement events. |
| Our supplier protocols and procedures Standard supplier protocols and procedures, standard contractual terms and audits of suppliers ensure that key suppliers operate their businesses and respect their workers' rights in the same way that we do. | <ul style="list-style-type: none"> – The Board receives annual stakeholder reports, including discussion of key supplier relationships, and presentations from core suppliers. – The General Counsel, who attends Board meetings, sponsors the Company's compliance programmes, including compliance by suppliers with the Company's policies, protocols and procedures. |

Through the culture framework and the Board's culture monitoring activities, and taking into account the way in which the Company and colleagues have worked to manage the challenges created by the Covid-19 pandemic, the Board is satisfied that the Company's culture is strongly aligned with its Values.

Culture

The Company's culture is also evidenced in the daily activities of our colleagues, the best examples of which in 2020 were recognised and rewarded by the Group Values Awards. Details of the winners are set out below:



Community & Environment **Winner: Sandra Kramer, North America School Bus Driver**

For using her school bus to help to evacuate residents affected by the forest fires in Northern Ontario



Safety **Winner: ALSA Marrakesh School Road Safety Team**

For building the first road safety education circuit, replicating a mini-city, to educate young people in Marrakesh about safe driving



Customers

Winner: Bahrain Engineering Team

For overhauling vehicle maintenance regimes to achieve vehicle availability with a fleet working in tough conditions



Excellence

Winner: ALSA Spain Autonomous Vehicle Team

For its pioneering project which has resulted in ALSA being the first company to operate an autonomous bus along a public route in Spain



People

Winner: Tyairi Terry, North America School Bus Monitor

For helping save a young student's life by observing behaviour on his school routes and acting quickly to get her help



Board engagement with equity and debt investors

The Board is committed to maintaining a two-way dialogue with its equity and debt investors.

The Chairman, supported by the Senior Independent Director and the Executive Directors, has overall responsibility for ensuring this communication is effective.

During 2020, the Executive Directors, supported by the investor relations team, undertook their traditional investor relations programme aligned with the Company's financial reporting calendar, which included presentations to and meetings with existing and prospective equity investors, analyst-arranged investor conferences and investment bank sales desk meetings. The principal traditional equity investor events are designated by the blue text in the investor relations programme opposite.

In addition, due to the significant impact of the Covid-19 pandemic on the Company and several other key events, the Executive Directors, supported by the Company's brokers, treasury team and other advisers, the Chairman and certain other Non-Executive Directors also undertook significant additional engagement with equity and debt investors throughout the 2020 year, including in connection with:

- the publication of a number of trading updates informing the market about the impact of the pandemic on the Group's trading and financial performance, which were often followed by ad hoc discussions with equity investors, as designated by the red text;
- amendments to the Company's financial covenants in its major debt facilities and private placement note programmes, the Company's equity placing and the Company's hybrid instrument issuance, which involved discussions with existing and prospective equity and debt investors, as designated by the purple text;
- the CEO succession process, which involved communications and discussions with major shareholders and, once the new Group CEO was appointed, introductory meetings between the new Group CEO and major shareholders, as designated by the yellow text; and
- consultation with major shareholders on a proposed new Directors' Remuneration Policy and communications about other Executive Director remuneration matters, as designated by the green text.

10 analysts published equity research notes covering the Company during the year. Details of the firms that currently follow the Company appear on the Investors section of the Company's website.

2020 investor relations programme

| | |
|-----|--|
| JAN | – Closed period |
| FEB | – FY2019 results announcement and investor roadshow (London and Edinburgh) |
| MAR | – First Covid-19 impact trading update, and guidance withdrawn – Meeting with HSBC sales desk |
| APR | – Second Covid-19 impact trading update – Discussions with debt investors on first amendments to financial covenants to accommodate the then worst case Covid-19 impact scenario modelling – Meeting with Liberum sales desk |
| MAY | – Third Covid-19 impact trading update – Equity placing announcement, bookbuilding with equity investors and £235m equity placing outcome announcement – AGM (attendance restricted in accordance with UK government guidelines) – Meeting with HSBC sales desk – US investor conference (virtual) |
| JUN | – Goldman Sachs Travel and Leisure conference (London) – Non-deal US investor roadshow – Chairman's letter to major shareholders on the former Group CEO's resignation |
| JUL | – Closed period – Discussions with debt investors on second amendments to financial covenants to accommodate the new worst case Covid-19 impact scenario modelling – Discussions with equity investors on CEO succession |
| AUG | – HY2020 results announcement and presentation to investors and analysts – Meetings with HSBC and Jefferies sales desks – Further discussions with equity investors on CEO succession |
| SEP | – Fourth Covid-19 impact trading update – Investor meetings at Small and Mid-Cap investor conference – Investor meetings at Travel and Leisure investor conference – Meetings with Liberum and Berenberg |
| OCT | – Berenberg investor conference participation (Madrid) – Meeting with Bank of America sales desk – Consultation with major shareholders on proposed new Directors' Remuneration Policy |
| NOV | – £500m hybrid instrument roadshow – Fifth Covid-19 impact trading update, including hybrid instrument issue announcement and reinstated guidance – Investor meetings at UK and Madrid investor conferences – Meeting with Bank of America sales desk – Fireside investors chat hosted by Bank of America – Continued consultation with major shareholders on proposed new Directors' Remuneration Policy |
| DEC | – New Group CEO introductory meetings with major shareholders – Communication with major shareholders about other Executive Director remuneration matters |

The Board is kept fully informed of the views of shareholders via regular reports from the Executive Directors on their investor relations activities and via feedback from the Chairman and other Non-Executive Directors on their engagement. The Company's brokers and investor relations advisers also provide regular confidential feedback on investor views, perceptions and opinions, which are shared with the Board.

The AGM traditionally provides shareholders with the opportunity to meet Directors, ask questions about and vote on the matters before the meeting but, due to Covid-19 restrictions, the Board had to restrict attendance at the 2020 AGM.

The proposed approach to the Company's 2021 AGM is explained in the Chairman's introduction to Corporate Governance and in the Notice of 2021 AGM. The Board advises shareholders to check the Company's website: www.nationalexpressgroup.com/investors/agm, in the lead up to the 2021 AGM for updates about how it will be held.

Investors can find more information about the Company generally on the Investors section of the Company's website: www.nationalexpressgroup.com/investors

Board engagement with the workforce

Following the success of the Board's workforce engagement events in 2019, which supplemented the Board's traditional programme of engagement via Board and individual Director visits to the Company's operations, the Board planned to continue both forms of engagement in 2020.

As Covid-19 was declared a global pandemic, and national governments placed restrictions on travel and advised working from home, the Board had to cancel its planned visits to the Company's operations in both Morocco and the USA. However, due to the importance the Board places on workforce engagement, and the benefits it has both for Directors in giving them a more informed context for decision-making and for colleagues in knowing their views are being heard and taken into account in decision-making, the Directors made sure to still conduct certain in-person and online engagement, as described on these pages and overleaf.

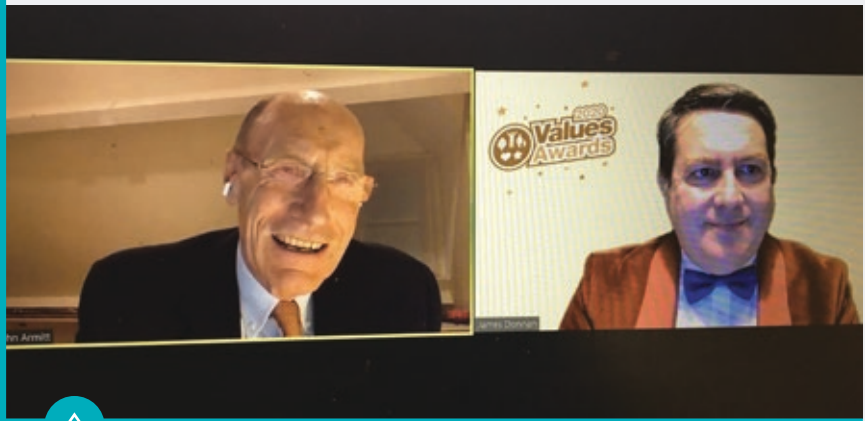


Chairman's visit to Fareham, UK operations

In August 2020, as travel and meeting restrictions were relaxed in the UK, Sir John Armitt visited the Company's newly acquired Lucketts Travel business headquartered in Fareham, Hampshire. Lucketts includes a significant coach holidays and excursions business which has been deeply affected by the Covid-19 pandemic, with bookings down by more than 90% and more than 80% of its workforce furloughed at the pandemic peaks. Notwithstanding these challenges, through discussions with colleagues the Chairman was pleased to observe that careful attention to the safe delivery of operations, innovation in technology to aid future growth, optimisation of the asset base and other efficiencies to generate cost savings were all in evidence as activities recommenced over the summer.

“Despite the challenges, it was fantastic to see such a positive attitude among our Lucketts colleagues and to hear how pleased they were to have joined the National Express Group. It was also good to see that the integration of the business was going well, particularly with Lucketts being able to seize opportunities from being part of the Group to create more efficiencies.”

Sir John Armitt



Directors' attendance at Group Values Awards

The Group Values Awards are annual awards given to those colleagues whose actions best demonstrate the Company's Values of Safety, Excellence, Customers, People and Community & Environment.

The event typically brings the nominees from across the Group's global businesses together with members of the Board and Group Executive Committee in London for a dinner and formal awards presentation. For obvious reasons, this was not possible in 2020 so the awards took place online, with the new Group CEO introducing the event, Head of Corporate Communications James Donnan emceeing and the Chairman closing with words of congratulation.

While naturally a more subdued event, it was important to still take the time and create a forum in which to recognise individual colleagues and teams for going above and beyond in exemplifying the Company's Values.

“While it was sad not to attend a typical event, it was great that the Company still took the time and found a responsible way to have the awards. Just hearing all the reasons why people were nominated makes me proud to work for the Company and honoured to have won one of the awards.”

A Group Values Award winner



Director workforce engagement events

By moving them online, the Board was able to conduct three workforce engagement events in 2020.

As explained in the Company's 2019 Annual Report, these events are a variant of the Code recommended 'designated non-executive director' method of engaging with the workforce and are considered by the Board to be more effective than that or the other Code recommended methods. This is because: they give more of the Directors and indeed more colleagues the opportunity to speak with each other; they take due account of the size, geographic expanse and cultural diversity of the Company's workforce; and the relative informality of their nature encourages open and honest discussion.

Each of the three events held in 2020 brought together a number and variety of colleagues from the Company's principal businesses in the UK, North America and ALSA (covering Spain, Morocco and Switzerland) and each was attended by two different Non-Executive Directors, so more than half of the Board in total. As in the prior year, the events took the form of roundtable discussions and all followed the same theme – 'Driving through Covid' – with colleagues invited to discuss their experiences of working for the Company during, or being on furlough due to, the Covid-19 pandemic.

A number of common themes emerged from the discussions, with both positive and negative views expressed. These are summarised in the table on page 70.

A selection of the participating Non-Executive Directors' over-arching observations of the events are also set out below:

“The event was very thoughtful and collaborative and I really enjoyed being part of it. The fact that participants were drawn from all levels of the business made for a really interesting and wide-reaching discussion.”

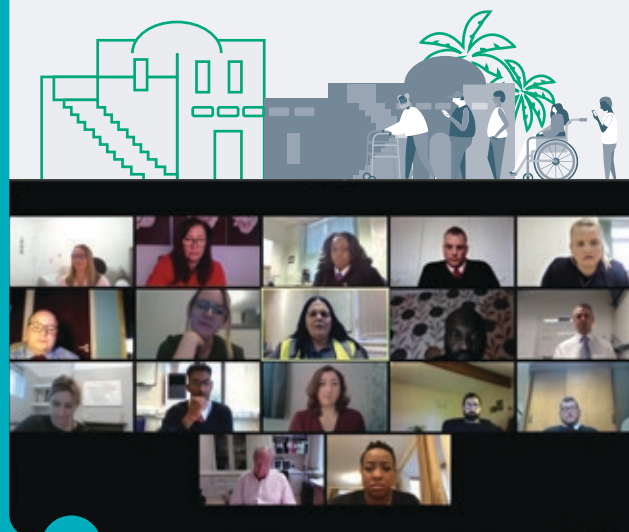
Ana de Pro Gonzalo

“It was clear that people had really been living by our Values during the pandemic and really pleasing to hear that people felt the Company had looked after them during this time. I was very impressed by the development of new technologies and internal communications.”

Jorge Cosmen

“It was an engaging event, where the overriding feeling from colleagues was one of positivity and appreciation for the steps the Company had taken.”

Karen Geary



Interim Group CEO/CFO, Chairman and Deputy Chairman attendance at NX Network event

The NX Network event is an annual event bringing together high potential management candidates from across the Group's global businesses so they can network with each other, share their views and experiences, and hear from and present to members of the Board.

The 2020 event was held in October remotely via an online platform, made available by our partners at Aston University, that facilitated full interaction between all 60+ participants, including the interim Group CEO/CFO, Chairman and Deputy Chairman. Colleagues gave presentations to each other and the Directors in attendance about how they had innovated to work differently during the Covid-19 pandemic. The interim Group CEO/CFO, Chairman and Deputy Chairman in turn presented to colleagues on how the nature of the Board's work and methods of Board working had changed due to Covid-19, and used the event as an opportunity to thank colleagues for their hard work during the pandemic.

“It was great to have a mixture of talks from senior leaders in the business, hear insight from across the different divisions and also listen to great advice from previous graduates in the network. It was really inspiring to hear how their career paths have developed over the years.” “In a difficult situation like a pandemic without the possibility of all being together, the digital version of the event has been a great solution.” “I think these events are important to feel closer with each other.”

NX Network event participants

| Topic | Positives | Negatives | Follow-up actions |
|---|--|---|--|
| Health and Safety | <p>There was general praise for the additional health and safety measures taken by the Company, including the distribution of PPE from very early on in the pandemic, the new cleaning regimes on vehicles and the new social distancing measures in offices and depots.</p> | <p>Frustrations were voiced about difficulties drivers encounter trying to ensure passengers adhere to social distancing and face covering rules or recommendations.</p> <p>Some concerns were also expressed about some colleagues not observing such rules and recommendations.</p> | <ul style="list-style-type: none"> – Local management continue to work with local authorities to enforce compliance. – CCTV is spot-checked to audit compliance and in-house inspector teams and external police resources are directed to hot spots of non-compliance. – Local management have reinforced rules and recommendations among colleagues and increased signage across sites. |
| Working, or returning to work, during the pandemic | <p>For those working during the pandemic, there was an overriding consensus that the Company had responded well to concerns people had by taking additional health and safety measures (see above) and by managers taking the time to reassure individuals who had concerns about working or returning to work from furlough via one-to-one discussions.</p> <p>Colleagues also recounted instances of morale boosting actions, for example by the Company organising socially distanced social events when permitted by law and recognising those colleagues who had gone above and beyond.</p> | <p>Colleagues from all divisions expressed that they had experienced some level of anxiety about working during the pandemic and/or on their return to work. However, they also explained how these anxieties were generally eased through Company efforts around health and safety (see above) and/or communication (see below).</p> <p>Colleagues from across the businesses but particularly support functions, such as IT, also explained how significantly their ways of working had had to change and/or how they had had to cope with an increased workload due to these changes or team members being off due to sickness, isolation or furlough.</p> | <ul style="list-style-type: none"> – No further actions, as the additional health and safety measures remain in place and managers continue to have close contact with colleagues to provide them with appropriate support and reassurance. – Local management also continue to consider carefully the appropriate balance in each team between having sufficient people to perform the work and the cost savings needed to offset reduced revenues. |
| Furlough | <p>For those colleagues who had been furloughed, again there was an overriding consensus that the Company had treated them well, including by sending regular corporate communications about how the Company was dealing with the pandemic, creating more opportunities for colleagues to raise questions with local management and by line managers or HR colleagues undertaking weekly 'check-ins' with them.</p> | <p>Colleagues explained how initially there was some division between those who were furloughed and those who were not due to perceptions that the other group 'had had it easier' and consequently on how work should be divided when furloughed colleagues returned. However, they also explained that these feelings largely dissipated as each group recounted their experiences to the other group.</p> | <ul style="list-style-type: none"> – No further action required, save as noted above regarding local management needing to achieve the right balance and encouraging colleagues to share their experiences with each other. |
| Communication | <p>Many colleagues considered that the nature and frequency of communication from the Company during the pandemic had been very good.</p> <p>By and large, technology had worked well for most areas of the businesses, with colleagues commenting it had been a learning curve for many as teams were making much better use of technology than they previously had.</p> | <p>However, there was some criticism about over-reliance on electronic means for communicating with colleagues more used to receiving communications via notice boards and about problems with IT connectivity in some depots.</p> | <ul style="list-style-type: none"> – Local management are now ensuring they give equal weight to electronic and more traditional means of communication. – Connectivity problems have also been fixed. |

CEO's Induction

One of the new Group CEO's priorities was to meet with as many colleagues as possible as part of his induction.



“One of the best parts of being National Express' CEO is having the opportunity to work with so many dedicated and talented people. From my induction and work to date, I have seen that people are the heart and soul of National Express' business and their commitment, excellence and enthusiasm have made the Company what it is.”

Met with the Company Directors on a one-to-one basis



Met with members of the Group Executive Committee and other direct reports on a one-to-one basis



Received briefings on the Company's Board and corporate governance practices



Visited ALSA's operations in Spain



Learned about vehicle maintenance standards and procedures



Learned about driver standards and safety protocols



Met with members of the ALSA management team



Met with the Company's legal advisers and received UK PLC legal training



Visited Birmingham Coach Station and held meetings with the UK coach management team



Met with the Company's auditor and brokers



Deloitte.

BANK OF AMERICA



Visited the National Express Transport Solutions (NETS) operations and met with the NETS management team



Held virtual meetings with key investors on a one-to-one basis



Met with City and Markets advisers



Visited the Coventry bus depot and held meetings with members of the UK bus management team



Board understanding of other stakeholders' views

The Board also recognises the value of understanding wider stakeholders' views so they can be taken into account in Board decision-making.

Who the Company's key stakeholders are, how the Company engages with them, the focus of that engagement in 2020 and the value added through that engagement are set out in the stakeholders section of the Strategic Report on pages 44 and 45. Examples of how different stakeholder groups' interests have been taken into account by the Board in its decision-making are also set out in the Company's section 172(1) statement on pages 46 and 47 of the Strategic Report.

As explained on page 44, the majority of engagement with stakeholders such as colleagues, customers, government authorities, regulators and suppliers takes place at business divisional level. However: the Executive Directors engage with all these stakeholder groups as the Company's business requires; the Executive Directors together with the Chairman, Deputy Chairman and Chairs of the Board's Committees will also engage directly with equity and debt investors where appropriate as explained on page 67; and the Board as a whole will also hear directly from particular stakeholders from time to time. Two examples of the Board hearing directly from stakeholders during 2020 are set out below.

**Board presentation from TfL's Director of Strategy and Chief Technology Officer**

In January 2020, the Chairman invited the Director of Strategy and Chief Technology Officer for Transport for London (TfL) to share with the Board TfL's insights into current and expected future travel behaviours within Greater London.

TfL is one of the UK coach business' key stakeholders as it manages London's road system as well as Victoria Coach Station. Engagement with TfL in such capacities is conducted via the UK coach management and public affairs team. However, the Company seeks to foster relationships with stakeholders at all levels of its business and the Board was keen to hear TfL's views based on its extensive passenger transport experience and cutting-edge approach to the use of technology in passenger transport. TfL's director explained to the Board how TfL is using and developing technology both to track people's travel behaviour and improve people's experience of using public transport.

The ability to acquire these insights and generally share knowledge with industry leaders is just one of the advantages of maintaining and developing strong relationships with key stakeholders.

**Board presentation from ADL's Managing and Customer Development Directors**

In February 2020, the Group CEO invited the Managing and Customer Development Directors of Alexander Dennis Limited (ADL) to talk to the Board about the nature of ADL's long-standing relationship with the Company.

ADL's directors explained that ADL had had a strategic partnership with National Express since 2012. It was the UK bus division's principal supplier due to the quality of its product and services and its innovative and collaborative approach with its customers, including National Express, to developing ever more safety and comfort features on buses and, in more recent years, to developing reduced and zero emission vehicles. They explained in particular the market dynamics causing a modal shift away from diesel to reduced or zero emission buses and ADL's pioneering technology with which they believe they ADL has become the market leader in producing electric double deck buses.

ADL expressed the importance of ongoing collaboration and support from National Express in its drive to deliver the electric vehicles which in turn will help National Express meet its commitment of never buying another diesel bus in the UK.



Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Group Chief Executive. Other Directors' and the Company Secretary's roles are also clearly defined to assist in enhancing the effectiveness of the Board. A summary is set out below:

| | |
|--|--|
| Chairman Sir John Armitt CBE¹ | <ul style="list-style-type: none"> – Provides overall leadership, and ensures effectiveness, of the Board – Sets the agenda, character and tone of Board meetings and discussions – Maintains an effective working relationship with the Group Chief Executive Officer – Leads the annual performance evaluation of the Board and its Committees and ensures Non-Executive Directors make an effective contribution – Assists the Board in understanding stakeholders', including shareholders', views |
| Deputy Chairman Jorge Cosmen² | <ul style="list-style-type: none"> – Maintains a close dialogue with the Chairman and the Group Chief Executive Officer – Supports and deputises for the Chairman as required – Assists the Group Chief Executive Officer in developing strategy, in view of his deep knowledge of the Company and passenger transport sector |
| Group Chief Executive Officer Ignacio Garat³ | <ul style="list-style-type: none"> – Develops the Company's strategy for consideration and approval by the Board and provides effective leadership of the executive team in its delivery of strategy – Develops the Group's business model and manages the Group's operations – Reinforces the Company's Values and sets expected workforce behaviours, including by overseeing the development and implementation of the Company's corporate, safety and environment policies and standards – Establishes and services relationships with key stakeholders – Communicates (with the Group Chief Financial Officer) the Group's financial performance and strategic progress to investors and analysts – Ensures the Board is kept fully apprised of the Group's safety and operational performance and of risks and opportunities that may affect or contribute to the delivery of strategy |
| Group Chief Financial Officer Chris Davies³ | <ul style="list-style-type: none"> – Works closely with the Group Chief Executive Officer in the development and delivery of the Company's strategy – Responsible for the financial stewardship of the Company and management of its resources through appropriate accounting, financial and other internal controls – Directs and manages the Group's finance, risk management, internal audit, insurance, tax, treasury, procurement, communications and IT functions – Manages investor relations, including by communicating (with the Group Chief Executive Officer) the Group's financial performance and strategic progress to investors and analysts – Chairs the Group's Diversity & Inclusion Council and oversees the Company's environmental ambitions and performance against them |
| Senior Independent Non-Executive Director Matthew Crummack | <ul style="list-style-type: none"> – Acts as a sounding Board for the Chairman and a trusted intermediary for other Directors – Available to investors to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels – Leads the Board in the annual performance evaluation of the Chairman and in developing Chairman succession plans – Meets with Non-Executive Directors without the Chairman present at least annually and more often as required to discuss Board matters |
| Independent Non-Executive Directors Mike McKeon, Dr Ashley Steel, Lee Sander⁴, Chris Muntwyler⁴, Karen Geary and Ana de Pro Gonzalo | <ul style="list-style-type: none"> – Monitor and scrutinise the Company's performance against its strategic goals and financial plans – Bring objective perspective to the Board's deliberations and decision-making, drawing on their collective broad experience and individual expertise and insights – Play a lead role in the functioning of the Board's Committees – Monitor and assess the Company's culture, use appropriate and effective means to engage with the workforce and acquire an understanding of other stakeholders' views – Monitor and assess the effectiveness of, and support and constructively challenge, the Executive Directors |
| Company Secretary Jennifer Myram | <ul style="list-style-type: none"> – Provides advice, support and training to the Board, its Committees, the Chairman and other Directors individually as required, primarily in relation to corporate governance matters – Responsible, with the Chairman, for setting the agenda for Board and Committee meetings and for high quality and timely information and communication between the Board and its Committees, and between the Directors and Senior Management as required – Ensures that Board and Committee procedures are complied with |

¹ Independent on appointment

² Non-independent Non-Executive Director

³ Executive Director

⁴ Stepped down from the Board on 30 December 2020

Board and Committee meeting attendance

The Board and its Committees conduct their business in scheduled meetings during the year. As illustrated on pages 62 and 63, a number of additional formal and informal Board and Committee meetings were convened during 2020 to enable the Board and its Committees to consider and take timely decisions in response to the Covid-19 pandemic. The table below sets out attendance by Directors at the formal Board and Committee meetings held in 2020 (noting that there was full attendance by all Directors and Committee members at all informal meetings and calls held during the year):

| Attendance at meetings | Board | Nominations Committee | Audit Committee | Remuneration Committee | Safety & Environment Committee |
|---|-------|-----------------------|-----------------|------------------------|--------------------------------|
| Total formal meetings in 2020 | 13 | 8 | 3 | 6 | 3 |
| Executive Directors | | | | | |
| Ignacio Garat, Group Chief Executive Officer ¹ | 1 | – | – | – | – |
| Chris Davies, Group Chief Financial Officer | 13 | – | – | – | – |
| Chairman and Non-Executive Directors | | | | | |
| Sir John Armitt ² | *13 | *8 | – | – | 3 |
| Jorge Cosmen | 13 | *8 | – | – | 3 |
| Matthew Crummack | 13 | 8 | – | 6 | 3 |
| Mike McKeon ³ | 13 | 7 | *3 | – | 3 |
| Dr Ashley Steel | 13 | 8 | 3 | *6 | 3 |
| Karen Geary | 13 | 8 | – | 6 | 3 |
| Ana de Pro Gonzalo ^{3, 4} | 12 | 7 | 2 | – | 2 |
| Chris Muntwyler ⁵ | 13 | 1 | 1 | – | *3 |
| Lee Sander ⁶ | 13 | 1 | 1 | 2 | 3 |

* Board Chairman or Committee Chair.

¹ Ignacio Garat was appointed to the Board on 1 November 2020 and attended the one Board meeting in the year after his appointment.

² Sir John Armitt chaired the Nominations Committee until 4 November 2020 (so chaired seven of its meetings held in the year up to that date) when Jorge Cosmen assumed its chairmanship (and chaired the eighth Committee meeting of the year).

³ Mike McKeon and Ana de Pro Gonzalo were appointed as members of the Nominations Committee from 25 February 2020 and therefore both attended all meetings of this Committee held during the year after they were appointed as members.

⁴ Ana de Pro Gonzalo could not attend the scheduled February Board and Audit and Safety & Environment Committee meetings due to a pre-existing commitment in her prior role at Amadeus, which the Board had approved during her recruitment process as a Non-Executive Director. Ms de Pro Gonzalo stood down from her role at Amadeus at the end of 2020, as the Board was aware she intended to when appointed, to focus on her Non-Executive Director activities. She was present at all other scheduled and unscheduled formal Board and Committee meetings, comprising 23 in total, and all informal meetings and calls.

⁵ Chris Muntwyler was a member of the Nominations and Audit Committees until he stood down from these roles on 25 February 2020 and attended the one meeting of each of the Nominations and Audit Committees held during the year while he was a member.

⁶ Lee Sander was a member of the Nominations, Audit and Remuneration Committees until he stood down from such roles on 25 February 2020 and attended the one meeting of each of the Nominations and Audit Committees and the two meetings of the Remuneration Committee held during the year while he was a member.

Director independence

The Board reviews the independence of its Non-Executive Directors as part of the annual Board and Director evaluation process. The Nominations Committee also considers Non-Executive Director independence on an ongoing basis as part of its consideration of the composition of the Board.

Sir John Armitt was considered independent on his appointment as Chairman. Jorge Cosmen, the Deputy Chairman, is not considered independent due to the interests the Cosmen family hold in shares in the Company, his close links with Group's business and his long tenure on the Board. However, Mr Cosmen's extensive experience in the passenger transport industry and deep understanding of the Group's business enables him to provide the Board with superior insights on strategic and operational matters. The Board was of the view that Messrs Muntwyler and Sander remained independent during 2020, notwithstanding their long tenure on the Board. However, as such long tenure may

have caused shareholders to perceive them as no longer independent, from February 2020 they stood down from various Board Committees and, to facilitate future Board succession plans, they stood down from the Board at the end of the 2020, as further discussed in the Nominations Committee Report.

On the advice of the Nominations Committee, the Board considers all other serving Non-Executive Directors to be independent.

Conflicts of interest

The Board operates a policy to identify and manage situations declared by Directors (in accordance with their legal duty to do so) as a result of which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company. The Board considers such situations as they arise and decides whether to authorise any conflict based on the overriding principle that a Director must at all times be able to exercise independent judgement to promote the success of the Company.

Following review by the Nominations Committee of the application of this policy during the year under review, the Board is satisfied that no Director conflict situation currently exists, save in respect of Mr Cosmen due to his family's shareholding, which conflict has been authorised by the Board on the basis that, as noted above, he brings significant value into the Boardroom. A register of Directors' actual and potential conflicts, together with conflict authorisations previously given by the Board, is maintained by the Company Secretary.

Mr Sander's position at Alstom – which acquired Bombardier Transportation – was also kept under review by the Board as a situation that could give rise to a potential conflict of interest due to NX Rail GmbH's lease of Bombardier manufactured trains to service its RME concession. However, as Mr Sander was not involved in any decisions in connection with the RME concession and it accounted for less than 0.66% of the Group's 2020 revenue, no actual conflict of interest arose.

Director commitment and external appointments

Directors' commitments are reviewed as part of the annual Board and Director evaluation process and the Nominations Committee also keeps them under regular review. All Directors are expected, and required by their employment or appointment terms, to commit sufficient time to the Board and the Company as is necessary to carry out their duties.

Non-Executive Directors are also required, by their appointment terms, to seek the Board's approval to taking on significant new commitments. Non-Executive Directors may hold a number of external appointments provided that, in aggregate, they do not detract from the time and attention such Directors need to provide to the Company. Details of Non-Executive Directors' other current appointments are included in their biographies on pages 59 to 61 of this Corporate Governance Report.

Executive Directors must also obtain the Board's approval prior to taking on any new commitments and, subject thereto, are permitted to either: hold one external listed or traded company non-executive directorship or other significant appointment with a non-competing company; or hold one or more non-significant roles with non-competing organisations on a case-by-case basis. Ignacio Garat does not currently hold any external appointments. On 1 June 2020, Chris Davies was appointed as a Non-Executive Director of Motability Operations Group PLC, a non-traded public company providing mobility to disabled customers under contract to Motability, the national charity. This is not considered a significant role for Mr Davies and was duly approved by the Board.

A register of Directors' external appointments is maintained by the Company Secretary.

On the advice of the Nominations Committee, the Board considers, taking into account their high level of attendance at Board and Committee formal and informal meetings throughout the year under review, their participation in workforce engagement and wider Company events and their current external appointments, that all the Directors are able to, and do in fact, devote sufficient time to the Company.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which matters include: strategy, risk appetite and review of Group-wide principal and emerging risks; major acquisitions and disposals (above certain values); bids and contracts (above certain values); share

capital changes and debt financing; review of financial results and approval of business plans and budgets; setting and changes to key corporate policies; Board and Committee membership; and corporate governance arrangements. Other responsibilities and authorities have been delegated by the Board to its standing Committees, comprising its Nominations, Audit, Remuneration, Safety & Environment, Executive and Disclosure Committees. Any matters outside of these fall within the responsibility and authority of the Group Chief Executive Officer and/or Group Chief Financial Officer. The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved by the Board annually, can be found on the Company's website at: www.nationalexpressgroup.com

The Chairman and Company Secretary are responsible, in consultation with the Group Chief Executive Officer and Chairs of the Committees, for maintaining a scheduled 12-month programme of business for the Board and its Committees, with flexibility for additional business to be discharged as required. The programme ensures that all necessary matters are covered and appropriate time is given for discussion and, if thought fit, approval of relevant business.

At each scheduled Board meeting, the Board rigorously reviews reports from the Executive Directors, the Group General Counsel and the Company Secretary on the Company's safety, operating and financial performance, investor relations, legal compliance and corporate governance. Other regular Board agenda items include strategic proposals (including those relating to acquisitions and disposals, bids for contracts and capital allocation), risk management (including reviews of risk appetite and risk registers), tax and treasury updates, human capital updates (including on employee relations, talent development and diversity promotion) and workforce and stakeholder engagement. Committee Chairs also provide summaries of the main decisions and recommendations arising from Committee meetings to ensure non-members are kept up to date with the work undertaken by each Committee. Senior Management and external advisers regularly attend both Board and Committee meetings where discussions on specific matters on which their input or advice is needed take place. The Board also seeks to bring external viewpoints into the Boardroom, including from customers, suppliers and experts in areas relevant to the Company's strategy.

In advance of each Board and Committee meeting, Directors receive via a secure web portal high quality papers, prepared by the Executive Directors, Senior Management, the Company Secretary and/or external advisers where appropriate, on the agenda items to be discussed. The secure web portal also gives Directors access to a range of other resources, including previous meeting papers, minutes, financial reports, business presentations, investor reports, Company policies and governance guidelines, and details of Board and Committee procedures.

If a Director is unable to attend a meeting due to illness or exceptional circumstances, they will still receive all supporting papers in advance of the meeting and are directed to discuss with, and provide input to, the Chairman or relevant Committee Chair on the business to be considered at that meeting. The Company Secretary provides direct feedback to the absent Director on the key decisions taken at the meeting.

The Board has access to the Company Secretary, for support and advice as required, and the Company operates a policy which allows Directors to obtain, at the Company's expense, independent professional advice where required to enable them to fulfil their duties effectively.

In addition to Board and Committee meetings, Non-Executive Directors hold private meetings without the Executive Directors present, including to discuss Executive Director performance. There are also opportunities during the year for Directors to have informal discussions outside the Boardroom, either between themselves or with Senior Management or external advisers. In addition, and as explained on pages 67 to 72, Directors participate in a number of stakeholder engagement activities during the year.

During the year under review, the Company modified certain of its Board and Committee procedures to ensure the Directors were able to discharge their duties within the context of the Covid-19 pandemic, including:

- convening many more unscheduled meetings, often at relatively short notice to consider urgent business; and
- holding the majority of meetings via telephone or video conference.

The Company's well established procedures, as modified, permitted the Board and its Committees to continue to function effectively notwithstanding the pandemic, as was also confirmed by the Board and Committee performance evaluation, details of which are set out in the Nominations Committee Report.



Sir John Armitt CBE
Committee Chair (until
4 November 2020)

“In a challenging year for our business and its people, the Nominations Committee’s priority has been to ensure that we still have the best people governing the business and leading our people through the challenges. The CEO and Senior Management succession work the Committee undertook during year under review sought to deliver on this priority.”



Jorge Cosmen
Committee Chair (from
4 November 2020)

“I thank Sir John for his sound leadership of the Committee, particularly through the work it undertook in 2020, and I am honoured to take on the Chair role. In addition to continuing to progress our Board succession plans, my focus going forwards is to ensure we have a strong pipeline of talent for Executive Director and Senior Management roles, that we recognise, reward and develop talent across our Group and that we bolster diversity and inclusion across and at all levels of our global businesses.”

Dear fellow Shareholder

We are both pleased to present the Nominations Committee Report, having both held the role of Chair of the Committee for parts of the year under review. I (Sir John Armitt) present those parts of this Report which look back at the Committee’s work during the year under review and I (Jorge Cosmen) present those parts which look ahead to the Committee’s work and priorities in this current and future years.

Primary role

To monitor the balance of skills, knowledge, experience, independence and diversity of the Board and its Committees, ensure that appropriate procedures are in place for the nomination, training and evaluation of Directors and develop and facilitate the implementation of succession plans for the Board and Senior Management.

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at www.nationalexpressgroup.com

Key responsibilities

- Monitor the structure, size and composition (including the skills, knowledge, experience, independence and diversity) of the Board and its Committees and make recommendations to the Board regarding any changes to such matters
- Develop and implement effective succession plans for the Board, its Committees and Senior Management, having regard to the skills and expertise needed to ensure the long-term sustainable success of the Company, including by overseeing the development of a diverse talent pipeline and monitoring

the Company’s diversity policies and initiatives and their effectiveness

- Lead a rigorous and transparent process for identifying and selecting candidates to serve as Directors on the Board and its Committees and making recommendations to the Board for their appointment
- Assist the Chairman with the annual evaluation of the effectiveness of the Board, its Committees and the Directors

Activity highlights

- Led the process to identify and recommend to the Board a new Group Chief Executive Officer
- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of their members, and recommended changes to Committee membership to ensure independence, as part of ongoing Board and Committee succession plans
- Reviewed Senior Management succession plans, including via an in-depth review of Senior Managers and other high potential talent
- Reviewed and approved certain changes to the Senior Management* team

* References in this Report to Senior Management or Senior Managers are to the divisional managing directors and Group functional leads who are direct reports to the Group CEO and/or Group CFO and who together form the Group Executive Committee.

Membership, meetings and attendance

| Committee member | Appointed | Resigned | Meetings attended/ meetings held |
|--------------------------------------|-----------|----------|-------------------------------------|
| Sir John Armitt (Chair) ¹ | 01.01.13 | – | 8/8 |
| Jorge Cosmen (Chair) ¹ | 01.12.05 | – | 8/8 |
| Karen Geary ² | 01.10.19 | – | 8/8 |
| Matthew Crummack ² | 28.01.20 | – | 8/8 |
| Dr Ashley Steel ² | 28.01.20 | – | 8/8 |
| Mike McKeon ^{2,3} | 25.02.20 | – | 7/7 |
| Ana de Pro Gonzalo ^{2,3} | 25.02.20 | – | 7/7 |
| Lee Sander ⁴ | 01.06.11 | 25.02.20 | 1/1 |
| Chris Muntwyler ⁴ | 11.05.11 | 25.02.20 | 1/1 |

¹ Sir John Armitt, the Company Chairman, chaired the Committee until 4 November 2020, when Jorge Cosmen, the Deputy Chairman, became Chair

² Independent Non-Executive Director

³ Mike McKeon and Ana de Pro Gonzalo joined the Committee on 25 February 2020 and attended all meetings of the Committee while they were members

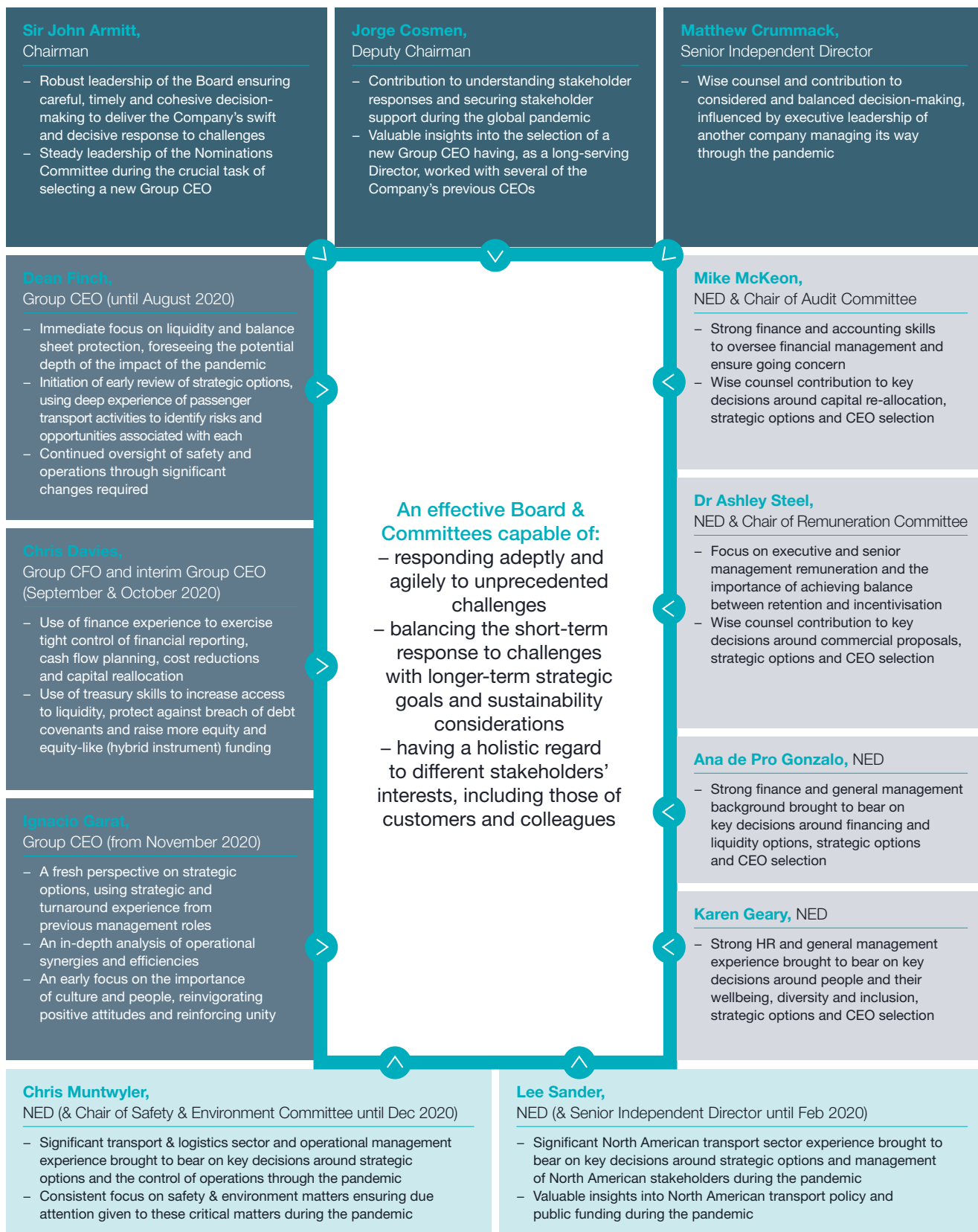
⁴ Chris Muntwyler and Lee Sander stood down from the Committee on 25 February 2020 and attended the only meeting of the Committee held while they were members

Other attendees: Company Secretary and, by invitation, Group Chief Executive Officer and Group Human Resources Director

Board and Committee composition

One of the Committee's principal responsibilities, as noted on page 76, is to ensure that the Board and its Committees are comprised of Directors with the right balance of experience, skills and expertise. It has never been more important to have this balance to enable the Board to respond to the unprecedented challenges the Company has faced as a result of the Covid-19 pandemic.

In previous Annual Reports, we have included information demonstrating the general nature and breadth of Directors' experience. The diagram below demonstrates the specific skills, experience and focus each Director has been able to bring to leading the Company through the challenges of the pandemic:



Board and Committee succession planning

Following Dean Finch tendering his resignation as Group CEO at the end of June 2020, the Committee's priority became identifying and recommending to the Board a new Group CEO. In accordance with succession plans developed over the last few years, there were some strong internal candidates for the role. However, the Board endorsed the Committee's recommendation to also consider external candidates in view of the critical importance of selecting a new Group CEO who would be able to both meet the Company's short term needs and be best placed to lead the Company in delivering its strategy and fulfilling its potential over the long term. The Committee therefore engaged an external executive search agency¹ to assist it in conducting a full market search, identifying external candidates and assessing both internal and external candidates.

To ensure the Committee was afforded the appropriate time and space to conduct an in-depth market search, carefully assess internal and external candidates and bring the best recommendation to the Board, and also to ensure consistency of leadership and a smooth and seamless transition of CEOs, the Board, on the Committee's advice, also agreed that Mr Finch would leave his role before the end of the year and appointed Mr Davies, the Group's CFO, as the interim Group CEO. Mr Davies ably fulfilled this role while the Committee undertook its deliberations.

Following the conclusion of those deliberations and on the Committee's recommendation, the Board selected and the Company appointed Ignacio Garat as the new Group CEO due to:

- his strong strategic and operational experience in an adjacent industry sector;
- his focus on safety, financial performance, customer experience and digital transformation;
- his ability to lead and galvanise international businesses towards common goals; and
- his strengths in building relationships with customers, strategic partners and colleagues.

From before (under appropriate confidentiality undertakings) and since joining the Company, Mr Garat has undertaken a detailed induction programme alongside fulfilling his executive leadership role. Details of Mr Garat's induction are set out on page 71.

¹ Egon Zehnder was engaged on the CEO succession process because of its strong credentials, international reach and participation in the voluntary code of conduct to address gender diversity on UK listed company boards of directors. Beyond its engagement in this capacity, Egon Zehnder does not have any connection with the Company or its individual Directors.

Wider Board and Committee succession plans were intentionally delayed during 2020 to ensure stability of the Board through the early stages of the Covid-19 pandemic and then latterly through the change in Group CEO. However, we intend to progress these plans in 2021 with the appointment of at least one additional Non-Executive Director to expand the geographical and cultural diversity of our Board. As I (Sir John Armit) will also reach my nine-year tenure as Chairman in 2022, the Committee has also commenced planning for my own succession.

To facilitate these ongoing succession plans and ensure continuous refreshment and an appropriate independent balance of the Board and its Committees, the Board, on the Committee's recommendation, agreed:

- in January 2020, that Matthew Crummack and Dr Ashley Steel would join the Nominations Committee;
- in February 2020, that Mike McKeon and Ana de Pro Gonzalo would join the Nominations Committee and also that Chris Muntwyler and Lee Sander would stand down from the Nominations, Audit and Remuneration Committees (but would both continue on the Safety & Environment Committee);
- in November 2020, having served on the Company's Board for nearly 10 years, that Chris Muntwyler and Lee Sander would stand down from the Board and the Safety & Environment Committee on 30 December 2020;
- having regard to the importance of safety to the Company and the relatively early-stage but fast-developing nature of the Company's environmental ambitions, and to ensure continued and consistent focus on these matters through other Board changes, that Mr Muntwyler would be retained by the Company as an adviser to the Board and co-opted as a non-Director member of the Safety & Environment Committee; and lastly,
- that I (Jorge Cosmen) would be elected as Chair of the Committee going forwards.

On behalf of the Board, we both take this opportunity to thank Mr Sander and Mr Muntwyler for their long and valued service as Directors of the Company and to Mr Muntwyler for continuing in the role of an adviser.

I (Jorge Cosmen) also look forward to leading the Committee through the further development and implementation of our Board and Committee succession plans over the coming years. Although I am a non-independent Director due to my, and my family's, shareholding in the Company and my long tenure on the Board, I am passionate about the Company and its success and believe that I, supported by my fellow Committee members (the

majority of whom are and will remain independent Non-Executive Directors), can fulfil our duties to shareholders by helping to ensure we have the best people leading the Company. To alleviate any residual concerns shareholders may have about my non-independent status, I intend to work closely with Matthew Crummack, our Senior Independent Director, and my other fellow independent Committee members, on all Board and Committee succession matters, and I confirm that I do not have a casting vote at Committee meetings.

Senior Management succession planning

A number of Senior Management changes also took place during the year under review, with the resignation or retirement of three members of the Group Executive Committee (GEC) and some consequential changes among their direct reports.

The Company also sadly lost two highly valued colleagues in Richard Millington, our Head of Risk & Insurance, and Nigel Lloyd, a member of our internal audit team who had worked with National Express for more than 20 years, both of whom died suddenly due to non-Covid-related reasons and to whose families and friends we extend our deepest sympathies.

Following such changes, and on the Committee's recommendation, the Board promoted Gary Waits to become CEO of the whole North American division, bringing the school bus and transit businesses back under common management and facilitating a joined up response by such businesses to the common challenges created by Covid-19. Mr Waits is supported by Liz Sanchez, who was promoted as COO of the North American business, and by two newly promoted finance managers in North America.

Internal promotions or reallocation of responsibilities were also made to ensure the roles of Senior Managers who have left were fulfilled while also reducing costs in a critical year for making cost savings and synergies wherever possible.

The Board, led by the Committee, continues to regularly review Senior Management succession plans and to identify and track the progress of high potential talent across the Company's global businesses. This is done by detailed formal review in the Boardroom of Senior Managers' and high potentials' experience, skills and notable achievements, and more informal reviews of their leadership style, attributes, colleague and stakeholder relationships and business plans and ideas when they present to the Board or when Directors visit the businesses they manage or work in.

The Board's policy on diversity and inclusion is:

- to achieve and then maintain at least one third female representation on the Board;
- to achieve and then maintain ethnic minority representation on the Board;
- to ensure that its membership reflects the diversity of the geographies and customers that the Group serves; and
- to respect the differences of its members and value and encourage the diversity of thought that such differences can bring

in each case and always within the context of Board members having, between them, the experience and skills required to support the development, oversight and delivery of the Company's strategy.

Senior Management succession planning and talent development is an area that I (Jorge Cosmen) wish to focus more of the Committee's attention on in future. Adopting the model used by our Audit Committee in conducting 'deep dives' into assessing divisional risk, I intend for the Committee to undertake 'deep dives' into the succession plans for divisional management and Group functional leads and into development plans for the strong talent pipeline we already have. The Committee will provide feedback and recommendations from this undertaking to the Board.

Board and Company commitment to diversity and inclusion

The Board and Company remain committed to enhancing diversity at each of Board, Senior Management and middle management levels and generally among colleagues across the Company's businesses. Inclusion – in the sense that all colleagues from all backgrounds should be and feel included and accepted in all aspects of Company life, from getting respect from their managers and colleagues to having equal opportunities for pay and progression – is clearly as important a priority as enhancing diversity, as well as itself being a means to enhancing diversity. The disproportionate impact of the Covid-19 pandemic on people from ethnic minorities and the racial tensions this has exacerbated in various countries around the world, particularly the USA where we have a significant number of colleagues from ethnic minority backgrounds, has also served to ensure that diversity and inclusion are and will remain key Board and Committee priorities going forwards.

The Board, whose own diversity and inclusion policy has been updated and is set out in the box to the left, intends to lead by example on these matters. With it having met the Hampton-Alexander Review target of having at least one third female Board representation, but not yet having any ethnic minority representation, the Committee's focus will now turn to enhancing the Board's ethnic diversity when implementing its future Board succession plans, as indicated earlier in this Report.

The Committee will also ensure that diversity considerations form part of its reviews of Senior Management and high potential talent succession plans, specifically by reviewing whether opportunities for progression and development are equally available to those from all different backgrounds and by overseeing the Company's work on promoting the inclusion of colleagues at all levels of the business.

The Company's wider commitment to diversity and inclusion, which is important for those reasons explained in the box to the right, continues to be championed by the Company's Diversity & Inclusion Council (D&I Council). In 2020, the D&I Council developed, approved and communicated an overarching strategy which set out three core goals:

1. to increase the numbers of those in under-represented groups at all levels of the Group's workforce, with a key emphasis on those in management roles, in order to better reflect the communities the Group operates in;
2. to ensure the Group has an inclusive and accessible working environment, free from racism and any other forms of discrimination, where people respect and value each other's diversity and the contribution they make; and
3. to empower all National Express leaders at all levels to take effective ownership of diversity and inclusion and deliver demonstrable change.

The D&I Council also mandated a number of actions to ensure suitable focus on achieving these core goals, including:

- the development of divisional action plans, which must include:
 - checking that all recruitment materials contain inclusive language which is not biased towards any specific demographic;
 - developing other actions to increase applications from under-represented groups and putting processes in place to measure progress against them;

- providing unconscious bias training to all managers and those involved in selection and promotion decisions;
- have clearly defined flexible working policies; and
- celebrating diversity events;
- measuring colleagues' views on diversity and inclusion through regular colleague surveys; and
- quarterly reporting to the GEC and Board on diversity data and on progress against action plans.

During the 2020 year, many of the Group's managers already undertook unconscious bias training and, in the UK division, a survey was undertaken to find out whether colleagues had experienced any form of inappropriate behaviour while working at National Express, with the findings informing the action plans. The Company intends to conduct similar surveys in its ALSA and North America divisions.

The D&I Council is also working on refining the accuracy of diversity data across the Group to achieve greater consistency in reporting and to better track progress of delivery of the strategy to enhance diversity.

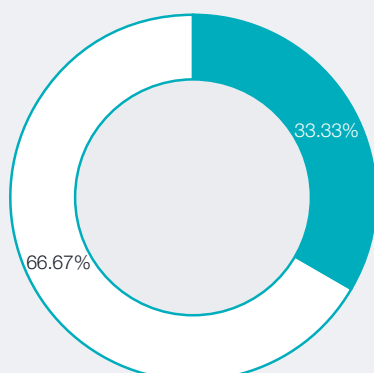
The Company is committed to ensuring diversity, in all its forms, and inclusion among its colleagues, as these can:

- improve decision-making at all levels of business by ensuring that diverse perspectives are brought to bear in those decisions;
- attract, retain and promote the best talent by developing a culture of inclusion where all individuals are respected and supported to reach their full potential; and
- better serve our customers, other stakeholders and the communities in which we work by ensuring the diversity of our workforce is representative of the diversity of our stakeholders.

These ambitions are aligned with our People and Customers Values, which Values in turn support our strategy to grow our business by retaining and winning business through having the best talent delivering the best service for our customers.

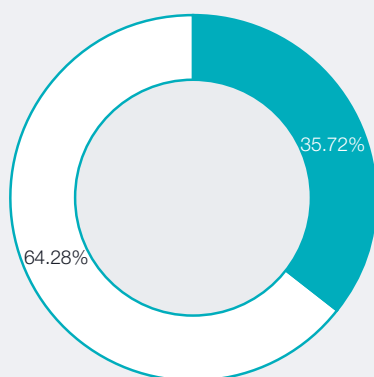
Gender diversity

Board



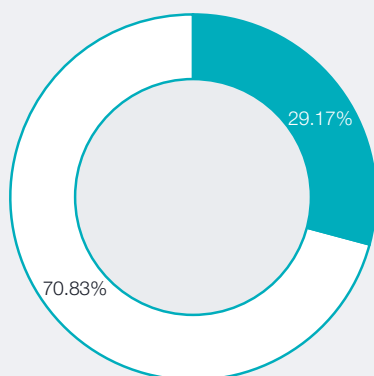
Male 6
 Female 3

GEC



Male 9
 Female 5

Direct reports to GEC



Male 68
 Female 28

The charts to the left illustrate the gender balance of the Board as at 31 December 2020 and of the GEC and direct reports to members of the GEC as at the Hampton-Alexander reporting date for those groups of 31 October 2020. Comparing these with the position last year:

- we have enhanced the gender diversity of the Board, increasing female representation from 25% at the end of 2019 to 33.3% at the end of 2020;
- we have improved the gender diversity of the GEC, from 31% female members on 31/10/19 to nearly 36% on 31/10/20; and
- the gender diversity of direct reports to GEC members has reduced slightly from 30% female reports on 31/10/19 to 29% on 31/10/20 (and, when combined with GEC members, we did not unfortunately meet the Hampton-Alexander 33.3% target for this combined group but will continue to endeavour to do so).

Across the Group's divisions and corporate functions, we have a wide variety of gender splits but, as there are generally fewer females in management roles across the Group, we continue with various initiatives to enhance female representation among middle and senior management by recruiting more female graduates and encouraging more female colleagues to join leadership development programmes. The actions being driven by the D&I Council noted above are also intended to assist in improving gender, ethnic and other diversity from the ground level up.

Board and Committee independence, commitment and effectiveness

As part of its review of Board and Committee composition, the Committee considers the independence of individual Directors and the overall independent balance of the Board and its Committees. The Committee's views on which Directors are independent are included in Directors' biographies on pages 59 to 61. The Committee confirms that there is an appropriate independent balance on both the Board and, having regard to the changes in its own composition during the year, on this Committee. It has further ensured that the Audit and Remuneration Committees remain composed of all independent Non-Executive Directors.

The Committee also assesses individual Directors' commitments to the Company and whether, having regard to their role in the Company and their other commitments, they have been able to dedicate sufficient time and attention to fulfil their duties to the Company. The Committee considers that all Directors demonstrated very strong commitment to Company in the year under review, by carrying out all usual Board and

Committee work and attending multiple further formal and informal meetings to discuss and determine the Company's response to the Covid-19 pandemic. A timeline of and details about the nature of the Board's activities in 2020 are set out on pages 62 and 63. More information about the independence and commitment of Directors is on pages 74 and 75.

Due to the heavy additional demands on the Board and its Committees during the year and Board members' desire to focus on such demands and contribute to critical cost savings, the Board elected to defer its scheduled external performance evaluation in 2020 and conduct instead a third consecutive internal evaluation. The key outcomes of this evaluation are set out in Appendix 1 to this Report. Information about the ongoing training and development of Directors is also set out in Appendix 2 to this Report. In view of the evaluation outcomes and Directors' ongoing development, the Committee is satisfied that the Board and its Committees continue to function effectively, notwithstanding the additional work and challenges faced during the year. These challenges have rather proved the strength and versatility of the Board, and the dedication of each of its Directors.

Proposed election and re-election of Directors

As such, the Board, on the advice of the Committee, is recommending to shareholders the election of the new Group CEO and the re-election of all other current Directors at the Company's 2021 Annual General Meeting. We look forward to engaging with shareholders at this meeting and answering any questions you have on our work.

Sir John Armitt CBE

Company Chairman and former Nominations Committee Chair
 18 March 2021

Jorge Cosmen

Deputy Chairman and current Nominations Committee Chair
 18 March 2021

Appendix 1 – Board and Committee evaluation

As explained on page 80, to ensure the Board and its Committees were able to focus on their usual work as well as the significant additional work of responding to the challenges created by the Covid-19 pandemic, and to contribute to critical cost savings, the Board deferred its scheduled external performance evaluation in 2020 and instead carried out a third consecutive internal evaluation.

In line with previous practice, the 2020 internal evaluation was conducted via a combination of an online anonymous survey and one-to-one discussions between the Chairman and individual Directors (as regards Director performance), and between the Senior Independent Director and individual Directors (as regards Chairman performance), all of which results were reported back to and discussed by the Board and Committees. The survey focused on how well Directors considered that each of: (i) the composition of the Board and its Committees; (ii) the nature of information provided to them; (iii) the effectiveness of their discussions and decision-making; and (iv) their corporate governance practices, were serving the Company during and having regard to the challenges posed by the Covid-19 pandemic, and what should be areas of focus or could be improved in the future.

The key strengths and areas for improvement or continued focus, together with the progress made in the areas for improvement identified in the Board's and its Committees' 2019 performance evaluation, are identified in the table below:

| Board/ Committee | Key strengths | Areas of focus or improvement | Progress since prior year (where relevant) |
|------------------------------|---|---|---|
| Board | <ul style="list-style-type: none"> – A passionate commitment to the success of the Company, with all Directors dedicating significant time to seek to ensure its success – Excellent provision of information and transparency, especially on Covid-19 related developments – Strong and evolving corporate governance practices | <ul style="list-style-type: none"> – Elevate oversight of the Company's culture throughout the remainder of the Covid-19 pandemic – Continue with workforce engagement events and, if Covid-related restrictions permit, re-engage in person with colleagues and wider stakeholders, in view of how valuable to Directors and well received by colleagues such engagement is (see pages 68 to 69) | <ul style="list-style-type: none"> – Last year, in response to a Board request that the best methods of understanding stakeholder views be kept under review, emerging best practice was assessed and processes were enhanced during the year – In response to a continued call from the Board for more external perspectives to be brought into the Boardroom, two external stakeholders gave presentations to the Board (see page 72) |
| Nominations Committee | <ul style="list-style-type: none"> – The CEO succession process was conducted via open, honest, challenging and professional discussions, through to successful conclusion | <ul style="list-style-type: none"> – Board and Senior Management succession planning should remain high on the Nominations Committee's agenda to further enhance existing plans | <ul style="list-style-type: none"> – Last year, Directors also wanted to ensure Board succession planning remained high on this Committee's agenda, which it did, facilitating the CEO succession process, although certain other Board succession plans were intentionally deferred due to Covid-19 (as explained on page 78) |
| Audit Committee | <ul style="list-style-type: none"> – Strong oversight of all significant accounting matters and judgements and of internal controls, particularly to give assurance to the Board on going concern and viability having regard to the deep impact of the Covid-19 pandemic – Good transparency and high quality of information | <ul style="list-style-type: none"> – Following development of the internal audit function last year through its adoption of the three lines of defence model, continue oversight of such function's development in its third line of defence role – Following the outcome of the audit tender, maintain oversight of external audit quality and ensure the re-appointed firm delivers on its proposals and adopts the Committee's suggestions | <ul style="list-style-type: none"> – n/a |

| Board/Committee | Key strengths | Areas of focus or improvement | Progress since prior year (where relevant) |
|---|--|---|--|
| Remuneration Committee | <ul style="list-style-type: none"> – Open and transparent debate facilitating effective and efficient decision-making on difficult decisions to balance incentivisation and retention with restraint on pay – Good quality information and external support which aided effective and timely decision-making | <ul style="list-style-type: none"> – Continue to enhance the Committee's understanding of broader pay and benefit structures across the Group – Gain further insight into the succession talent pipeline to ensure talent is supported through appropriate remuneration | – n/a |
| Safety & Environment Committee | <ul style="list-style-type: none"> – Excellent oversight of the Group's safety policies and performance – Appropriate focus on new Covid-19 health and safety precautions taken by the Group – Appropriately wide membership with all Non-Executive Directors being members | <ul style="list-style-type: none"> – Still more attention to be given by the Committee to environmental matters, to reflect the Group's growing ambitions and developing plans in this area | <ul style="list-style-type: none"> – Last year, Directors also considered this Committee should give more focus to environmental matters and, whereas more focus was given during the year, this remains a work in progress |

Appendix 2 – Board ongoing training and development

On joining the Board, each Director undertakes a structured and comprehensive induction programme comprised of certain basic modules and additional bespoke modules tailored to the requirements of their role.

Throughout their tenure on the Board, Directors keep their knowledge and skills up to date, partly through experience acquired on the job (in the case of Executive Directors) or acquired in other roles (in the case of Non-Executive Directors), and partly by attending external seminars and briefings as required, for example those provided by the Deloitte Academy and other professional advisers.

Directors also receive a range of briefings directly from the divisional businesses and Group functional leads which serve to ensure a deep understanding of the Group's businesses, strategy, risks and management of the same, as outlined in the box to the right.

During 2020, in addition to regular briefings from the Group CEO and Group CFO on the Group's safety, operational and financial performance, the Board received:

- detailed briefings from management of the Group's business divisions on how each business was performing generally and in response to the Covid-19 pandemic, including financial performance (including detailed cost saving plans), operational performance (including service reductions and ramp-ups), people impact (including additional health and safety measures being taken to protect colleagues), impact on wider stakeholder relations (including levels of financial and other support from customers and government authorities and levels of service being provided) and impact on near and long-term strategy and risk management (including new strategic options and new risk management processes);
- briefings given by heads of the Group's major functions, including legal, governance, tax, treasury, insurance and internal audit, on their general work and specific actions taken to manage the additional risks or compliance required as a result of the Covid-19 pandemic;
- various presentations from and detailed discussions with the Company's brokers, banks and strategic advisers on strategic options for managing liquidity and strengthening the balance sheet, managing equity and debt stakeholder relations and otherwise managing the challenges created by Covid-19; and
- continued quarterly reports on human capital, focusing on resourcing and retention, employee engagement, diversity and inclusion, talent management and employee relations, together with regular briefings on the direct impact of Covid-19 on colleagues and on the output of colleague wellbeing surveys.





Mike McKeon
Committee Chair

“The Committee’s intensified focus on the integrity of the Company’s financial reporting and robustness of its internal controls has been crucial in giving assurance on such matters in the context of the heightened risks to the Company’s control environment caused by the Covid-19 pandemic.”

Primary role

To assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of published financial information, the adequacy and robustness of the Group’s system of internal control and risk management and the adequacy and effectiveness of the internal and external audit processes.

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at www.nationalexpressgroup.com

Key responsibilities

- Monitor the integrity of the Group’s published financial information and review and challenge where appropriate any significant financial judgments and estimates made by management
- Evaluate the adequacy, robustness and effectiveness of the Group’s internal financial and other controls
- Support the Board in evaluating the adequacy, robustness and effectiveness of the Group’s risk management system, both for identifying, managing and mitigating principal risks and identifying and mitigating emerging risks where possible
- Review the Group’s policies, processes and controls for the detection and prevention of fraud, bribery and slavery and for compliance with applicable laws, regulations and codes of conduct
- Approve the activities, review the findings and assess the effectiveness of the Company’s internal audit function
- Monitor the activities, review the findings and assess the independence and effectiveness of the external auditor

- Review the contents of the Company’s Annual Report and Accounts and advise the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position and performance, business model and strategy

Activity highlights

- Supported the Board in the management of risk, including via a detailed review of the direct and indirect impacts of Covid-19
- Monitored the findings and effectiveness of the internal audit function, including internal audit findings on the robustness of key internal controls through the Covid-19 pandemic
- Assessed, challenged and satisfied itself of the robustness of the Group’s going concern and viability statements and impairment assessments
- Scrutinised the Company’s half and full year financial statements
- Assessed and challenged management’s approach to critical accounting judgements and key sources of estimation uncertainty
- Considered an internal audit review of the Group’s anti-bribery and anti-slavery compliance programmes
- Reviewed and confirmed compliance with the Group’s treasury policy and considered and confirmed the Group’s tax strategy
- Completed the external audit tender and made a resulting recommendation to the Board

Membership, meetings and attendance

| Committee member | Appointed | Resigned | Meetings attended/ meetings held |
|----------------------------------|-----------|----------|-------------------------------------|
| Mike McKeon (Chair) ¹ | 03.07.15 | – | 3/3 |
| Dr Ashley Steel ¹ | 01.01.16 | – | 3/3 |
| Ana de Pro Gonzalo ¹ | 01.10.19 | – | 2/3 |
| Lee Sander ² | 01.06.11 | 25.02.20 | 1/1 |
| Chris Muntwyler ² | 11.05.11 | 25.02.20 | 1/1 |

¹ Independent Non-Executive Director

² Lee Sander and Chris Muntwyler stood down from the Committee on 25 February 2020 and attended the only Committee meeting held while they were members. Both were independent Non-Executive Directors when they attended this meeting

Attendees: Company Secretary and, by invitation, Company Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Head of Group Finance, Group Legal Counsel, Head of Group Internal Audit and representatives of the external auditor, Deloitte

Dear fellow Shareholder

I am pleased to present the Audit Committee Report for 2020 – a very challenging year. With the Covid-19 pandemic significantly impacting the Group and its financial position, this necessitated changes in the Group's working practices and the Audit Committee's approach to its activities, with Audit Committee members holding their usual schedule of meetings as well as numerous informal meetings and discussions. This has ensured the integrity of the Company's financial results, going concern status and viability, as well as the robustness of its system of internal control.

As explained on page 26 the Financial Review section of the Strategic Report, the Company was involved in significant capital markets and other finance initiatives during the year to ensure the Company would maintain adequate liquidity and be able to comply with its debt covenants, even in a severe downturn scenario. I and my fellow Audit Committee members were pleased to lend the executive team our experience, expertise and scrutiny on these initiatives during the year.

Financial reporting

The Committee is responsible for considering and satisfying itself, having consulted with the external auditor, that the Company and Group have adopted suitable accounting policies and appropriately applied the same, that management has made appropriate accounting judgements and estimates and that the conclusions reached by management as regards the Company's going concern status and its long-term viability are appropriate. Further details of the Committee's work in reviewing management's judgements and estimates on significant and other accounting matters are set out in Appendix 1 to this Report.

Going concern assessment

From the start, it was clear that the short-term impact of the Covid-19 pandemic on the Company's operational and financial outcomes would be significant and the Company's going concern and future viability were our point of focus. The Committee therefore reviewed these matters in detail at both the 2020 half year and full year, assuring itself that the management actions taken would support the range of potential scenario outcomes and the positive statements the Company has made. We were also heavily engaged with, and grateful for the rigorous assessment of such matters by, the external auditor.

Having carefully considered the assumptions behind the range of scenarios presented, the Committee concurred with management's assessment that: a) in the base case scenario the Company had sufficient liquidity and covenant headroom in order to meet its obligations as they fell due over the period of at least 12 months from the date of signing the half year and full year results; and b) in all scenarios the likelihood of circumstances arising that would exhaust liquidity or breach covenants (as those covenants were amended by agreement with the Company's debt funders at various times throughout the 2020 year and again early in 2021) were remote.

Viability assessment

The Committee reviewed the Company's Viability Statement as at 31 December 2020. This included a careful assessment of the rationale for the three-year viability period, the nature of the incidence of risks modelled during such period and the potential aggregate financial impact of such risks. It also involved consideration of the likely pace of recovery from the Covid-19 pandemic, the impact of different scenarios on the Company's viability and the need for (and likelihood of securing) agreement from the Company's debt funders to amend covenants further should there be a confluence of downside scenarios during the viability period.

The Committee is satisfied that, despite the uncertainties caused by the Covid-19 pandemic, management's conclusion that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due is appropriate, which view is also supported by the Company's external auditor.

IFRS 16 'Leases' accounting standard

In 2020, the Financial Reporting Council (FRC) wrote to the Company twice regarding the disclosures in respect of IFRS 16 in its 2019 Consolidated Financial Statements. The first correspondence was to notify the Company that elements of its disclosures were going to be included as an example of best practice in an IFRS 16 thematic review. The second correspondence was to share the overall findings of its review of the Company's IFRS 16 disclosures. I am pleased to report that there were no questions raised. The FRC did make some suggestions for enhancement of the Company's IFRS 16 disclosures which management considered and, where appropriate, reflected in the 2020 Consolidated Financial Statements.

Internal control

The Committee is responsible for monitoring the adequacy and effectiveness of the Company's system of internal control and enhanced its engagement throughout 2020 to assure itself of such system's continued effectiveness.

System of internal control

The Company's system of internal control is based on a three lines of defence model, and is comprised of a number of features, as illustrated by the diagram and explained by the details given in Appendix 2 to this Report.

Internal audit

Within this model, the Company's internal audit function acts as the third line of defence. It provides the Committee with assurance on the effectiveness of the Company's internal controls through independent observation and objective assessment of such controls, including those designed to prevent incidents of fraud, via a programme of audits undertaken throughout the year against a plan reviewed and approved by the Committee.

During the year under review, and with engagement and agreement of the Committee, the internal audit team revised its internal audit plan to carry out tailored audits to address potential new risks to the Company's system of internal control which emerged from operating under the conditions created by the Covid-19 pandemic. These comprised audits to test the continued effectiveness of key operational controls in each of the Group's divisions taking into account changes in working conditions, including office-based colleagues working from home. For example, audits were undertaken to verify whether there were appropriate controls for the protection of customers' personal data, including financial data, when given to call centre colleagues working from home and whether there were adequate systems to ensure the continued accuracy and timeliness of financial information reporting. In addition, there were more audits focused on checking for fraud, the incidence of which tends to increase during challenging economic times. The Committee was assured by the findings of these internal audits, and grateful for the flexibility of the internal audit team to adapt their plans and priorities to respond to the Company's and Committee's needs as they arose.

Internal audit effectiveness

The Committee is responsible for monitoring the effectiveness of the internal audit function. One of the ways it does so is through the 'value scorecard', introduced last year. This is used by colleagues in the Group's businesses whose work or controls are subject to internal audit to score the internal audit team against various criteria. Having regard to the scores awarded to the team for its work in the year under review, and the Committee's own observations and scrutiny of that work, the Committee is satisfied that the Company's internal audit function continues to be effective.

Tax and treasury compliance

During the year, the Committee also reviewed the Company's tax strategy and its new tax governance structure and satisfied itself that the strategy remained appropriate. It also reviewed the Company's treasury policy and confirmed that the policy had been complied with.

Significant weaknesses or control failures

In my 2019 Audit Committee Report, I informed shareholders that the Committee had identified and reviewed the need to address some weak control findings in relation to the oversight of tax accounting in certain parts of the Group. Following implementation of management's plans to address these findings, the Committee is satisfied that the issues have been resolved.

In respect of the year ended 31 December 2020, the Committee reviewed and assessed the need to address some control findings in relation to its North America division. These findings did not give rise to any material errors in the year and management has a plan in place to address them. The Committee will review its implementation in 2021. Other than this, no significant weaknesses or control failures were found.

Risk management

The Board has overall responsibility for the Company's risk management and the Committee supports the Board by conducting 'deep dive' reviews into specific Group-wide risks and detailed reviews of the Group's divisions' risk registers and risk management activities. During the year under review, there was however some adaptation to the Committee's activities in this area, as explained below.

Risk appetite and principal and emerging risks

The Company's risk appetite, and the Board's assessment of the Company's principal and emerging risks, including the extended impact of the Covid-19 pandemic as a principal risk and other risks reassessed through the lens of the pandemic, are set out on pages 36 to 41 of the Strategic Report.

Cyber security

The Committee continued with its detailed review of the Group's cyber security arrangements to address the Group-wide cyber risk. While cyber security has been high on the Committee's agenda for several years, it remained so during the year under review due to enhanced threats in the cyber landscape created by the Covid-19 pandemic, for example as a result of a marked increase in phishing attacks using some Covid-related issue as a hook – something many companies have experienced.

As with internal audit's plans, the Committee reviewed how the IT security team had adjusted their cyber security programme to address these enhanced threats, for example by enhancing cyber security awareness among all colleagues, by strengthening spam filters and by performing their own simulated cyber attacks to identify and fix any vulnerabilities. In addition, to protect against any potential enhanced risk from home-working arrangements, the team focused on creating additional security for these new end-user environments. The Committee was pleased with the Group's focus in this critical area.

Anti-Bribery and Corruption and Modern Slavery Act compliance

The Committee also continued to focus on the Group's legal compliance programmes as, notwithstanding the Covid-19 pandemic, these remain of critical importance, particularly as regards Anti-Bribery and Corruption (ABC) and compliance with the Modern Slavery Act (MSA).

During the year under review, the Committee reviewed an internal audit report on the Group's ABC programme and it also reviewed the steps taken by the Group to continue to mitigate the risk of slavery, as defined in the MSA, within its own business and supply chains, as those are described in the Company's modern slavery statement published on its website.

Divisional risk reviews

Due to its intensified focus on the Company's financial reporting and internal controls during the pandemic and pandemic-related restrictions which prevented Committee members from travelling to the Company's operations in Europe and North America, some activities have had to be rescheduled. The Committee has will now carry out its scheduled detailed reviews of the Group's ALSA and North America divisions' risk registers in 2021 when it may be possible to travel and meet with the divisional risk managers in-person and observe their procedures first-hand. If travel is not possible, these reviews will be carried out remotely.

External audit

The Committee is also responsible for reviewing both the effectiveness of the Company's external audit process and the auditor's independence and objectivity.

Tender

During the year under review and in compliance with applicable law having regard to the tenure of the Company's incumbent auditor, Deloitte LLP, the Committee undertook and concluded an external audit tender.

The tender process began in 2019 with six audit firms invited to register their interest, alongside which the Committee undertook a review, with the input of firms that expressed an interest, of their independence by assessing the work they undertook for the Group. Of the six audit firms invited, three initially declined to be considered and another one declined at a later date. One explained that it was not their current policy to take on new audit engagements. One declined as a result of not being able to attain adequate independence from the Group. The other two, after due consideration and discussion with myself and the Group Chief Financial Officer on scope, stated that they did not believe they had adequate resources to carry out the audit.

In September 2020, the Committee therefore launched a formal request for proposal from the two remaining audit firms. A particular focus of the Committee and desired outcome was to see enhanced use of technology in future audits and the ability to better measure audit quality. Following due consideration of the proposals submitted by, and presentations made by, the two firms, including their submissions addressing the Committee's key areas of focus, in November 2020 the Committee recommended to the Board the re-appointment of Deloitte LLP as auditor for a new term starting from 1 January 2021. The Board concurred and is making its own recommendation to shareholders for Deloitte's reappointment, as set out in the Company's Notice of 2021 AGM.

Stephen Griggs, who has held the role of the Company's Audit Partner for five years, is stepping down from his role in line with the FRC's Ethical Standards. Following a thorough interview process by members of the Committee and management, Jane Whitlock has been appointed as the new Audit Partner effective from 1 January 2021, subject to the approval by shareholders of the re-appointment of Deloitte LLP as auditors.

The Company confirms that it complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External audit plan

The 2020 external audit plan prepared by Deloitte was based on the performance of full scope audit procedures for each of the Company's UK and Germany, ALSA and North America divisions. Unsurprisingly, a key focus of the external audit was the assessment of the Company's going concern status and future viability. Following consideration and consultation with management, Deloitte's audit plan, together with its audit fee proposal (of £1.7 million), were approved by the Committee.

External audit effectiveness

The Committee reviewed the effectiveness of Deloitte's performance as auditor in respect of the year ended 31 December 2020 shortly following completion of its work by means of an evaluation. This took the form of questionnaires completed by members of the Group and divisional finance teams, supplemented by feedback from the Group Chief Financial Officer and members of the Committee. It was also supported by learnings from the audit tender and Deloitte's response to the tender. The evaluation confirmed that Deloitte continues to perform its audit work to a high standard, in particular as a result of its comprehensive understanding of the Group's businesses and control processes, the matters on which significant accounting judgements or estimates are required and its appropriate validation or challenge of management's views.

Non-audit services and independence

The Company operates a non-audit services policy which set outs the circumstances in which its audit firm may be considered and engaged to provide permitted non-audit services as well as the services which its audit firm is prohibited from providing, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and concluded that it remained fit for purpose. It also reviewed the Company's compliance against the policy, which was confirmed by reference to a list of non-audit services provided by Deloitte during 2020. These comprised the interim review of the half year results and services in connection with the Company's update of its Euro Medium-Term Note programme in October 2020 and issuance of its hybrid instrument in November 2020. The total fees for these services were £0.4m, representing approximately 23% of the Group's total audit fees for the year under review.

Having regard to the above, together with Deloitte's report to the Committee confirming its independence by reference to its internal safeguards and also the tenure

of the audit firm and audit partner, noting the tender and change in audit partner going forwards, the Committee assured itself of Deloitte's ongoing independence.

Fair, balanced and understandable

Having carefully reviewed the content of the 2020 Annual Report, and considered management's approach to its preparation, including with regard to all applicable laws, the FRC's best practice guidance and the UK Corporate Governance Code, and having heard the views of its auditors, the Committee recommended, and in turn the Board confirmed, that the 2020 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Committee composition, effectiveness and engagement

In February 2020, Chris Muntwyler and Lee Sander stood down from the Committee due to their long tenure on the Board. I would like to express my thanks and that of other Committee members to both for their long and valued service to the Committee. Notwithstanding these changes, membership of the Committee remained fully compliant with the recommendations of the UK Corporate Governance Code, as it was comprised of all and at least three independent Non-Executive Directors with appropriate accounting, finance and other relevant experience and skills throughout the year under review. The Committee's annual performance evaluation also confirmed that it continued to function effectively, as set out on page 81. As noted at the outset of this Report, the Committee's members

were also pleased to bring their experience and expertise to bear in supporting management on the Company's key finance initiatives, including its inaugural hybrid instrument, during the year under review.

The Committee's plans to engage directly with the Group's divisions' risk management teams during the year under review have been deferred to the current year as explained above, but members of the Committee participated in the Director workforce engagement events held during 2020 and were able to hear directly from colleagues about the changes in their working practices and other impacts of the Covid-19 pandemic which helped inform our work.

I and my fellow Audit Committee members look forward to being able to engage with shareholders at the upcoming AGM and we will be happy to answer any questions you have on our work then.



Mike McKeon
Audit Committee Chair
18 March 2021



Appendix 1 – Accounting judgements and estimates

Significant accounting judgements and estimates

The preparation of financial statements requires the application of certain judgements and estimates and the Committee considered the following significant accounting judgements and estimates as part of its review of the Consolidated Financial Statements:

| | Significant judgement/estimate | Committee action and conclusion |
|--|--|--|
| Impairment of goodwill (see note 14 to the Consolidated Financial Statements) | <p>The Committee considered whether the carrying value of goodwill held on the Group's balance sheet at the year end (£1,525.4m) should be impaired.</p> <p>The potential risk is that this goodwill cannot be supported by the long-term future cash flows of the business, particularly in relation to the ALSA (£820.1m) and North America (£652.7m) businesses, with the key estimation being made in relation to the application of discounted cash flows on a value in use basis. The value in use calculation is particularly sensitive to changes in discount rates and perpetual growth rates.</p> | <p>The Committee considered a detailed report from management which explained the impairment analysis and testing undertaken on the value of the ALSA and North America business goodwill balances. These were modelled on long-term forecast cash flows, discounted using a country-specific weighted average cost of capital (WACC) and a terminal value based on a perpetual growth rate (PGR). In particular, the Committee considered the extent to which the Covid-19 pandemic impacted on the short and long-term projections, and therefore the extent to which it affected the impairment assessment.</p> <p>The Committee concurred with management's view that neither the ALSA nor North America business goodwill as at the balance sheet date is impaired. This was based on management's careful analysis and testing, which demonstrated that there were healthy levels of headroom in the value in use compared to the carrying value of the assets, and was determined following consultation with the external auditor.</p> |
| Separately disclosed items (see note 5 to the Consolidated Financial Statements) | <p>Consistent with prior years, the Group presents profits and earnings per share measures before separately disclosed items in order to provide additional useful information to shareholders on the Group's performance. The classification of separately disclosed items requires significant management judgement after considering the nature and intention of a transaction. Specifically, judgement has been required to identify incremental costs associated with the Covid-19 pandemic that are not expected to arise in future periods and so do not form part of the underlying operating activities of the Group.</p> | <p>The Committee considered management's detailed breakdown of separately disclosed items and the rationale for these being presented separately. In particular, the Committee verified that management had applied the FRC guidance on separately disclosing items directly attributable to the pandemic, i.e. that the treatment was:</p> <ul style="list-style-type: none"> – even-handed in identifying any gains as well as losses; – not describing amounts as 'non-recurring' or 'one-off' if they are also expected to arise in future periods; – not disclosing costs as exceptional solely because of a reduction in, or elimination of, the related revenue streams due to the Covid-19 crisis; and – not identifying incremental costs as exceptional if they result in incremental revenue that is not also described as exceptional. <p>After discussion with management and the external auditor, the Committee concurred with the approach taken.</p> |
| Onerous contract provisions (see note 26 to the Consolidated Financial Statements) | <p>The Committee reviewed the approach taken in recognising £105.7m of onerous contract provisions in the year.</p> | <p>As c.60% of the Group's revenue is derived from contracts and the Group made a loss for the year ended 31 December 2020, in addition to reviewing management's estimation of the onerous contract provisions, the Committee considered the completeness of the provisions booked.</p> <p>The Committee concluded it agreed with management's approach and estimations.</p> |

| | Significant judgement/estimate | Committee action and conclusion |
|---|---|--|
| Insurance and other claims provisions (see note 26 to the Consolidated Financial Statements) | <p>The Committee considered the adequacy of the provisions associated with insured and other claims arising predominantly from traffic accidents and employee incidents, particularly in North America.</p> <p>The estimation of such provisions, including those arising on acquisition, is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not yet reported at the balance sheet date.</p> <p>Given the level of uncertainty, complexity and judgement involved in making these estimations there is a risk that the eventual outcome could be materially different from that estimated and provided for.</p> | <p>The Committee considered and discussed with management a report prepared by management with the input of the Group General Counsel which set out details of the status of the North America and other material open claims made against members of the Group. This report gave management's assessment, made with the benefit of advice from external actuaries, legal counsel and insurance brokers, on the likely outcome of such claims, together with an explanation of the methodology used to determine the value of provisions for such claims. Based on this, management was of the view that the level of provision was appropriate.</p> <p>The Committee concluded that management's estimation of the provision for North America insurance and other claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.</p> |
| Valuation of put option in respect of WeDriveU (see note 25 to the Consolidated Financial Statements) | <p>The Committee considered whether the value of the liability ascribed to the put option in respect of the remaining 40% of the shares in WeDriveU Holdings Inc. was reasonable, particularly in light of the fact that the exercise period for the put option is over the next two years and is therefore within a period likely to be impacted by the Covid-19 pandemic.</p> | <p>The Committee considered and discussed with management the valuation of the put option based on key assumptions made around EBITDA and net debt projections, and the expected timing of exercise of the option, together with specific testing and challenge by the external auditor of that calculation and those assumptions.</p> <p>The Committee satisfied itself of the reasonableness of management's assessment of the put option liability.</p> <p>In view of the material reduction in the put liability during the year, the Committee also discussed the presentation of this in the Consolidated Financial Statements.</p> |
| Pension defined benefit obligation (see note 34 to the Consolidated Financial Statements) | <p>The Committee reviewed and considered the assumptions used to calculate the pension scheme assets and liabilities to satisfy itself that appropriate consideration and balance had been applied.</p> | <p>The Committee satisfied itself that the judgement and estimates made by management were reasonable and that they had been appropriately accounted for or otherwise disclosed in the Consolidated Financial Statements.</p> |

Other accounting judgements and estimates

While not significant, the Committee also carefully reviewed and considered the Company's accounting for other matters, including: business combinations; financial instruments; and tax accounting.



Appendix 2 – System of internal control

The Company's system of internal control is based on a three lines of defence model as illustrated in the diagram below:



These lines of defence include the following activities:

- Regular Board and Committee meetings throughout the year, to consider a structured programme of agenda items determined by reference to Board Reserved Matters and Committee Terms of Reference and the needs of the business
- Annual strategy review by the Board, performed following detailed input from the divisions and relevant Group functions, and development and implementation of divisional plans to deliver against Group strategy
- Annual and monthly budget reviews, performed at Group and divisional level
- A devolved organisational structure below Board level with clear leadership, allocation of responsibility and reporting lines
- Monthly Group Executive Committee meetings at which all Group functional heads report to the Group CEO and Group CFO on key successes, challenges, developments in the month and performance against pre-agreed KPIs
- Monthly and weekly divisional executive meetings at which divisional management teams discuss key successes, challenges, developments in their businesses and agree actions
- Approved delegated authorities to ensure all major decisions relating to business change, including via M&A and bids, and significant capital and operating expenditure are taken at the appropriate level
- Group and supporting divisional policies and procedures regarding tax and treasury compliance, anti-bribery and corruption, modern slavery and human trafficking, and data usage and protection
- Audits by the Group internal audit function
- Group-wide whistleblowing procedures
- Global Safety Policies and Standard Operating Procedures to set high and consistent standards of safety and operation across the Group, and achieve safe and efficient operating outcomes



Chris Muntwyler
 Committee Chair
 (until 30/12/2020)

“Despite the significant operational challenges presented by the Covid-19 pandemic, I am proud to say that safety, and the wellbeing of passengers and colleagues alike, has remained the Company’s number one priority.”



Sir John Armitt CBE
 Committee Chair
 (from 30/12/2020)

“The Company has not compromised, and does not intend to compromise, on its environmental ambitions despite the financial challenges created by Covid-19, as the provision of passenger transport services with a cleaner and greener fleet remains core to the Company achieving its Purpose.”



Primary role

To oversee the effectiveness of the Group’s safety, health and wellbeing and environment strategies, standards, policies, initiatives and targets, to assess the Group’s delivery of and performance against them, and to monitor the Group’s exposure to, and management of, risk in these areas

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at www.nationalexpressgroup.com

Key responsibilities

- Monitor the Group’s safety, health and wellbeing and environmental leadership, performance and culture
- Review the Group’s strategy and framework of standards, policies, targets, programmes and initiatives for managing safety risks across the Group
- Review the Group’s strategy, policies, targets and initiatives for managing the Group’s impact on the environment
- Review the Group’s performance against these matters and the external reporting of that performance

Activity highlights

- Reviewed the Group’s safety and health and wellbeing response to the Covid-19 pandemic
- Monitored the Group’s performance against its safety standards, policies and targets, both through review of information provided by management in meetings and on the ground through visits to the Group’s operations and engagement with the Group’s workforce
- Reviewed major accidents and incidents and the action plans developed and lessons learned in response to them
- Monitored the Group’s performance against its environmental targets and tracked progress against its environmental ambitions
- Received updates on further new environmental regulations, including TCFD reporting requirements for the 2021 year

Membership, meetings and attendance

| Committee member | Appointed | Resigned/ rejoined | Meetings attended/ meetings held |
|--|-----------|------------------------------|--|
| Chris Muntwyler (Chair) ¹ | 11.05.11 | 30.12.20/1.1.21 ² | 3/3 |
| Sir John Armitt CBE (Chair) ¹ | 01.01.13 | – | 3/3 |
| Jorge Cosmen | 01.12.05 | – | 3/3 |
| Matthew Crummack ³ | 06.05.15 | – | 3/3 |
| Mike McKeon ³ | 03.07.15 | – | 3/3 |
| Dr Ashley Steel ³ | 01.01.16 | – | 3/3 |
| Karen Geary ³ | 01.10.19 | – | 3/3 |
| Ana de Pro Gonzalo ^{3,4} | 01.10.19 | – | 2/3 |
| Lee Sander | 01.06.11 | 30.12.20/– | 3/3 |

¹ Chris Muntwyler chaired the Committee until 30 December 2020, when Sir John Armitt, the Non-Executive Company Chairman, assumed its chairmanship

² Chair Muntwyler temporarily stood down from the Committee on 30 December 2020 when he stood down from the Board, and has been co-opted as a non-Director member of the Committee effective from 1 January 2021

³ Independent Non-Executive Director

⁴ Ana de Pro Gonzalo was unable to attend one Committee meeting in the year due to a prior engagement, notified to and agreed with the Chairman during her recruitment as a Non-Executive Director

Other attendees: Company Secretary and, by invitation, Executive Directors, Group Safety Director and Group Environmental Sponsor

Dear fellow Shareholder

We are pleased to present the Safety & Environment Committee Report for 2020. As I (Chris Muntwyler) chaired the Committee throughout the year under review I present the majority of this Report and I (Sir John Armitt) as the present Committee Chair add my thoughts on the Committee's priorities going forwards.

Despite the significant operational challenges presented by the Covid-19 pandemic, I (Chris Muntwyler) am proud to say that safety, and the wellbeing of both passengers and colleagues alike, has remained the Company's number one priority, as evidenced by the Company's actions described in this Report. I (Sir John Armitt) echo that and am also pleased to report that the Company has not compromised, and does not intend to compromise, on its environmental ambitions despite the financial challenges created by Covid-19 as the provision of passenger transport services with a cleaner and greener fleet remains core to the Company achieving its Purpose.

Safety

Safety during the Covid-19 pandemic

The Company has taken significant steps during the pandemic to seek to protect the health and wellbeing of both its colleagues and passengers. These measures have followed the advice and guidance given by national public health authorities in each of the countries in which the Group operates, such as Public Health England, the Spanish Ministry of Public Health and the US Centers for Disease Control and Prevention, and have gone further where appropriate. Each of the Company's businesses has also remained in close contact with key stakeholders such as transport authorities and industry groups to seek additional guidance on appropriate protections and share knowledge and emerging best practice with other passenger transport groups. The Company has also maintained an ongoing and positive dialogue with trade unions on colleague protective measures.

During the year under review, the Committee received reports on the implementation of these measures and was assured by their extensive nature and consistent application, including in relation to:

- the provision of personal protective equipment (PPE) to drivers, vehicle technicians and others not working from home, including face masks, face visors, disposable gloves and hand sanitiser;
- increased physical barriers and airflow barriers between drivers and passengers and between sales colleagues and customers, including by the fitment of protective screens and use of enhanced air filtration systems;

- enhanced cleaning regimes on vehicles, including more regular cleaning with disinfection agents and trials of new cleaning technologies, such as 'fogging' machines to spray disinfection agent across interior vehicle surfaces;
- on its commercial bus and coach services and certain of its transit services, elimination or reduction of cash transactions in favour of digital and/or card transactions to reduce contact with currency; and
- on its commercial coach services in the UK where the Company has the most control over how they are run and on contracted transport services around the world where customers have so directed, revised occupancy and/or seating arrangements to facilitate social distancing and passenger health monitoring, including temperature testing where deemed lawful and not geographically impractical or culturally inappropriate.

The Committee was further assured during the year that management were appropriately identifying and addressing additional safety risks imported into the Group's businesses by the wider implications of the Covid-19 pandemic. For example, management identified a key new risk as a result of drivers having longer breaks than usual in their driving experience, both in the UK and Spain where drivers returned to work from furlough and in North America where the traditional autumn school start-up was delayed in many school districts due to Covid-19.

The Committee was pleased to observe that management responded to this new risk by developing and deploying an enhanced driver safety programme focused in five areas, comprising:

- more intensive driver training, including both traditional training modules and Covid-specific modules relating to the use of PPE, preservation of social distancing and spotting Covid-19 symptoms;
- enhanced driver evaluation, to assess drivers' performance back on the road;
- enhanced driver monitoring, to identify any performance improvement needed;
- more regular and targeted communications, to reinforce new Covid-related safety protocols; and
- compliance, to verify that drivers' qualifications remained valid and had not lapsed during their extended gaps in driving.

It is the Committee's view that the Company's fast and comprehensive safety response to the Covid-19 pandemic has demonstrated not just its commitment to safety, but also one of its core strengths of operational agility and excellence.

Safety governance

The Group CEO has overall responsibility for the Group's safety system, supported by the divisional managing directors, the Group Safety Director and divisional safety teams. One of the reasons the Board was pleased to appoint Ignacio Garat as the Group's new CEO was his extensive experience in transport operations in an adjacent industry and his own focus on the safety of such operations, ensuring continuity of the Company's strong safety culture led from the top.

The Committee also plays a key role in the governance of safety by monitoring and reviewing the effectiveness of the Group's safety system and reporting to the Board on the same. The Committee reviews all serious safety incidents that occur and ensures that the Group's safety system is appropriate to respond to them.

Safety system

As explained in previous Annual Reports, the Company has a well developed and fully embedded safety system across its global businesses. This system has its foundations in the Company's 'Driving Out Harm' programme which originated in 2011 and comprised the creation and implementation of a wide variety of driver and vehicle safety standards and constantly evolving safety initiatives. It was built upon in 2017 with the introduction of five new Global Safety Policies (GSPs) relating to speed management, driving evaluation, competence of driving evaluators, driver monitoring and driver performance management.

In 2017, management targeted to fully implement these new GSPs across the Group's then current transport operations, including all those in the UK, North America, Spain, Germany and Bahrain, by the end of 2020. Notwithstanding the additional focus on Covid-related safety measures in the year under review, the Committee was pleased to receive an internal audit report confirming that full implementation of the GSPs across those operations has now been achieved. Work continues to reach full implementation within the Company's more recently commenced transport operations, such as those in Rabat and Casablanca, Morocco.

This implementation is evidenced by my own observations when visiting the Company's North America school bus operations in and around the Los Angeles area in February 2020, prior to the pandemic having reached the West Coast of the USA, details of which are set out in the box overleaf.



Committee Chair's safety tour of Los Angeles school bus operations

In February 2020, I undertook my annual safety tour by visiting a number of the Company's school bus customer service centres (CSCs) in the Los Angeles area. My priority was to assess whether the CSCs were continuing to make progress in implementing the Group's Global Safety Policies (GSPs). I was impressed by the high safety scores each of the CSCs was now achieving, which was all the more remarkable in view of the tough driving conditions in and around Los Angeles. As I reported to the Board: "It was great to see how motivated the CSC managers were and how well they understood and were enforcing the GSPs. Some safety processes that had been challenging for colleagues two years ago had now become part of their DNA."

Safety targets and performance

One of the key metrics by which the Company measures its Group's safety performance is the Fatalities and Weighted Injuries (FWI) Index. The Company has traditionally included all minor injuries (whether responsible or non-responsible) in the Group's reported FWI scores but, as a result of an improvement in the granularity of minor injury data reported within the Company in the year under review, it is now able to exclude non-responsible minor injuries. It will therefore present its FWI scores going forwards on this basis (and restate prior years' FWI scores, where relevant, after recalculating them on this same basis), ensuring that FWI scores can be compared on a like-for-like basis.

The Group's FWI score in 2020 was 1.824 (or 0.004 on a normalised per million mile basis), which was marginally worse than its best ever FWI score achieved in 2019 of 1.780¹ (or 0.003 on a normalised per million mile basis). While clearly disappointing that the Company did not in 2020 match or exceed its best ever FWI score due to a tragic incident in one of its operations, its 2020 FWI score remains significantly better than its performance in other years prior to 2019 and reflects year-on-year improvements in the numbers of major, minor and lost time injuries. The Company aspires to re-attain or exceed its best ever FWI score, as evidenced by the Remuneration Committee setting the Group's best ever 2019 FWI score as the benchmark for the FWI target in Executive Directors' and Senior Managers' 2021 bonuses.

The Company's ongoing commitment to safety is also demonstrated by the Remuneration Committee setting two additional safety targets in Executive Directors' and Senior Managers' 2021 bonuses relating to the Group beating by an ambitious margin each of its 2019 preventable vehicle accidents score and its 2019 DriveCam driver risk score. 2019 (rather than 2020) was chosen as the benchmark year as it was the last full year of the Company's normal operations prior to the Covid-19 pandemic and so represents a more challenging baseline.

| 2021 Safety bonus target | Weighting | Target score |
|----------------------------|-----------|--------------|
| Normalised FWI | 5% | 0.003 |
| Preventable Accident Score | 5% | 11.94 |
| DriveCam Driver Risk Score | 5% | 2400.70 |

In my Committee Report last year, I explained how the Company continued its programme to roll-out across its global fleet Ltyx DriveCam, the real-time driver monitoring and training technology, and how it had implemented a programme of driver risk profiling, taking multiple data points to give drivers across its global operations their own risk scores and creating bespoke driver improvement action plans for drivers with higher risk scores. Both these programmes have continued throughout 2020 irrespective of the Covid-19 pandemic, with DriveCam units continuing to be fitted to new fleet and driver risk profiling a key component of all Group divisions' driver risk management processes.

In last year's Committee Report, I also discussed a number of other targeted safety programmes the Company was implementing, including one to reduce the incidence of vehicle fires through a focus on preventative maintenance of vehicle parts which analysis of data showed were most likely to cause fires. The Committee was pleased to note that, in 2020, there was a reduction across the Group in the number of vehicle fires and thankfully no persons were injured in any of those fires.

The Committee believes that the Company's approach to safety continues to differentiate it from its peers and gives it an important competitive advantage, through its safety credentials helping it to win competitive tenders for transport services and its safety performance significantly lowering the costs of its insurance and insured claims.

The Group's safety excellence also continues to be recognised externally, for example with both the UK bus and coach businesses receiving five-star ratings on their safety audits conducted by the British Safety Council and the Director of Safety of the Company's North American WeDriveU business being recognised as a 'Rising Star of Safety' by the US National Safety Council.

Wellbeing

There was naturally a strong focus by the Company on colleagues' physical and mental wellbeing during the Covid-19 pandemic.

In addition to those steps taken by the Company to protect the physical wellbeing of both colleagues and passengers as explained at the beginning of this Report, the Company took the following additional steps to protect colleagues' physical wellbeing:

- implementation of colleague Covid-19 case tracking and enhanced colleague health monitoring, including by implementing internal 'track and trace' methodology and undertaking temperature checks, to seek to reduce the spread of Covid-19 among colleagues;
- making appropriate arrangements (within the bounds of anti-discrimination laws) for older and otherwise vulnerable colleagues to move away from frontline activities, whether through furlough or redeployment;
- creation of 'Covid-secure' workplaces for those not able to work from home, including by promoting social distancing through office re-arrangements and use of floor markings and wall posters to create one-way walking systems;
- facilitation of new home working arrangements for those who can work

¹ The Group's 2019 FWI score as reported in the Company's 2019 Annual Report was 4.513, which is the equivalent of 1.780 after excluding non-responsible minor injuries.

- from home, including by developing new home-working policies and support programmes and the provision of appropriate IT facilities; and
- in Bahrain, where accommodation is provided for driver colleagues, the provision of new accommodation to achieve greater living distancing between different cohorts of drivers.

The Company also took important additional steps to seek to protect colleagues' mental wellbeing, including:

- enhanced colleague communications, including more regular corporate communications updating colleagues on how the Company was affected by and responding to the pandemic, more communications focusing on aspects of wellbeing during the pandemic such as maintaining a healthy lifestyle and managing stress, more Q&A facilities to enable colleagues to ask management questions and more one-to-one contact between managers with their teams where working from home and between line managers or HR team members making keep-in-touch calls with furloughed colleagues;
- enhanced wellbeing programmes, including the Employee Assistance Programme in the UK and North America and the 'ALSA Helps You' facility in Spain, Morocco and Switzerland, each of which offers colleagues a dedicated helpline via which they can access wellbeing support; and
- conducting several pulse wellbeing surveys across the colleague populations within the businesses to seek to understand how colleagues have been feeling at different stages of the pandemic and how the Company might improve how it is addressing colleagues' needs during the pandemic.

All these measures are in addition to the Company's standard programmes which support colleagues' wellbeing which continue to function well, with ALSA receiving the European Sport & Healthy Company Award from ACES Europe for its 'For Your Health' programme. The award recognises ALSA as the best European company for its health and wellbeing policies in 2019/2020.

The Committee commends management for both the standard wellbeing programmes and additional steps taken to protect colleagues' wellbeing in the context of Covid-19 and will continue to monitor the Company's actions in this area throughout the remainder of the pandemic. In speaking with both management and other colleagues, Committee members have been pleased to hear that certain of the Company's new wellbeing initiatives have been received so well and created such additional benefits that they are likely to continue beyond the pandemic.

Throughout the year, the full Board has also been kept regularly apprised of the number of colleagues affected by Covid-19, including those unwell with the virus, those having to self-isolate to control the spread of the virus and those who have been furloughed or laid off due to the impact of the pandemic on the Company's businesses. It has also received reports of colleagues who have tragically died as a result of Covid-19. I echo all my fellow Board members' expressions of deepest sympathy for the families and friends of these colleagues.

Environment

The environment during the Covid-19 pandemic

With reduced mobility during the pandemic highlighting the vast improvement in air quality that can be made by removing large numbers of vehicles from the roads and also highlighting how valuable mobility still is to connect people to their work, leisure, family and friends, the importance of the Company's Vision and Purpose of leading a modal shift away from cars to high quality mass transit has been underscored and delivery of the Company's environmental ambitions remains a key priority going forwards. This is particularly the case because, while a risk in certain respects, climate change represents far more of an opportunity for the Company as its services offer a solution to the otherwise competing demands of air quality and mobility.

Environmental governance

The Company's Executive Directors, supported by the divisional managing directors and divisional property, purchasing and environmental specialists, are leading on formulating and implementing the Group's environmental ambitions.

The Committee's role is to monitor and review the Group's strategy and initiatives to achieve its environmental ambitions and report to the Board on the same and, in doing so, it forms an important component of the Group's environmental governance.

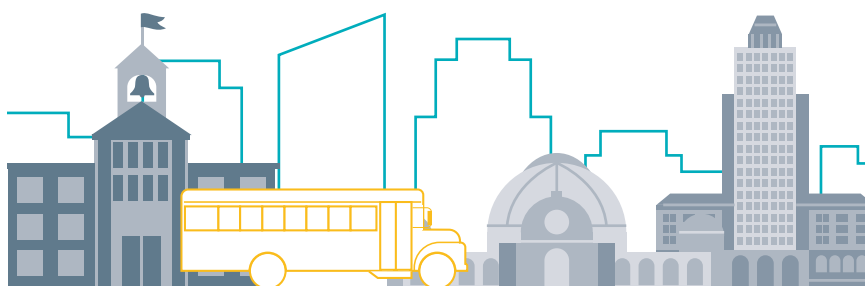
Environmental targets and performance

As explained in its 2019 Annual Report, the Company committed to never buy another diesel bus in the UK and set out its ambition to operate only zero emission vehicles in its UK bus division by 2030 and in its UK coach division by 2035.

To incentivise delivery against this ambition, the Remuneration Committee included environmental performance measures in Executive Directors' and Senior Managers' 2020 LTIP awards to increase the number of zero emission vehicles (ZEVs) in operation or on order in the UK and to reduce the Group's total carbon emissions per million passenger kilometre (tCO₂e/million pass km), in each case by the end of 2022 relative to the 2019 base year.

During 2020, the Company made its first steps towards achieving the ZEV measure when its UK bus division took delivery of its first 29 double-deck electric vehicles (EVs) and placed an order with Birmingham City Council for an initial 20 new hydrogen fuel cell electric vehicles (FCEVs) in the West Midlands, which are part of the UK Hydrogen For Transport Programme to test the technology and are expected to be delivered in 2021. The Committee was pleased to hear that, following initial assessment, the EVs are performing well, exceeding range expectations, and are generating the expected benefits, not just for cleaner air but also for customer and colleague experience and a reduction in the Company's maintenance costs. The Company's UK coach division also conducted research in 2020 into the availability of suitable ZEVs and concluded that no existing vehicle met its requirements so has commenced a comprehensive procurement exercise for the design and development of a zero emission coach product for the UK market.

While the Group's total carbon emissions in 2020 dropped significantly in absolute terms due to its significantly reduced operations worldwide, they increased when measured on a per passenger kilometre basis as a result of significantly reduced passenger volumes, exacerbated by lower vehicle occupancy rates due to social distancing measures on certain passenger services. The Company expects to progress further against these measures in 2021 and 2022 once Covid-related mobility restrictions start to lift.



The Company's ongoing commitment to reducing the Group's total carbon emissions is demonstrated by the Remuneration Committee once again including a performance measure relating to a further reduction in such total carbon emissions per passenger km in Executive Directors' and Senior Managers' 2021 LTIP awards.

2021 LTIP performance measure

| Weighting | Vesting level |
|-----------|-----------------------------------|
| | Threshold vesting at 6% reduction |
| 25% | On-target vesting at 7% reduction |
| | Maximum vesting at 8% reduction |

To track the Company's broader progress against its environmental plans, the Committee endorsed the Company's adoption in 2019 of six new environmental KPIs, comprising three UN Sectoral Decarbonisation Approach 'science-based' targets relating to total and traction carbon emissions and energy usage, and three 'non-science-based' targets relating to building-specific carbon emissions, water usage and non-hazardous waste to landfill volumes. These KPIs target improvement in each of these six areas against the Group's baseline performance in 2018 over a seven-year performance period from 2019 to 2025.

Whereas the KPIs set absolute targets to be achieved by the end of the performance period (rather than incremental targets to be achieved each year within the performance period), the Committee reviewed the Company's progress towards each of these six targets as at the end of 2020, being year two of the seven-year period. The results are shown on page 238 of this Annual Report. The Committee is treating these results with appropriate caution however due to the highly irregular trading conditions in which the Company operated during the Covid-19 pandemic. This is because:

– while the Company appears to have regressed in year two in respect of its three 'science-based' targets, this is because they are intensity metrics measured by reference to million passenger kilometres and so, like the reduction in the LTIP tCO₂e/million pass km performance measure, they are negatively impacted by the Group's reduced passenger volumes and lower vehicle occupancy rates in 2020; and

– while the Company appears to have made significant progress towards the three 'non-science-based' targets, this is because they are absolute measures that reflect the Company's lower usage of buildings and vehicles and accordingly of power and water and the reduced creation of waste from a combination of home-working arrangements and fewer vehicles being maintained and washed in 2020.

As explained in last year's Committee Report, the 'science-based targets' are intended to be flexible and adjusted to reflect changes in the Company's operations and advancements in technology over the seven-year performance period, so the Committee will keep them under review for this purpose. However, once the Covid-19 pandemic is brought under control, the Committee will also consider whether other adjustments should be made to these KPIs to take into account the abnormal trading conditions prevailing during the pandemic, which will be reported on in a future Annual Report.

The Group's environmental credentials are also being recognised externally, for example via the Green Economy Mark given by the London Stock Exchange, the AA ESG Rating awarded by MSCI and the 'low risk' ESG score conferred by Sustainalytics.

Environmental compliance and reporting

The Committee received assurance that the Company complied in full with all applicable environmental requirements and regulations in the year under review.

The Company's mandatory disclosures on environmental matters for the year under review are included on pages 238 to 240 of this 2020 Annual Report.

The Committee welcomes the introduction of climate-related disclosures in accordance with the TCFD recommendations and will oversee the Company making its first such disclosures on this basis in its 2021 Annual Report.

Committee composition, effectiveness and engagement

During 2020, the Committee's membership remained comprised of all the Company's Non-Executive Directors and its meetings were attended by the Executive Directors, underlining the importance of its work.

At the end of the year under review, I (Chris Muntwyler) stood down from the Board and therefore ceased to be a Director-member of the Committee at that time. However, I was delighted to be asked by the Board to become an adviser focusing on assisting the Company in continuing to develop and deliver on its safety and environment programmes and targets.

From 1 January 2021, I have been co-opted as a non-Director member of the Committee in this capacity.

I (Sir John Armitt), on behalf of the Board, thank Chris for his tremendous leadership of the Committee over the last ten years, the sound performance of which in 2020 was confirmed through its performance evaluation referred to on page 82. I am pleased to have assumed the Committee chairmanship and look forward to continuing its excellent work. Without compromising on the Committee's focus on safety matters, I intend in the year ahead to dedicate more of the Committee's time and attention to overseeing the Company's fast-developing environmental plans and ambitions.

I also intend that the Committee will continue its important programme of engagement through tours of the Company's operations which will focus on both safety programme compliance and environmental progress and will be carried out either in person, Covid-19 restrictions permitting, or virtually.

I firmly believe that the Company's strong safety actions during the year under review, focused on minimising responsible road traffic incidents and reducing the spread of the Coronavirus, have helped to save lives and, coupled with its environmental ambitions which will improve air quality, will continue to save lives in the years ahead.

We look forward to engaging with shareholders at our 2021 AGM when we can answer any questions you have on this Report and the Committee's work.



Chris Muntwyler
Former Safety & Environment Committee Chair
18 March 2021



Sir John Armitt
Current Safety & Environment Committee Chair
18 March 2021



Dr Ashley Steel
Committee Chair

“In a year of significant change and challenge for Executive and Senior Management and colleagues alike, all decisions taken by the Remuneration Committee have sought to balance the need for retention and incentivisation of strong leadership teams with the need for restraint on Executive and Senior Management pay.”

Primary role

To recommend to the Board the remuneration strategy and framework for Executive Directors and Senior Management¹ and to determine and apply within that framework a remuneration policy for Executive Directors and remuneration practices for Senior Management which have regard to the Group's overall performance, wider workforce pay practices, the need to fairly reward and incentivise individual contributions for past and future performance and align reward to the long-term sustainable success of the Company.

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com

Key responsibilities

- Determine the remuneration of Executive Directors in accordance with the Directors' Remuneration Policy and with due regard to workforce pay and related policies and practices across the Group
- Determine the remuneration of Senior Management, also having regard to workforce pay and related policies and practices across the Group and succession plans
- Determine the Chairman's fees
- Oversee pay and related policies and practices across the Group's workforce
- Oversee administration of the Group's share incentive plans

¹ The Company's Senior Management whose remuneration is determined by the Committee is comprised of the divisional managing directors and the Group functional heads who are direct reports to the Group CEO and/or Group CFO and who together form the Group Executive Committee.

Activity highlights

- Reviewed the Executive Director, Senior Management and wider Group's remuneration response to the Covid-19 pandemic
- Determined the outgoing Group CEO's final remuneration package, in the context of the current Directors' Remuneration Policy, the Group's position and his contractual entitlements
- Determined the new Group CEO's remuneration and adjusted the Group CFO's remuneration, both while acting as interim Group CEO and going forwards as Group CFO, in the context of the Group's current position and its future needs
- Reviewed the Directors' Remuneration Policy and consulted with shareholders on changes to the Policy to bring various elements into line with corporate governance best practice
- Reviewed and confirmed the 2020 annual bonus and 2018 LTIP award outturns for Executive Directors and Senior Management
- Reviewed the Chairman's and Senior Managers' pay and benefits for 2021, in the context of the Group's current position
- Considered and set targets and performance conditions for the 2021 annual bonus and the 2021 LTIP awards to be made to Executive Directors and Senior Management

Membership, meetings and attendance

| Committee member | Appointed | Resigned | Meetings attended/ meetings held |
|--------------------------------------|-----------|----------|----------------------------------|
| Dr Ashley Steel (Chair) ¹ | 29.01.19 | – | 6/6 |
| Matthew Crummack ¹ | 01.05.16 | – | 6/6 |
| Karen Geary ¹ | 01.10.19 | – | 6/6 |
| Lee Sander ² | 01.06.11 | 25.02.20 | 1/1 |

¹ Independent Non-Executive Director

² Lee Sander stood down from the Committee on 25 February 2020 and attended the only Committee meeting in the year while he was a member. He was an independent Non-Executive Director when he attended this meeting

Other attendees: Company Secretary and (by invitation to all meetings) Company Chairman, Group Human Resources Director and representatives of PwC (independent remuneration advisers) and (by invitation to certain meetings) Deputy Chairman, Group Chief Executive Officer and Group Chief Financial Officer – which Executive Directors do not attend during discussions relating to their own remuneration

Dear fellow Shareholder

I am pleased to present the Remuneration Committee Report for 2020 – an exceptionally challenging year due to the Covid-19 pandemic and its impact on mobility across the Company's transport markets.

I begin by explaining how pay across the Group's workforce has been affected by the pandemic and then explain the focus of the Committee's work during the year.

Remuneration response to Covid-19

Soon after the impact of the first wave of the pandemic was felt by the Company's operations around the world, both the Company's then Executive Directors took decisive action in volunteering to forgo their 2020 salary increases. In addition, the Group CEO and Company Chairman agreed to take 50% salary and fee reductions, all other members of the Board and of the Group Executive Committee agreed to take 20% salary and fee reductions and all other senior managers across the Group agreed to take 20% salary deferrals, in each case in respect of April and May 2020, while the Board assessed the potential full extent of the impact of the pandemic and took important steps to bolster the Company's liquidity and balance sheet.

As the pandemic persisted and restrictions on mobility continued to severely impact our businesses, the Company made use of the Coronavirus Job Retention Scheme (CJRS) in the UK and the similar schemes in Spain, Switzerland and Morocco. In the UK, the CJRS covered furloughed colleagues' salaries up to the lower of 80% and a cap. Throughout 2020, the Company topped up all UK furloughed colleagues' to 80% (where the cap applied) and all lower-paid furloughed colleagues' salaries to 100% of their normal pay. Clearly, the purpose of the CJRS and similar schemes is to preserve jobs in the long-term and, as restrictions eased over the late spring and summer months in the UK and Spain, many colleagues were brought back from furlough. However, the ongoing nature of the pandemic and further lockdowns and restrictions on mobility during the latter months of 2020 meant that some colleagues were placed back on furlough and a relatively small number of permanent employed colleagues in the UK and ALSA divisions in absolute terms (302 out of 8,356 or 3.6% in the UK and 340 out of 14,695 or 2.3% in ALSA) have been made redundant to better align such divisions' costs to their revenues and reflect the restructuring of certain management and support functions undertaken during 2020.

In North America, where there is no direct equivalent of the UK and European furlough schemes, where school board and transit authority customers have continued to pay us to cover colleagues' wages, we have continued to do so. However, where they have not, the Company made the difficult decision to temporarily lay off colleagues who have then had access to federal and State funded enhanced unemployment benefits. As with our other businesses which have brought colleagues back from furlough (and save in respect of a small number of non-core businesses we have chosen to cease operating), as services have restarted in North America we have re-employed individuals.

These measures have been necessary to ensure the continued viability of the Company in these unprecedented times. As Directors, we were heartened to hear through our workforce engagement events that, overall, colleagues consider that the Company has done the right things for them through the pandemic. This, we believe, is in no small part due to the significant additional health and safety measures the Company has invested in for colleagues during the pandemic, particularly those working in frontline roles. These measures are explained in more detail in the Safety & Environment Committee Report. Furthermore, at no time during the pandemic has the Company failed to honour in the UK its commitment to the Living Wage and elsewhere the applicable national minimum wage, or the terms of workers' contracts or pay deals reached with groups of workers prior to the pandemic (in the latter case, except as necessary in connection with furlough or equivalent arrangements).

Decisions taken by the Committee on Executive Director and Senior Management remuneration during 2020 and in respect of 2021 have taken the Group's remuneration response to Covid-19, as well as the following matters, into account:

- the Company's financial performance in 2020 and challenging trading conditions which have continued into Q1 2021;
- that we expect a return in 2021 to more normal levels of pay for front-line colleagues determined at a local level and taking local labour market and economic forces into account;
- the Company's UK reporting businesses' latest gender pay gap data;
- the Company's CEO pay ratios, including the median ratio for 2020; and
- general employment conditions in the main countries in which the Company operates, noting increased unemployment in each of those countries, the flat or negative average earnings increases in the UK and Spain but the 3.0% average earnings increase in the USA.



2020 key performance metrics

Underlying loss before tax

£(106.1)m

New CEO total remuneration¹

£123,000

Former CEO total remuneration²

£531,000

c.83% reduction on 2019

CFO total remuneration³

£526,000

c.63% reduction on 2019

Median CEO pay ratio

26:1

vs 136:1 in 2019

Mean and median UK gender pay gaps

(0.62)%
& 7.55%

vs 3.4% & 14.9% reported in 2019

¹ The new CEO's total remuneration reflects that he served as CEO for two months of 2020 and was not eligible to receive any bonus or LTIP vesting in respect of performance periods ending in 2020.

² The former CEO's total remuneration reflects that he served as CEO for eight months of 2020 and did not receive any bonus or LTIP vesting in respect of performance periods ending in 2020.

³ The CFO's total remuneration reflects that he served as CFO for 12 months of 2020 and also served as interim CEO for two months of 2020. He also did not receive any bonus and only a small LTIP vesting is due in respect of performance periods ending in 2020.

2020 results and remuneration outcomes

In 2020, due to the impact of the pandemic on the Group's revenues, the Group made an underlying loss before tax of £(106.1)m and, after accounting for exceptional costs, a statutory loss after tax of £(326.7)m.

As the 2020 bonus for Executive Directors and Senior Management was conditional on a threshold Group profit before tax target being met, the Committee has confirmed that none of the Executive Directors or members of Senior Management who were eligible will receive a bonus. Ignacio Garat, as new Group CEO, was not eligible for the 2020 bonus.

As a result of the impact of Covid-19 on the Company's earnings per share (EPS), return on capital employed (ROCE) and total shareholder return (TSR) - the latter when compared with the FTSE 250 Index (which includes companies in sectors not so badly impacted by the pandemic as the transport sector) - the Committee confirmed these elements of Executive Directors' and Senior Managers' 2018 LTIP awards will not vest. However, the Company's TSR has outperformed that of the other UK listed passenger transport groups included in the bespoke comparator group and therefore this element of the 2018 LTIP awards will vest between threshold and maximum level, resulting in total LTIP vesting of 6.5%.

An illustration of the Executive Directors' total remuneration outturns for 2020 is set out in Appendix 1 to this Report and shows clearly the impact, for Chris Davies, Dean Finch and Matt Ashley (the latter two of whom ceased to be Directors during the year), of the loss in value of 100% of their short-term incentives and for Dean Finch and Matt Ashley 100% and Chris Davies 93.5% of their long-term incentives in respect of the performance periods ending in 2020. Mr Garat's total remuneration for 2020 is also illustrated but represents only salary and benefits for the two months of 2020 since he was appointed and, as noted above, he was not eligible for the 2020 bonus and did not receive a 2018 LTIP award.

The Committee did not need to exercise its discretion on these remuneration outturns as they reflect the shareholder experience during 2020, demonstrating in turn that the current Directors' Remuneration Policy operated as intended in the year under review.

2020 changes to remuneration

On Matt Ashley leaving as Group Business Development Director in early April 2020, the Committee determined (having regard to his reasons for leaving) that:

- he would not be paid any 2020 bonus (even if one had been payable); and
- his unvested Executive Deferred Bonus Plan award for the deferred element of his 2019 bonus and unvested 2018, 2019 and 2020 LTIP awards would lapse in full.

No further payments are therefore due to Mr Ashley in, or in respect of, any future year.

On Dean Finch leaving as Group CEO at the end of August 2020, the Committee agreed with Mr Finch (having regard to his reasons for leaving and his contractual entitlements) that:

- in addition to his accrued salary and benefits up to his leaving date, including payment for accrued and untaken holiday entitlement, he would be paid one additional month's salary and cash benefits in consideration of waiving the balance of his notice entitlement up to 23 December 2020;
- he would be paid his accrued unfunded pension entitlement, in the (gross) amount of £721,716, net of taxes, as he was entitled to such payment after leaving the Company; and
- he would not be paid any 2020 bonus (even if one had been payable), and his unvested Executive Deferred Bonus Plan award for the deferred element of his 2019 bonus and unvested 2018, 2019 and 2020 LTIP awards would lapse in full.

No further payments are therefore due to Mr Finch in, or in respect of, any future year.

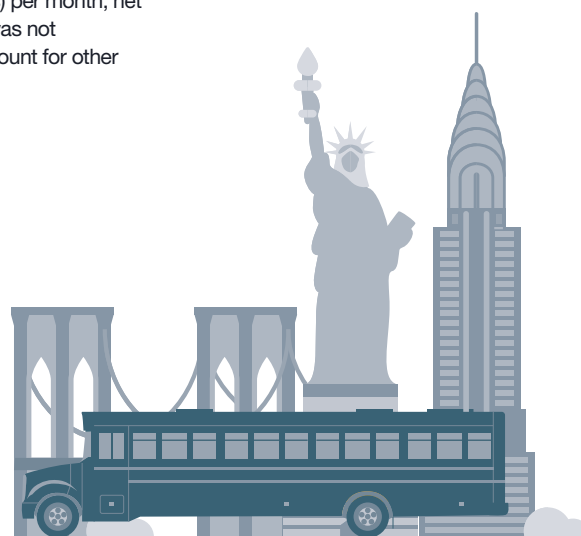
For the two months during which Chris Davies performed the role of interim Group CEO in addition to his Group CFO role, the Committee agreed (having taken advice on market practice and the level of remuneration for interim CEOs) to pay Mr Davies a salary supplement of £15,000 (gross) per month, net of taxes, which supplement was not pensionable or taken into account for other benefit or bonus purposes.

On Ignacio Garat's appointment as new Group CEO, the Committee agreed with Mr Garat that his remuneration would comprise:

- a base salary of £575,000, to be reviewed from 2022;
- a pension allowance equal to 3% of base salary, aligned to the majority UK workforce pension contribution level;
- a maximum annual bonus opportunity for 2021 of 150% of base salary;
- a maximum LTIP award opportunity for 2021 of 200% of base salary;
- other usual benefits in kind, including a car allowance, private medical insurance and death-in-service assurance; and
- a modest relocation package.

In agreeing the remuneration package for the new Group CEO, the Committee had due regard to:

- Mr Garat's extensive and highly complementary executive experience and proven track record in an adjacent industry sector but also that National Express would be Mr Garat's first Group CEO role;
- the significant scope and scale of Mr Garat's responsibilities for managing an international, operationally complex and diversified business which facilitates millions of passenger journeys each year, safely and efficiently;
- the importance of duly rewarding Mr Garat for undertaking these responsibilities from the outset but also the desire to give scope for enhancements in those rewards as he develops in the role; and
- the benchmarking exercise of CEO remuneration in three comparator groups carried out by the Committee in late 2019, by reference to which Mr Garat's remuneration at the outset is below the median for all three groups.



On Mr Davies reverting to performing exclusively his Group CFO role, the Committee also determined:

- effective from that time, to reinstate the salary increase Mr Davies had foregone earlier in the year and to award him a further salary increase of 6.25%, taking his base salary to £425,000, to be reviewed again from 2022; and
- to increase Mr Davies' maximum LTIP award opportunity in 2021 to 200% of base salary.

In re-setting aspects of Mr Davies' remuneration, the Committee took into account:

- the significant scope and scale of Mr Davies' responsibilities for financial reporting and internal control in an international, operationally complex and diversified business and his expertise in debt and equity capital raising and treasury matters which have assisted the Company through the Covid-19 pandemic;
- the material expansion in the scope of Mr Davies' responsibilities since 2018, which included, in 2019, evolving the Group's investor relations programmes and leading the Group's enhanced cyber security programme and, in 2020, assuming responsibility for the Group's procurement and communications functions and supporting a new CEO in role;
- Mr Davies' exceptional performance in 2019 and 2020 and the positive feedback the Board has received about Mr Davies from a number of major shareholders;
- the improved marketability of Mr Davies as a now proven CFO and with a successful period as an interim CEO, and, in view of this consideration and Mr Finch's departure, the imperative to incentivise and retain Mr Davies; and
- the fact that Mr Davies was appointed in 2017 at a below market base salary in recognition of National Express being his first Group CFO role, the substantial progress he has made in role since then and the benchmarking exercise of CFO remuneration in three comparator groups carried out by the Committee in late 2019, by reference to which Mr Davies' remuneration, prior to being re-set, was below the median for all three groups.

All other terms of Mr Davies' remuneration remain the same and, as previously committed, Mr Davies' pension allowance, currently equal to 25% of base salary, will reduce to be aligned with the then prevailing majority UK workforce pension contribution level from 1 January 2023.

While the Committee and I acknowledge that 2020 was an incredibly difficult year in which to make decisions on executive pay, all Committee decisions have sought to balance the need for retention and incentivisation of a strong leadership team in these very challenging times against the need to exercise restraint on executive pay.

2021 remuneration proposals

As the Committee approved new remuneration arrangements for both the Group CEO and Group CFO in 2020 which will apply throughout 2021, no further changes to their pay are proposed for 2021.

In the exercise of restraint, the Committee also approved that no increases would be made to Senior Managers' salaries in 2021 or to the Chairman's fee in 2021. The Board also confirmed that Non-Executive Directors' fees would not increase in 2021.

With the dual aims of: (i) aligning Executive Directors' bonus opportunities with shareholders' interests – by targeting the Company achieving in 2021 a stretching level of financial performance in the context of the continued challenging trading conditions expected through at least parts of 2021; and (ii) incentivising Company and Executive Director performance against non-financial objectives, the Committee determined that Executive Directors' 2021 bonuses will be subject to the following weighted targets:

- a Group profit before tax target, with a 50% weighting;
- a Group free cash flow target, with a 25% weighting;
- three specific safety performance targets to at least match the Company's 2019 (best ever) FWI score and outperform its 2019 preventable accidents and DriveCam driver risk scores, each with a 5% weighting and so aggregate 15% weighting; and
- specific strategic and risk management targets, with an aggregate 10% weighting.

To further achieve the balance referred to above, and in cognisance of the exogenous and uncontrollable factors that could affect the Company's financial performance in 2021, the Committee has also determined to remove, in 2021, the bonus 'profit gateway' such that the payout of those parts of the bonus dependent on non-financial objectives is not also dependent on the Group achieving a threshold level Group profit before tax.

However, in line with the proposed new Directors' Remuneration Policy, the Committee will also retain a wide discretion to adjust Executive Directors' 2021 bonus outturns having regard to all the relevant circumstances at the time of their award.

Full details of the Executive Directors' 2021 financial and non-financial bonus targets will be disclosed in the 2021 Annual Report on Remuneration.

Senior Managers' 2021 bonuses will be subject to similar financial and non-financial targets and weightings, save for adjustments necessary to adopt divisional financial and strategic targets and adjustments to target weightings for Senior Managers below divisional MD and FD level to better reflect individual roles and responsibilities.

Following careful consideration, the Committee was of the view that the Company's LTIP and the usual performance measures attached to awards made under it achieve a good balance between incentivising Executive Directors and Senior Managers to deliver: (i) returns to shareholders; as well as (ii) the financial and ESG platforms that facilitate the delivery of Company strategy. Therefore, the Committee determined that the 2021 LTIP awards will be subject to the same weighted performance measures as the 2020 awards (except there will be one rather than two ESG performance measures albeit with the same weighting):

- an earnings per share measure, with a 25% weighting;
- a return on capital employed measure, with a 25% weighting;
- two relative total shareholder return measures, each with a 12.5% so aggregate 25% weighting; and
- an environmental measure relating a further reduction in the Group's global carbon emissions per million passenger kilometre, with a 25% weighting.

Full details of these performance targets and their vesting levels are set out on page 125 of the Annual Report on Remuneration.

Due to share price volatility during the pandemic and uncertainty on whether and how its impact will affect the vesting in three years' time of the 2021 LTIP awards, the Committee currently proposes to follow its normal practice of granting the 2021 LTIP awards over numbers of Company shares equal in value to relevant multiples of base salary based on the strike price of a Company share the day prior to the award grant. However, the Committee will keep this under review based on share price performance in the lead up to the grant date and will have discretion at the time of vesting to adjust the 2021 LTIP award outcomes as it considers appropriate.

Directors' Remuneration Policy operation and review

During the year under review, the Company's Directors' remuneration arrangements have complied in full with the current Directors' Remuneration Policy (current Policy).

Those arrangements have also applied the Principles, and been broadly in line with the Provisions, of the 2018 UK Corporate Governance Code (Code) relating to remuneration, save as noted on page 57.

As the current Policy has been in place for three years, we are proposing that shareholders approve a new Directors' Remuneration Policy (new Policy) at the Company's 2021 AGM.

Following due consideration by the Committee of how well, prior to the pandemic, the current Policy worked to incentivise executive management to achieve the Company's strategy and deliver returns to shareholders, the Committee determined that the structure and core components of the new Policy should remain the same.

However, the Committee has taken the opportunity in the new Policy to propose changes which bring it into line with the Code and certain aspects of wider best corporate governance practice, including so that:

- the Remuneration Committee has full discretion to override formulaic remuneration outcomes (as recommended by Code Provision 37);
- Executive Directors' pensions will be aligned with those available to the workforce (as recommended by Code Provision 38);
- a formal policy on Executive Directors' post-employment shareholdings is introduced (as recommended by Code Provision 36); and
- malus and clawback triggers are extended to include corporate failure and events having a significant negative reputational impact (as recommended by the FRC).

In the new Policy, it is also proposed to:

- change the current Executive Directors' in-employment shareholding guideline into a formal requirement and increase it to 200% of base salary for all Executive Directors (currently 200% for Group CEO and 150% for other Executive Directors); and
- simplify the deferral of Executive Directors' bonus awards by deferring 50% of their value (currently a tiered approach) but still for one year post award.

This is because the Committee is seeking to balance the adoption of best corporate governance practice in these areas with the current Executive Directors' circumstances, which include that the new Group CEO is building his shareholding from nil and the incumbent Group CFO has lost significant value in his in-flight LTIP awards.

This balance retains the prospect of the Executive Directors being able to realise some value from future bonus and LTIP awards in the medium-term while still building their shareholding requirement to align their longer-term interests with those of shareholders.

A summary of all the main changes to the new Policy (as compared with the current Policy) is set out in Appendix 2 to this Report and the new Policy itself is included at pages 104 to 112 of this Directors' Remuneration Report.

Appendices 3 and 4 to this Report explain, respectively, how the current Policy has to date supported, and the new Policy will support, the Company's strategy and sustainable success and how they address the factors set out in Provision 40 of the Code.

Committee composition, effectiveness and engagement

Lee Sander stood down from the Committee in February 2020 due to his long tenure on the Board. On behalf of the whole Committee, I thank Mr Sander for his contribution to its work.

The Committee has remained comprised of all and at least three independent Non-Executive Directors throughout the year under review who have, between them, an appropriate range of experience and skills. The positive outcome of the Committee's performance evaluation, referred to on page 82, demonstrates that it continues to fulfil its responsibilities well.

During Q4 2020, the Committee engaged with major shareholders (being those then holding more than 1% of the Company's issued share capital and together holding more than 70% of issued share capital) on the proposed new Policy. I am grateful for their interest, input and indicated support. I also wrote to major shareholders explaining the Committee's determination of the new Group CEO's remuneration and changes to the Group CFO's remuneration. During workforce engagement events, our members were also able to participate in discussions with colleagues on pay, including how pay was affected by the pandemic.

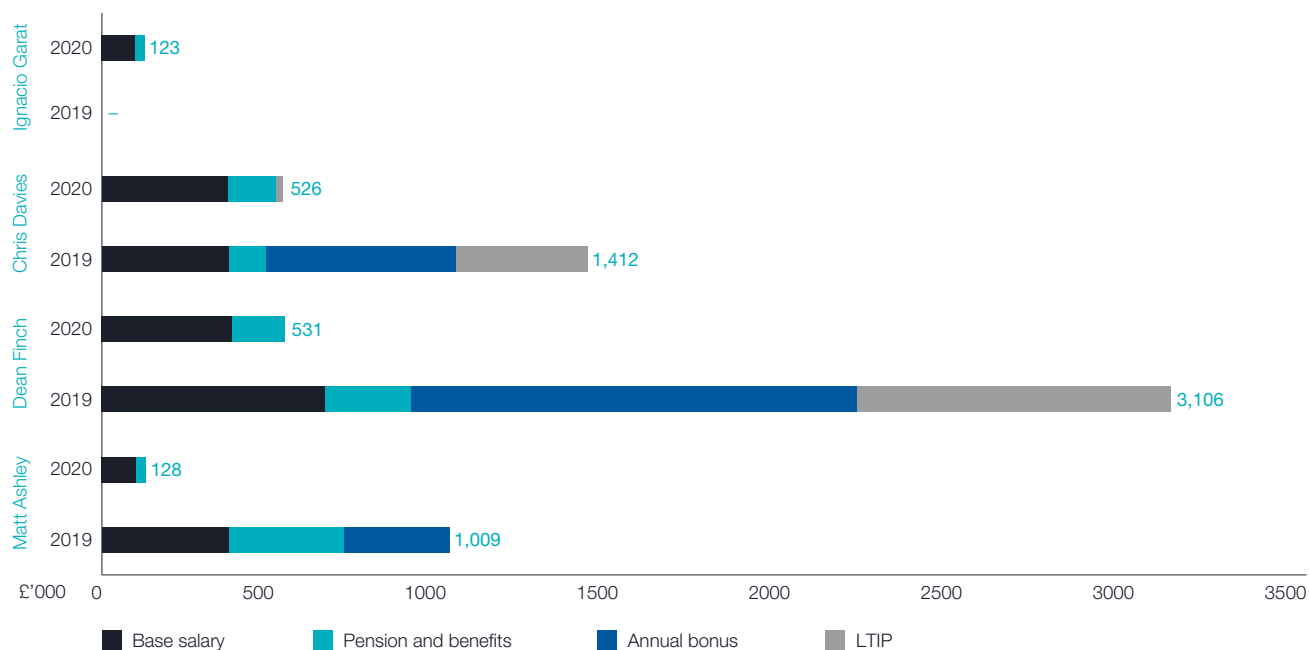
I and my fellow Committee members remain committed to engaging with you, our shareholders, and our colleagues where appropriate, on remuneration matters. We look forward to receiving your shareholder support on the new Policy and hearing your views on the Annual Report on Remuneration at the Company's 2021 AGM. We also thank all our colleagues for their hard work and dedication during this last year in what have been exceptionally challenging circumstances.



Dr Ashley Steel
Remuneration Committee Chair
18 March 2021



Appendix 1 – Illustration of Executive Directors' 2020 remuneration outturns



Appendix 2 – Summary of key changes proposed to the Directors' Remuneration Policy

A summary of the key changes proposed to be made in the new Policy (as compared with the current Policy), is set out below. These are the changes on which the Company consulted with its major shareholders.

| Policy element | Proposed change | Rationale for change |
|--|---|--|
| Pension | To align Executive Directors' pension entitlements with those of the majority of the UK workforce (currently 3% of salary). Incoming Executive Directors' pensions aligned from 1 November 2020. Incumbent Executive Directors' pensions to be aligned from 1 January 2023. | To improve fairness with the broader employee population and comply with the UK Corporate Governance Code. |
| Introduction of general discretion for variable pay plans | Introduction of general discretion for the Committee to override formulaic remuneration outcomes in Executive Directors' annual bonus awards and LTIP vestings. | To enable the Committee to determine payouts that reflect overall Company performance and/or the wider stakeholder experience. |
| Expansion of malus and clawback on variable pay | Expansion of circumstances in which malus and clawback will apply to allow the Company to withhold or clawback deferred bonus shares and vested LTIP shares. | To protect the Company in cases of exceptional negative events and align with best corporate governance practice. |
| Revision of shareholding requirements, including post-cessation of employment requirement | Conversion of Executive Directors' shareholding guideline to a formal requirement. All Executive Directors to build their in-employment shareholding to the equivalent of 200% of salary over a 5 year period (previously 150% of salary for Executive Directors other than the Group CEO – with a new 5 year period applying to the incremental increase for the incumbent Group CFO) and introduction of a post-employment holding requirement for 2 years equal to the lower of actual shareholding at the date of leaving and 200% of salary. | To support Executive Directors building up a shareholding in the Company, align with emerging best market practice and comply with the UK Corporate Governance Code. |
| Annual bonus deferral | 50% of Executive Directors' total annual bonus earned will be deferred into shares. The current Policy provides for the deferred bonus to be calculated as follows: – 25% of the bonus earned up to 125% of salary; – 50% of the bonus earned between 125% and 150% of salary; and – 75% of the bonus earned above 150% of salary (was applicable to the former Group CEO only). | To simplify the annual bonus and better support Executive Directors building up a shareholding in the Company. |
| Maximum LTIP award levels | Alignment of all Executive Directors' maximum LTIP award opportunity at 200% of salary (previously 200% of salary for Group CEO and 150% of salary for all other Executive Directors). | Better flexibility to duly incentivise, reward and retain all Executive Directors. |
| Dividends and dividend equivalents to be satisfied in shares | Change in method of satisfaction of dividends and dividend equivalents on deferred bonus shares and vested LTIP shares, to shares (previously discretion to satisfy in shares or cash which was used to elect cash). | To further support Executive Directors building up a shareholding in the Company and align with best corporate governance practice. |
| Deferred bonus and LTIP vesting good leaver arrangements | Change in default treatment of Executive Directors' in-year bonus awards and in-flight LTIP awards where they become good leavers, such that bonuses are paid and LTIPs vest at the normal time (rather than at the leaving date) and are pro-rated (to reflect service during the bonus or LTIP vesting period up to the date of leaving). | To re-align expectations that payouts will typically reflect good leavers' contribution to Company performance. |

Appendix 3 – Supporting strategy and sustainable success

Various elements of the current Policy and new Policy are directly linked to achieving the Company's strategy and sustainable success, as explained in the table below:

| Strategic priority | Policy element | Linkage |
|--|---|--|
| Growth | Group profit before tax (PBT) target in annual bonus and EPS performance measure in LTIP | Profit and related earnings targets and performance measures drive management's efforts to achieve both organic growth, through new business wins and cost efficiencies, and inorganic growth through acquisitions, ensuring an appropriate focus on margin growth over pure revenue growth |
| | Group free cash flow (FCF) target in annual bonus | Free cash flow targets balance the Group's capital priorities between re-investing for future growth, maintaining net debt within a target range and paying dividends to shareholders |
| | ROCE performance measure in LTIP | Return on capital employed validates the quality of capital allocation and ensures that investment for growth is both appropriate and sustainable |
| Operational Excellence | Personal bonus targets linked to operational excellence initiatives | Operational excellence, through creating and implementing best in class operating procedures for: |
| | Remuneration Committee discretion to reduce bonus and LTIP outcomes for significant negative operational events | <ul style="list-style-type: none"> – recruiting, training and managing risk in relation to drivers; – purchasing, using and maintaining vehicles; – enhancing digital access to markets, capability and controls; – enhancing cyber security controls; and – other programmes that deliver operational efficiencies and improve controls, <p>improve profitability through both top-line revenue growth and underlying cost savings</p> |
| Health and Safety and Environment | FWI, preventable accidents and driver risk score targets in annual bonus | Our ability to get people where they need to go safely and our culture for putting safety first is key to achieving the trust and loyalty of our customers and achieving growth |
| | Carbon reduction and other environmental performance measures in LTIP | Our use of cleaner and greener vehicles is driving a modal shift away from cars to mass transit and achieving growth |
| | Remuneration Committee discretion to reduce bonus and LTIP outcomes for significant negative safety events | |

Appendix 4 – Supporting clarity, simplicity, proportionality and predictability and ensuring risk mitigation and alignment to culture

The table below explains how both the current and new Policy, and the Committee's practice in applying the current Policy over the year under review, address the factors set out in Provision 40 of the UK Corporate Governance Code:

| Provision 40 Factor | Element of Directors' Remuneration Policy and/or Practice |
|--|--|
| Clarity – clarity and transparency is achieved through a combination of explanations for decisions taken and disclosure of the nature and weighting of annual bonus targets and LTIP performance measures | <p>The Committee's rationale for the new Group CEO's remuneration arrangements and for the increase in the Group CFO's salary and maximum LTIP opportunity is explained on pages 97 and 98 of the Annual Statement by the Committee Chair (and was also explained to major shareholders contemporaneously via a letter from the Committee Chair).</p> <p>The nature and weighting of Executive Directors' 2020 annual bonus targets and LTIP performance measures were disclosed in advance on pages 101 and 102 of the 2019 Annual Report.</p> <p>The nature and weighting of Executive Directors' 2021 annual bonus targets and LTIP performance measures are set out on page 98 of this 2020 Annual Report.</p> |

Simplicity – simplicity is achieved by directors' remuneration being composed of a limited number of elements designed to balance the retention and incentivisation of directors with the delivery of strategy and shareholder returns

Executive Directors' remuneration is composed of only four elements:

- base salary;
- typical other benefits, including pension allowance;
- annual bonus awards subject to financial and non-financial (including safety and other strategic targets), a proportion of which awards are deferred into shares for 1-year (with the new Policy simplifying this element further by proposing a straight 50% deferral); and
- annual LTIP awards subject to 3-year performance measures and 2-year holding periods post vesting.

Save for certain payments to Mr Finch to which he was entitled after leaving the Company, the fixed salary supplement paid to Mr Davies for acting as interim Group CEO and modest relocation benefits paid to Mr Garat in connection with his joining the Company, there have been no one-off or exceptional payments in the year under review.

Risk – a range of features of directors' remuneration assist in mitigating the risks of excessive rewards and inappropriate behaviour

Executive Directors' salary increases are capped at 10% over RPI in any year, other than for increases given for internal promotion and market equalisation, and their maximum annual bonus opportunities and LTIP outturns are both capped at a percentage of their base salaries.

A proportion of Executive Directors' bonus awards are deferred into shares for 1-year post award, and they must retain their vested LTIP shares for 2-years post vesting, including post-termination of employment.

Both malus and clawback provisions apply to the whole of Executive Directors' bonus awards and vested LTIP shares for a period of 2-years post award or vesting, including post-termination of employment. Under the proposed new Policy, malus and clawback will also be expanded to cover more events, in turn mitigating those events further through their links to remuneration.

Under the current Policy, the Committee may exercise discretion to defer or to reduce, including to nil, Executive Directors' annual bonus and LTIP outturns if the 'safety underpin' is triggered. Under the new Policy, the Committee will have much wider discretion to adjust such outturns to enable executive remuneration to reflect wider corporate performance and stakeholder experience, in turn mitigating a disconnect between these matters.

Predictability – some of the same features of directors' remuneration arrangements that mitigate risk also ensure that outcomes are within a predictable range

Executive Directors' salary increases are capped at 10% above RPI in any year, other than for increases given for internal promotion and market equalisation, and their maximum annual bonus opportunities and LTIP outturns are both capped at a percentage of their base salaries.

Under the new Policy, the Committee's wider discretion to adjust annual bonus and LTIP outturns to enable executive remuneration to reflect wider corporate performance and stakeholder experience also assists with delivering outturns which are more aligned with external expectations.

Proportionality – is achieved through the strong links between directors' remuneration and corporate performance

The linkage between Executive Directors' remuneration arrangements and their performance in delivering the Company's strategy is explained in Appendix 3 above.

The protections against Executives Directors' remuneration outturns being out of proportion, or mis-aligned, with the Company's performance are explained in the Risk and Predictability sections above.

Alignment to culture – is achieved through strong links between directors' remuneration and the Company's Values

The Company's Values of: Safety, Excellence, Customers, People, and Community & Environment are promoted through different aspects of Executive Directors' remuneration:

- The Safety, People, Customers and Community & Environment Values are supported by the safety bonus targets and environmental LTIP performance measures which focus management's attention on maintaining a safe and increasingly environmentally friendly transport network for the benefit of colleagues, passengers and the wider community.
- The Customers, People and Excellence Values are supported by the financial bonus targets and financial LTIP performance measures which focus management's efforts on achieving sustainable profit which enables the Company to expand its transport network into new customer markets and facilitates investment in operational excellence programmes which enhance the customer experience and create new opportunities for colleagues in terms of pay, working conditions and prospects.

1. Introduction to the new Policy

This new Directors' Remuneration Policy ('Policy' or 'new Policy') will be put to a binding shareholder vote at the 2021 AGM and, if approved, will be effective immediately thereafter (in place of the current Directors' Remuneration Policy approved at the 2018 AGM ('current Policy')) which will continue to apply until such time). It is currently intended that the new Policy will remain in force until the Company's AGM in 2024.

2. Considerations when setting and determining the Policy

The Remuneration Committee's primary objective when setting remuneration policy is to align Director remuneration to the long-term success of the Company and to the shareholder experience while also enabling the Company to effectively recruit, motivate and retain key individuals.

To achieve this, the Remuneration Committee ('Committee') takes into account the experience, responsibilities, performance and contribution of the individual, as well as levels of remuneration for individuals in comparable roles elsewhere. The Policy places significant emphasis on the need to achieve stretching and rigorously applied performance targets, with a significant proportion of remuneration weighted towards performance-linked variable pay.

As noted further below, the Committee also takes into account the views expressed by shareholders and best practice expectations, and monitors developments in remuneration trends. The Company does not formally consult with employees on remuneration policy. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to pay and employment conditions across the Company's Group.

3. Consideration of shareholder views

The Committee is committed to maintaining strong relationships and an open dialogue with shareholders and values their views in the process of formulating remuneration policy decisions.

The Committee reviewed the current Policy during 2020 to ascertain whether it was fit for purpose in the context of the Company's current strategy and developments in corporate governance, best practice and investors' expectations and determined that it remained broadly fit for purpose but could be better aligned with best practice in a number of areas. The Committee then engaged with shareholders who together held more than 70% of the Company's shares to seek their views, including on the best practice changes proposed, which helped the Committee determine the new Policy. While a small number of shareholders provided feedback suggesting further changes, the vast majority considered that the new Policy was appropriate and balanced and therefore the Committee did not make any further amendments. The Committee will consider feedback received at the 2021 AGM and beyond as part of its ongoing review of remuneration policy. We are grateful for the time, assistance and support shareholders give us.

4. Remuneration Policy for Executive Directors

4.1 Summary of the individual elements of the Policy for Executive Directors

| Element and how it supports strategy | Operation | Maximum potential value | Performance conditions and assessment |
|--|--|---|---------------------------------------|
| Base salary To provide base salaries which: <ul style="list-style-type: none"> – reflect the value of the Executive Director's experience, skills, knowledge, contribution and importance to the business; and – help attract, retain and motivate high performing Executive Directors of the calibre required to lead the business and successfully implement strategy, but without paying more than is necessary to do so. | Base salaries are paid monthly in cash and normally reviewed annually with effect from 1 January. Reviews cover individual performance, experience, development in the role and market comparisons. To determine market comparisons, the Committee reviews remuneration data on executive positions in comparator groups consisting of transport/leisure and general sector companies of similar size, complexity and international presence. The Committee retains the discretion to amend the comparator groups as necessary to remain relevant. | While there is no prescribed formulaic maximum, base salaries will reflect Executive Directors': <ul style="list-style-type: none"> – roles and responsibilities; – knowledge, skills and experience; and – performance and effectiveness. In addition, when reviewing Executive Directors' salaries, consideration will always be given to the general performance of the Company and the approach to employee pay across the Group. Therefore, salary increases for Executive Directors will not normally exceed the general employee increase for the country in which they are domiciled. However, larger increases or above median salaries may be necessary, for example (but without limitation): <ul style="list-style-type: none"> – where there has been a material increase in the scope and/or scale of the Executive Director's responsibility in the role (including as a result of internal promotion); – to apply salary progression for an Executive Director who was appointed on a salary below the market level; or – where an Executive Director is extremely experienced and has a long track record of proven performance. In such circumstances, salaries may need to be in the upper quartile of comparable companies of similar size and complexity. No increase will exceed 10% above RPI in any one year, except for internal promotion or where the Executive Director's salary is below the market level. Where such exceptional changes do occur, they will be fully disclosed and explained. | Not applicable. |

| Element and how it supports strategy | Operation | Maximum potential value | Performance conditions and assessment |
|---|---|--|---------------------------------------|
| Pension To provide fair benefits as part of fixed remuneration to allow Executive Directors to work towards saving for retirement at the same effective contribution rate as applies to the majority of the Company's and its subsidiaries' UK workforce. | Executive Directors receive a cash allowance in lieu of a pension provision in line with market practice. | The maximum annual cash allowance payable in lieu of a pension provision for the incumbent Group Chief Financial Officer will be equal to 25% of base salary for the period until 1 January 2023. | Not applicable. |
| | Executive Directors' pensions are aligned with those of the majority of the Company's and its subsidiaries' UK workforce (which is currently 3% of salary), with the exception of the incumbent Group Chief Financial Officer's pension which is equal to 25% of salary but will reduce to be aligned with that of the majority of the Company's and its subsidiaries' UK workforce with effect from 1 January 2023. Only base salary counts for the purpose of the pension allowance. | After this date, and for any new Executive Directors appointed from 1 November 2020, the maximum annual cash allowance payable in lieu of a pension provision will be equal to the level of employer pension contributions payable in respect of the majority of the Company's and its subsidiaries' UK workforce. | |
| Benefits To provide competitive benefits as part of fixed remuneration to enable the Group to recruit and retain high performing Executive Directors. | Executive Directors receive a combination of family private healthcare, death-in-service and life assurance cover (4x base salary), long-term sickness and disability insurance, car allowance, free travel on the Company's services and professional membership subscriptions. | The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions. This will therefore determine the maximum amount that will be paid in the form of benefits to Executive Directors during the Policy period. | Not applicable. |
| | The Committee has discretion to provide additional benefits or remove benefits in order to remain competitive or to meet the needs of the business, for example to provide relocation assistance to an Executive Director (and his/her family), including financial, tax and legal advice if applicable. Any change to benefit provisions will be disclosed on an annual basis. Executive Directors are also entitled to travel, subsistence and accommodation for business purposes, paid or reimbursed by the Company in line with the Company's expenses policy. | The cost to the Company of expenses depends on the relevant expenses. | |

| Element and how it supports strategy | Operation | Maximum potential value | Performance conditions and assessment |
|---|--|---|---|
| <p>Annual bonus</p> <p>To incentivise delivery of near-term performance objectives which are directly linked to the financial, strategic delivery and risk management priorities of the Group.</p> <p>A portion of any bonus paid is deferred into shares, assisting the retention of Executive Directors and alignment of their interests with those of shareholders.</p> | <p>Executive Directors' bonus payments are based on the achievement of pre-specified objectives over a one-year performance period. Achievement of each element of the bonus is assessed independently.</p> <p>50% of the bonus earned is subject to mandatory deferral into shares for one year from award.</p> <p>Unless the Committee determines otherwise, the market price per share on the date of the award will be calculated on the basis of the average share price in the five days preceding the date of the grant.</p> <p>Dividends are paid on the deferred share element, in shares.</p> <p>Malus and clawback provisions attach to the whole of the bonus award and apply during the two-year period post award, including following cessation of employment.</p> <p>Bonus payments are paid following announcement of the Company's audited year end results and are not pensionable.</p> | <p>The maximum bonus award is equal to 200% of base salary for the Group Chief Executive Officer and 150% of base salary for other Executive Directors.</p> | <p>Performance conditions are a combination of financial and non-financial (including strategic delivery, risk management and personal) objectives set at the beginning of each year.</p> <p>The Committee retains discretion in appropriate circumstances to amend the weightings of the financial and non-financial elements of the bonus from year to year and for each Executive Director as appropriate.</p> <p>The financial performance conditions will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum.</p> <p>The non-financial performance conditions will be set annually based on objectives for the year. These may include safety, operational and business development objectives, customer related developments or metrics, colleague related developments or metrics, and environmental, social and governance (ESG) developments or metrics, as determined by the Committee on an annual basis. Normally, the proportion of the bonus determined by non-financial performance conditions will only become payable when the Company achieves a threshold level of normalised profit but the Committee has discretion to vary this in appropriate circumstances.</p> <p>The numerical values of the financial, and details of the non-financial, performance conditions will not be disclosed in advance (except for any numerical safety performance conditions) as the Committee considers this information commercially sensitive. Actual targets, performance achieved and awards will be published at the end of the performance period to enable shareholders to fully assess the basis for any payouts under the annual bonus.</p> <p>The annual bonus includes the ability for the Committee to use its discretion, acting reasonably and proportionately, to adjust the bonus outcome, upwards (provided it does not exceed the maximum) or downwards (including to nil), if such outcome is not reflective of overall corporate performance and/or individual performance. Examples of circumstances in which such an adjustment could be made include (without limit) where:</p> <ul style="list-style-type: none"> – there is substantial mis-alignment between the Company's financial performance and the outcome of the proportion of the bonus determined by reference to financial performance conditions and/or substantial mis-alignment between the individual's performance and the overall bonus outcome; – there are significant concerns in relation to safety. This includes where, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs that has a material adverse impact on both the reputation of the Company and its share price (the 'safety underpin'); or – there is a significant event which materially impacts the reputation of the Company and its share price. This includes where, as a result of the material failure of management to put in place and operate effective internal controls, such an event occurs, or where, as a result of the action or omission of the person to whom the bonus would be payable, such an event occurs. <p>To the extent that legal, regulatory or other investigations or proceedings are ongoing in relation to such an event, the Committee has the discretion to delay the award of a bonus (in whole or in part) until those investigations or proceedings are completed.</p> |

| Element and how it supports strategy | Operation | Maximum potential value | Performance conditions and assessment |
|---|--|--|--|
| Long-Term Incentive Plan ('LTIP') To incentivise delivery of longer-term performance outcomes, reward the execution of strategy, aid retention of Executive Directors and align their longer-term interests with those of shareholders. The performance conditions are aligned with the Group's strategic delivery and its financial and ESG performance which facilitates or evidences such delivery, thereby driving Executive Directors to achieve outcomes that create shareholder value over the long-term. | <p>LTIP awards (in the form of conditional shares, nil cost options or forfeitable shares) are granted annually with vesting subject to the achievement of performance conditions measured over a three-year consecutive financial period commencing with the year of award.</p> <p>An additional two-year holding period for vested shares exists post vesting for the Executive Directors.</p> <p>Dividend equivalents and dividends can be paid on vested shares, in shares, in respect of both the performance and holding periods.</p> <p>Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances.</p> <p>Malus and clawback provisions attach to all vested shares under LTIP awards and apply during the two-year period post vesting, including following cessation of employment.</p> | <p>The maximum LTIP award is equal to 200% of base salary, per annum, for all Executive Directors.</p> | <p>Awards will be subject to stretching performance conditions over a period of three consecutive financial years.</p> <p>The current intention is that LTIP awards will have performance conditions relating to EPS, ROCE, TSR and ESG measures.</p> <p>The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation.</p> <p>The threshold vesting level will be no more than 25%, and may vary by performance condition and from year to year. There is no ability to retest any of the performance conditions.</p> <p>The LTIP includes the ability for the Committee to use its discretion, acting reasonably and proportionately, to adjust an LTIP award vesting outcome, upwards (provided it does not exceed the maximum) or downwards (including to nil), if such outcome is not reflective of overall corporate performance and/or stakeholder experience. Examples of circumstances in which such an adjustment could be made include (without limit) where:</p> <ul style="list-style-type: none"> – there is substantial mis-alignment between the Company's financial performance and the vesting of the proportion of the LTIP award determined by financial performance measures; – there are significant concerns in relation to safety. This includes where, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs that has a material adverse impact on both the reputation of the Company and its share price (the 'safety underpin'); and – there is a significant event which materially impacts the reputation of the Company and its share price. This includes where, as a result of the material failure of management to put in place and operate effective internal controls, such an event occurs, or where, as a result of the action or omission of the LTIP award holder, such an event occurs. <p>To the extent that legal, regulatory or other investigations or proceedings are ongoing in relation to such an event, the Committee has the discretion to delay the vesting of an LTIP award (in whole or in part) until those investigations or proceedings are completed.</p> <p>There is no formal monetary value of award above which the Committee will automatically apply downwards discretion.</p> <p>The Committee also retains discretion under the LTIP rules to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's performance over the measurement period.</p> <p>The number or class of shares under award may be adjusted on a rights issue, variation of capital, demerger or similar transaction.</p> |

4.2 Shareholding requirement for Executive Directors

Executive Directors are required to build up a shareholding to a value equal to 200% of base salary over a five-year period commencing from the later of the approval of the Policy and their date of appointment (and, as this represents a 33.3% incremental increase on the incumbent Group Chief Financial Officer's pre-existing shareholding guideline, he will have five years from approval of the Policy to build this incremental increased shareholding). Compliance with this requirement is a condition of continued participation in the Company's LTIP and other equity incentive arrangements.

A shareholding requirement will continue to apply to an Executive Director after the cessation of his/her employment which equates to the lesser of shares which have a value equal to 200% of base salary calculated as at the date of leaving employment and his/her actual shareholding at the date of leaving employment, irrespective of the reason for leaving, save it will not apply where the reason for leaving is in connection with a change of control in the Company.

Only shares derived from the 2021 LTIP awards and other share awards granted after the Policy comes into effect will be included in the post-cessation shareholding requirement. Shares held by an Executive Director prior to the Policy coming into effect, or vesting under an award granted to an Executive Director prior to the Policy coming into effect (other than the 2021 LTIP award), and shares independently acquired by an Executive Director at any time (whether before or after the Policy coming into effect), will not be included.

4.3 Performance conditions under the annual bonus and LTIP

While the Committee has flexibility to set the performance conditions for the annual bonus and LTIP awards from year to year, the rationale for the selection of bonus targets and LTIP performance measures currently intended to be used is as follows:

- financial and non-financial bonus targets are set on an annual basis, aligned with the Company's business goals for each year;
- EPS is currently used in the LTIP as it is a key growth measure and a driver of shareholder value, providing a transparent method of gauging the financial performance of the Company and helping to ensure that the annual profit performance targeted by the annual bonus plan flows through to long-term sustainable growth;
- ROCE is currently used in the LTIP as it demonstrates how efficiently the Company is using its available resources to generate sustainable growth;
- TSR is currently used in the LTIP as it is consistent with the Company's objective of providing superior long-term returns to shareholders; and
- other non-financial metrics, including ESG measures, are also used in the LTIP as they help support the delivery of the Company's strategy over the longer term.

If the Committee materially changes the LTIP performance conditions within the life of the Policy, it will consult with shareholders in advance on the changes to be made and the reasons for doing so.

4.4 Malus and clawback provisions

Executive Directors' annual bonus awards and LTIP awards are subject to malus and clawback provisions. Malus provisions enable the Committee to reduce the amount (including to nil) of any bonus prior to its award or payment and to reduce the number of shares (including to nil) under any unvested LTIP award prior to its vesting. Clawback provisions enable any bonus amount awarded and paid, and either the number of shares that vested under an LTIP award and/or an amount equal to their market value sale proceeds and/or any other benefits derived from them, to be recovered (in whole or in part, but net of tax) during the period of two years after they have been so awarded or vested, in each case in the following circumstances:

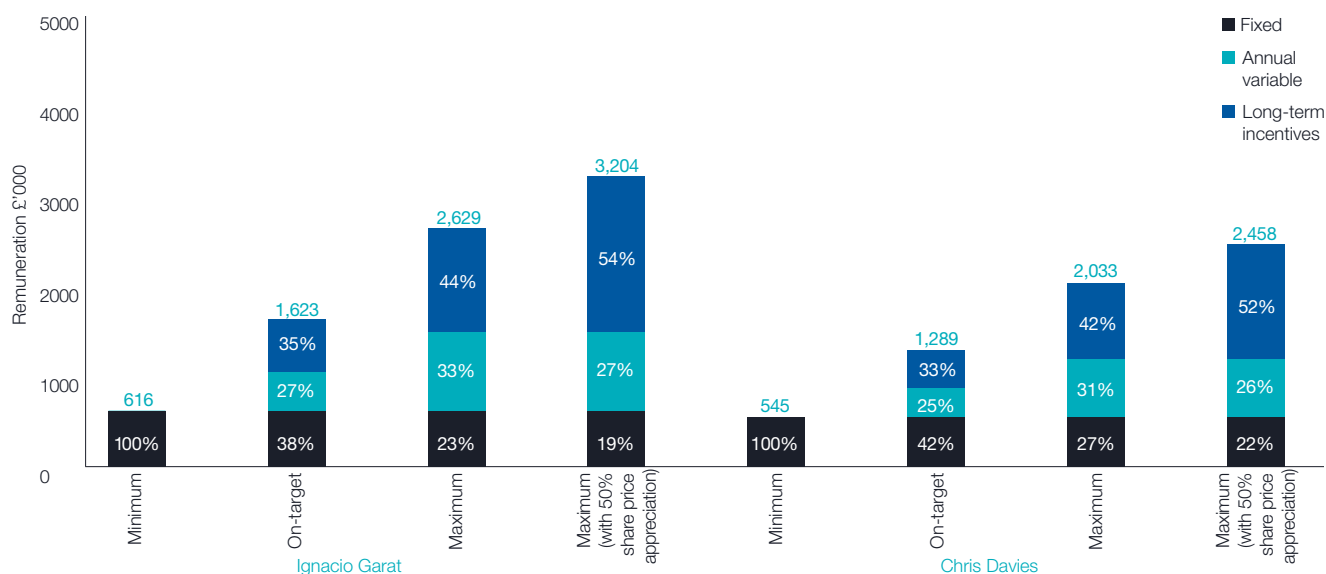
- the discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company for a period that was wholly or partly before the end of the period over which the performance target applicable to an award was assessed (or was due to be assessed);
- the discovery that the assessment of any performance target, measure or condition in respect of an award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine any performance target, measure or condition in respect of an award (or to determine the number of shares over which an award was granted) was based on error, or inaccurate or misleading information;
- there is action, inaction or conduct of an award holder which, in the reasonable option of the Committee, amounts to fraud or gross misconduct;
- there is action, inaction or conduct of an award holder which has had a significant detrimental impact on the reputation of the Company; or
- the Company becomes insolvent or otherwise suffers a corporate failure in connection with which the value of the Company's shares is materially reduced, provided the Committee is satisfied after due investigation that the award holder should be held responsible (in whole or in part) for that insolvency or corporate failure.

4.5 Previous arrangements

For the avoidance of doubt, in approving this Policy, authority is sought by the Company to honour any outstanding commitments (subject to existing terms, conditions and plan rules, as applicable) entered into with current or former Directors (as previously disclosed to shareholders) before this Policy took effect or before they became a Director.

4.6 Total remuneration opportunity at various levels of performance

The Committee's aim is to ensure that superior reward is only paid for exceptional performance, with a substantial proportion of Executive Directors' remuneration payable in the form of variable pay. The chart below illustrates the remuneration opportunity provided to each current Executive Director at different levels of performance for the first year of operation of the Policy:



The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Long-term incentives, as explained further below:

| Element | Description |
|----------------------|---|
| Fixed | Latest base salary, pension allowance and taxable benefits |
| Annual variable | Performance-related annual bonus (including deferred element) |
| Long-term incentives | Performance-conditioned Long-Term Incentive Plan award |

Assumptions used in determining the level of payout under the given scenarios are as follows:

- base salaries are those as at 1 January 2021;
- taxable benefits for the Group CEO are those paid in 2020 (excluding the one-off relocation benefits) and grossed up to assume they were paid for the full year and taxable benefits for the Group CFO are those paid in 2020;
- bonus award opportunities are equal to 150% of Group CEO/CFO base salaries and LTIP awards are granted at 200% of Group CEO/CFO base salaries;
- minimum performance level assumes fixed pay only and no variable pay;
- on-target performance level assumes performance resulting in 50% of maximum annual bonus payout and 50% of maximum LTIP vesting (and, while the bonus has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics so the values shown for the on-target outcome include the values for on-target bonus and estimated on-target LTIP performance); and
- maximum performance level assumes maximum annual bonus payout and full LTIP vesting.

While share price appreciation is ignored in each of the minimum, on-target and maximum remuneration outcomes for the Executive Directors, the fourth bar shows the maximum remuneration outcomes assuming 50% share price appreciation.

4.7 Comparison with approach to remuneration across the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative requirements and labour market conditions that exist in each country.

We have a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards of employment in all our business divisions, offering pay and other terms and conditions that are appropriate to each labour market in which we operate. In particular, we are committed to adhering to the Living Wage in the UK and to at least the national minimum wage in each of the other countries we operate in. Subject to the aforesaid, base pay is set at a level that allows us to recruit and retain colleagues in each relevant labour market and performance-related pay arrangements are based on the achievement of business division and team or individual goals, objectively assessed. The Company believes in the value of continuous improvement, both for the individual and the Company.

The Group offers pension and pension savings arrangements to its employees appropriate for the labour markets in which it operates. In the UK, in line with market practice, employees are offered membership of a defined contribution plan with employer contributions for the majority of employees equal to 3% of base salary. The Group also has a legacy defined benefit scheme in its West Midlands bus division with employer contributions of 35% of base salary. In the UK, employees also receive death-in-service benefits and free travel on the Company's transport services and middle and senior managers may also receive car or travel allowances and/or private medical insurance, subject to their employee grade.

Directors' Remuneration Report

Directors' Remuneration Policy *continued*

The Group's divisions operate various cash bonus incentive schemes for appropriate individuals, incentivising the delivery of particular divisional strategic, operational, safety and personal objectives. Senior management participate in a bonus scheme which is broadly aligned with Executive Directors' annual bonuses, save targets may relate to divisional rather than Group-wide performance and/or place more emphasis on divisional strategic or safety objectives and/or personal objectives. LTIP awards are also granted to selected senior managers to incentivise and reward them for delivering long-term value for the Company and its shareholders.

The Committee reviewed the Company's CEO pay ratios and its Group's employee pay policies and practices when formulating this Policy, and is satisfied that the structure and quantum of remuneration for the Executive Directors is appropriate in view of their relative roles and responsibilities.

4.8 Executive Directors' service agreements

The Executive Directors have service agreements with the Company and the table below shows the dates of those agreements and the relevant notice period to be provided by the parties to them in normal circumstances:

| Executive Director | Date of service agreement | Date of appointment | Notice period from Company | Notice period from Director |
|--------------------|---------------------------|---------------------|--|-----------------------------|
| Ignacio Garat | 11.10.20 | 01.11.20 | 6 months until 01.05.21 then 12 months | 6 months |
| Chris Davies | 17.01.17 | 10.05.17 | 12 months | 6 months |

The Committee regularly reviews its policies on executive remuneration and severance in the best interests of shareholders. Guidance on best practice expectations is taken into account prior to agreeing Executive Directors' contractual provisions.

4.9 Executive Directors' employment termination arrangements

The Company may at its discretion make payment in lieu of notice to Executive Directors, which could potentially include up to 12 months' base salary, benefits and pension, and which may be subject to payment by instalments and/or mitigation.

The table below sets out the treatment of the elements of remuneration that would normally apply where an Executive Director's service with the Company is terminated:

| Reason for termination | Salary, pension and contractual benefits | Annual bonus | Unvested deferred bonus share awards | Unvested LTIP awards | Other |
|--|---|---|---|--|---|
| Good leaver: retirement, disability, redundancy, death, sale of part of the Company that employs the Director or any other reason that the Committee determines. | Payment equal to the aggregate of base salary, pension allowance and the value of other contractual benefits during the notice period, including any accrued but untaken holiday. | Bonus will be awarded at the normal award date, subject to the satisfaction of performance targets and subject to pro-rata to reflect the proportion of the year served, unless the Committee determines otherwise. | Deferred bonus share awards will ordinarily vest on the normal vesting date, unless the Committee determines otherwise. | Unvested LTIP awards will ordinarily vest on the normal vesting date, subject to the satisfaction of performance conditions, unless the Committee determines otherwise. Unvested LTIP awards will also ordinarily be subject to pro-rata to reflect the proportion of the time served between the date of grant and date of vesting, unless the Committee determines otherwise. The post-vesting holding period will continue to apply post-cessation of employment. | Fees for outplacement and legal advice may be paid. |
| Other reasons. | Paid to date of termination, including any accrued but untaken holiday. | No bonus award for the year in which termination occurs. | Awards lapse in full on termination. | Awards lapse in full on termination. | Not applicable. |

Subject to the circumstances surrounding the termination, the Committee may, in its discretion, treat the Executive Director as a 'good leaver'. The Committee will consider factors such as personal performance and conduct, overall Company performance and the specific circumstances of the Executive Director's departure, including, but not limited to, whether the Executive Director is leaving by mutual agreement with the Company. In addition, the Committee will take the above circumstances into account when determining whether to use its discretion not to pro-rate the bonus awards and/or vested LTIP awards of an Executive Director who is a 'good leaver'.

The Committee reserves the right to make additional exit payments to an Executive Director where such payments are made in good faith:

- to discharge an existing legal obligation (or by way of damages for breach of such an obligation); or
- by way of settlement or compromise of any claim arising in connection with the termination of office or employment.

On a change of control of the Company, unvested LTIP awards will vest, except to the extent they are exchanged for awards over shares in the acquiring company, and vested LTIP shares subject to a holding period will be released. Vesting will be subject to satisfaction of the relevant performance conditions measured at the date awards are deemed to vest and will normally be pro-rated to reflect early vesting, unless the Committee determines that such pro-rata is inappropriate. On a change of control of the Company, unvested deferred bonus share awards will also vest automatically.

4.10 Approach to the remuneration of newly appointed Executive Directors

When determining the remuneration arrangements for a newly appointed Executive Director (whether such individual is an internal promotion or external candidate), the Committee will take into consideration all relevant factors to ensure that arrangements made are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an Executive Director of the required calibre.

The Committee will generally seek to align the remuneration of any new Executive Director following the same principles as for the current Executive Directors. The elements that would be considered by the Company for inclusion in the remuneration package of a new Executive Director are:

- salary and other benefits, including an allowance in lieu of a pension provision limited to the provision for the majority of the Company's and its UK subsidiaries' workforce;
- participation in the performance-related annual bonus pro-rated for the year of recruitment to reflect the proportion of the year for which the new recruit is in post. If the commencement date is after 1 September, no award would normally be made for that year;
- participation in the performance-conditioned Long-Term Incentive Plan, which may be pro-rated depending on the time of appointment through the year; and
- costs and outgoings relating, but not limited, to: relocation assistance; legal, financial, tax and visa advice; and pre-employment medical checks.

The Committee's policy is for all Executive Directors to have rolling service contracts with notice periods for the Company of between 6 and 12 months. The only exception is where, in exceptional circumstances, it is necessary to offer a longer notice period initially, reducing down to 12 months, in order to secure the appointment of a new external recruit.

The Committee may also make awards on the appointment of an Executive Director to 'buy out' remuneration arrangements being forfeited by the individual on leaving a previous employer. The Committee would take into account both market practice and any relevant commercial factors in considering whether any enhanced and/or one-off annual incentive or long-term incentive award is appropriate. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance conditions and achievements (or likely achievements), the proportion of the performance period remaining and the form of the award. Compensation could be in the form of cash and/or shares. The Committee will not offer any non-performance-related incentive payments (for example, a 'guaranteed signing-on bonus' or 'golden hello'). Leaver provisions will be determined in line with this Policy when 'buy-out' awards are made.

5. Remuneration Policy for Non-Executive Directors

5.1. Summary of the individual elements of the Policy for Non-Executive Directors

| Element | Purpose | Operation | Maximum potential value |
|-----------------|--|---|---|
| Fees | <p>To attract, retain and motivate high performing individuals of suitable calibre for a business the size and complexity of the Company's business.</p> <p>To pay fees which are reflective of responsibilities and time commitments, and competitive with peer companies, without paying more than is necessary.</p> | <p>The single fee paid to the Chairperson for all Board and Board Committee duties is set by the Committee and the fees paid to Non-Executive Directors are set by the Board.</p> <p>Fees are reviewed annually and the review takes into account fees paid for similar positions in the market, the time commitment required from the Chairperson and Non-Executive Directors and, in the case of the latter, additional responsibilities and time commitments involved in acting as the Senior Independent Director, chairing Board Committees and conducting workforce and wider stakeholder engagement.</p> | <p>While there is no prescribed formulaic maximum, fees will reflect those matters taken into account in the annual fee review.</p> |
| Expenses | <p>Non-Executive Directors are also entitled to travel, subsistence and accommodation for business purposes.</p> | <p>These expenses are either paid directly by the Company on behalf of Non-Executive Directors or reimbursed by the Company to Non-Executive Directors in line with the Company's expenses policy.</p> | <p>The cost to the Company depends on the relevant expenses.</p> |

5.2 Appointments

The Chairperson and the Non-Executive Directors are not employed and do not have service contracts with the Company. They also are not entitled to participate in the Group's pension, annual bonus or long-term incentive arrangements. Instead, they are appointed under individual letters of appointment and only receive a fee for their services and payment or reimbursement of business expenses. On appointment, the fee arrangements for a new Non-Executive Director will be determined in accordance with the approved remuneration policy in force at that time.

The Chairperson and Non-Executive Directors are normally appointed for an initial three-year term but with an expectancy that they will serve for at least two three-year terms, and their appointment can be terminated at any time without compensation by either party serving the relevant notice on the other party. In accordance with the Company's Articles of Association, each of the Chairperson and Non-Executive Directors (and each of the Executive Directors) is required to stand for election or re-election by shareholders at each AGM and they may be removed from office in the circumstances prescribed by the Company's Articles of Association and/or applicable legislation.

5.3 Non-Executive Directors' dates of appointment and notice periods

The current Chairperson's and Non-Executive Directors' dates of appointment and current notice periods are shown in the table below:

| Director | Date of appointment | Notice period from either party (months) |
|--------------------|---------------------|--|
| Sir John Armitt | 01.01.13 | 3 |
| Jorge Cosmen | 01.12.05 | 1 |
| Matthew Crummack | 06.05.15 | 1 |
| Mike McKeon | 03.07.15 | 1 |
| Dr Ashley Steel | 01.01.16 | 1 |
| Karen Geary | 01.10.19 | 1 |
| Ana de Pro Gonzalo | 01.10.19 | 1 |

The letters of appointment for the Chairperson and the Non-Executive Directors, together with the service agreements for the Executive Directors, are available for inspection at the Company's registered office.

Directors' Remuneration Policy

The current Directors' Remuneration Policy (current Policy) was approved by shareholders at the Company's AGM on 16 May 2018 and came into effect from that date. The current Policy was intended to apply for three years until the Company's AGM in 2021. The current Policy can be found on pages 74 to 84 of the Company's 2017 Annual Report and on its website at: www.nationalexpressgroup.com/about-us/corporate-governance/remuneration

The Company is proposing that shareholders approve a new Directors' Remuneration Policy (new Policy) at its AGM on 12 May 2021. If so approved, the new Policy will come into force from that date and is intended to apply for three years until the Company's AGM in 2024. The new Policy can be found on pages 104 to 112 of this Annual Report.

Annual Report on Remuneration

This Annual Report on Remuneration (this Report) describes how the current Policy was applied in the previous financial year to 31 December 2020, and how it will be applied in the current financial year to 31 December 2021 up to the new Policy coming into effect. Assuming the new Policy does come into effect at the Company's 2021 AGM, this Report also describes how the new Policy will be applied in the current financial year from the AGM to 31 December 2021.

The single total figure of Directors' remuneration tables, the statements of Directors' shareholdings and share interests and the information about the vesting and award of LTIPs contained in this Report have been audited, as required by section 498(1)(c) of the Companies Act 2006.

1. Information about Executive Director changes during the year affecting remuneration arrangements

(a) Ignacio Garat, incumbent Group Chief Executive Officer

Ignacio Garat was employed by the Company and appointed to the office of Group Chief Executive Officer on 1 November 2020. Details of the remuneration paid to Mr Garat in such capacity from his appointment to 31 December 2020 are contained in this Report. In addition to base salary, taxable benefits and a pension allowance, Mr Garat is entitled to certain benefits connected with his appointment and relocating to the UK to take up his appointment, further details of which are set out in section 2(e) below. Mr Garat was not eligible to receive any proportion of the 2020 bonus, even if such bonus had been payable, as he joined the Company in the fourth quarter of the 2020. Mr Garat also was not the recipient of any LTIP award (or Recruitment Incentive award) scheduled to vest in respect of the performance period which ended 31 December 2020 as he joined the Company in the closing months of this performance period.

(b) Chris Davies, incumbent Group Chief Financial Officer

Chris Davies was employed by the Company and held the office of Group Chief Financial Officer throughout the year under review. In addition, between 1 September 2020 and 31 October 2020 Mr Davies held the office of interim Group Chief Executive Officer. Details of the remuneration paid to Mr Davies in both such capacities in respect of the year ended 31 December 2020 are contained in this Report.

(c) Dean Finch, former Group Chief Executive Officer

Dean Finch resigned from his employment with the Company and his office as Group Chief Executive Officer on 31 August 2020. Details of the remuneration paid to Mr Finch in the year under review up to 31 August 2020 and of payments made to Mr Finch after he ceased to be a Director are contained in this Report. On leaving the Company, all of Mr Finch's unvested LTIP awards and EDBP awards lapsed.

(d) Matt Ashley, former Group Business Development Director

Matt Ashley resigned from his employment with the Company and his office as Group Business Development Director on 3 April 2020. Details of the remuneration paid to Mr Ashley in the year under review up to 3 April 2020 are contained in this Report. No payments were made to Mr Ashley after he ceased to be a Director. On leaving the Company, all of Mr Ashley's unvested LTIP and EDBP awards lapsed.

2. Single total figure of remuneration for Executive Directors

The table directly below sets out the single total figure of remuneration and breakdown for each Executive Director who served during the financial year ended 31 December 2020 (with comparative figures provided for 2019). The subsequent information and tables in this section 2 give more detail on various elements of the Executive Directors' remuneration.

| £'000 | | Base salary ¹ | Taxable benefits ² | Pension allowance | Other benefits ³ | Total fixed remuneration | Annual bonus ^{4,5} | Vested LTIPs ^{6,7} | Total variable remuneration | Total |
|----------------------|-------------|--------------------------|-------------------------------|-------------------|-----------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|------------|
| Ignacio Garat | 2020 | 96 | 4 | 3 | 20 | 123 | – | – | 0 | 123 |
| | 2019 | – | – | – | – | – | – | – | – | – |
| Chris Davies | 2020 | 366 | 14 | 95 | 30 | 505 | – | 21 | 21 | 526 |
| | 2019 | 369 | 14 | 92 | – | 475 | 553 | 384 | 937 | 1,412 |
| Dean Finch | 2020 | 378 | 16 | 137 | – | 531 | – | – | 0 | 531 |
| | 2019 | 648 | 32 | 216 | – | 896 | 1,296 | 914 | 2,210 | 3,106 |
| Matt Ashley | 2020 | 99 | 4 | 25 | – | 128 | – | – | 0 | 128 |
| | 2019 | 369 | 14 | 92 | 228 | 703 | 306 | – | 306 | 1,009 |

¹ The base salaries of Messrs Garat, Finch and Ashley reflect that they served as Directors for only part of the 2020 year. The base salaries of Messrs Finch and Davies further reflect the voluntary waiver of their respective 2020 pay increases and their respective 50% and 20% reductions in base salary for two months of the 2020 year. These matters are further explained in section 2(a) below.

² Taxable benefits comprise the gross of tax value of car allowance, private medical insurance, death-in-service and life assurance cover. The decreases in value of Messrs Finch's and Ashley's taxable benefits in 2020 (vs. 2019) are attributable to them serving as Directors for only part of the 2020 year.

³ Further information about the other benefits payable to each of Mr Garat and Mr Davies are set out in section 2(e) on page 119.

⁴ None of the Executive Directors received an annual bonus in respect of the financial year ended 31 December 2020 as, in respect of those eligible, the financial targets were not achieved and the 'financial gateway' to the non-financial targets was not met. Further details are set out on pages 115 to 116.

⁵ The values of annual bonuses which were awarded in respect of the financial year ended 31 December 2019 were the aggregate of the proportion of such bonuses paid in cash and the proportion of such bonuses deferred into shares under the EDBP. The figures shown for 2019 in the table above have not been adjusted to reflect that both Messrs Finch and Ashley left the Company prior to their deferred share awards vesting such that those share awards lapsed in full. The actual difference in value is £(527,000) for Mr Finch and £(76,000) for Mr Ashley, based on the 2019 values of those lapsed share awards.

⁶ The 2020 LTIP value shown for Mr Davies represents the estimated value of shares that are scheduled to vest to him in 2021 arising from the three-year award granted to him in 2018 which was subject to performance conditions over the three-year performance period ended on 31 December 2020. The LTIP awards granted to Messrs Finch and Ashley in 2018 lapsed in full on their leaving the Company and Mr Garat did not receive a 2018 LTIP award as he joined the Company in 2020. Mr Davies' award has been calculated using a share price of 200.668p (being the three-month average to 31 December 2020) and includes an amount of £2,652.15 representing the dividend equivalent of 29.26p per share earned during the vesting period on the shares to vest, which will be paid to Mr Davies' in cash on vesting (as determined on grant). The actual value of shares vested to Mr Davies will be confirmed in next year's report.

⁷ As the values of LTIP shares which vested to Messrs Davies and Finch in 2020 in respect of their awards granted in 2017 which were subject to performance conditions over the three-year performance period ended on 31 December 2019 were estimated in last year's report, the figures shown for 2019 in the table above have been adjusted to reflect the actual vesting date values for Messrs Davies and Finch based on the Company's share price at vesting of 250.60p. The difference in value is £(262,000) for Mr Davies and £(624,000) for Mr Finch. As Mr Ashley left the Company prior to the LTIP award granted to him in 2017 vesting in 2020, the figure shown for 2019 in the table above has been adjusted to zero.

(a) Base salary

Mr Garat's base salary, of £575,000 (gross) per annum, reflects the scope, scale and complexity of his role, his extensive executive experience in an adjacent industry and the National Express Group CEO role being his first group executive role. As explained in the 2019 Annual Report on Remuneration, the base salaries of Messrs Finch and Davies were increased by 8.5% from 1 January 2020, to £703,000 (gross) and £400,150 (gross) per annum respectively, to reflect their respective experience and delivery of value, the increased scope of their respective responsibilities and to align their salaries better with market rates. However, following the emergence of the Covid-19 pandemic in the first quarter of 2020, Messrs Finch and Davies both volunteered to forgo their 2020 salary increases and reverted to their 2019 base salaries, of £648,000 (gross) and £368,800 (gross) per annum, effective from 1 January 2020 (repaying to the Company the increased salary amounts already received). Messrs Finch and Davies also volunteered to accept 50% and 20% reductions, respectively, in their salary payments in April and May 2020. Mr Ashley's base salary was increased by 2.5% from 1 January 2020, to £378,000 (gross) per annum, broadly in line with the salary increases awarded to the Company's UK workforce. He left the Company in 2020 before being able to participate in the salary increase waivers and reductions. As each of Messrs Garat, Finch and Ashley were Directors for only part of the 2020 year, the amounts of their base salaries shown in the table above also reflect the relevant pro-rated proportions thereof. Mr Davies was a Director for the whole 2020 year and his base salary shown in the table above reflects this. In addition, Mr Davies was entitled to receive a fixed salary supplement for serving as interim Group CEO during September and October 2020. This is included in the 'other benefits' column of the table above and referred to in section 2(e) on page 119.

(b) Pensions

In lieu of pension contributions, Executive Directors receive a pension allowance (gross) which does not qualify as salary for the purpose of any other benefit or entitlement. Mr Garat is entitled to a pension allowance of 3% of base salary, which is aligned with the pension contribution currently payable to the majority of the Company's Group's UK workforce. Mr Davies is entitled to a pension allowance of 25% of base salary, which will be aligned with the then prevailing pension contribution payable to the majority of the Company's Group's UK workforce on 1 January 2023, as agreed between the Committee and Mr Davies in 2019. Mr Finch was entitled to receive an annual allowance of 31.6% of base salary during 2020 and Mr Ashley an annual allowance of 25% of base salary during 2020. As each of Messrs Garat, Finch and Ashley were Directors for only part of the 2020 year, the amounts of their pension allowances shown in the table above reflect the relevant pro-rated proportions thereof.

(c) Annual bonus

(i) 2020 bonus structure

A summary of the structure of the 2020 performance-related bonus for Executive Directors who served during the 2020 year is set out in the table below:

Former Chief Executive Director

| | |
|---------------------|---|
| Maximum opportunity | 200% of salary |
| Target weighting | 75% financial |
| | 25% non-financial (including 18% safety related) |
| Deferred element | 25% of bonus earned up to 125% of salary |
| | 50% of bonus earned between 125% – 150% of salary |
| | 75% of bonus earned between 150% – 200% of salary |

Other Executive Directors

| | |
|---------------------|---|
| Maximum opportunity | 150% of salary |
| Target weighting | 75% financial |
| | 25% non-financial (including 18% safety related) |
| Deferred element | 25% of bonus earned up to 125% of salary |
| | 50% of bonus earned between 125% – 150% of salary |

It was a pre-condition to the award:

- of any element of the 2020 bonus, that the Committee determined that a significant negative event had not occurred that had had a material adverse impact on both the reputation of the Company and its share price as a result of the systematic failure of management to put in place and operate effective safety processes (the 'safety underpin'), which was so determined; and
- of any non-financial elements of the 2020 bonus, that the Group must have achieved the threshold level of underlying profit before tax for the year (the 'financial gateway'), which it did not.

(ii) 2020 bonus performance conditions

The following table sets out performance conditions that were attached to Executive Directors' 2020 bonus opportunities:

| Structure | Former Chief Executive Director (% of base salary) | Other eligible Executive Directors (% of base salary) | Performance conditions |
|--|---|--|--|
| Maximum bonus opportunity | 200% | 150% | Proportion of bonus subject to compulsory deferral into Company shares for one year from award |
| Bonus potential at 95% of budgeted normalised Group PBT | 0% | 0% | Awarded on achieving threshold performance |
| On-target bonus potential at 100% of budgeted normalised Group PBT | 50% | 37.5% | Awarded on achieving on-target performance |
| Stretch bonus potential at 105% of budgeted normalised Group PBT | 100% | 75% | Awarded on achieving stretch performance |
| Bonus potential at 90% of budgeted normalised Group free cash flow | 0% | 0% | Awarded on achieving threshold performance |
| On-target bonus potential at 100% of budgeted normalised Group free cash flow | 25% | 18.75% | Awarded on achieving on-target performance |
| Stretch bonus potential at 110% of budgeted normalised Group free cash flow | 50% | 37.5% | Awarded on achieving stretch performance |
| Non-financial targets (underpinned by achievement of 95% of budgeted normalised Group PBT) | 50% | 37.5% | Awarded on achieving key strategic objectives tailored to each Executive Director's responsibilities |

(iii) 2020 bonus targets, outturns and awards

The following table sets out the targets, performance outturns and awards in respect of Executive Directors' 2020 bonuses:

| Measure | Weighting | Threshold | Target | Maximum | Actual | Bonus value achievable between Threshold and Maximum (% of salary) | | | Actual bonus value achieved (% of salary) | | |
|--|-----------|-----------|----------------------|---------|-----------|--|--------------|-----------------------|---|--------------|-------------|
| Financial targets | 75% | | | | | Dean Finch | Chris Davies | Matt Ashley | Dean Finch | Chris Davies | Matt Ashley |
| Group underlying profit before tax | | £222.3m | £234.0m ¹ | £245.7m | £(106.1)m | 0%-100% | 0%-75% | 0%-75% ⁵ | 0% | 0% | 0% |
| Group free cash flow | | £132.4m | £147.1m ² | £161.8m | £(178.7)m | 0%-50% | 0%-37.5% | 0%-37.5% | 0% | 0% | 0% |
| Non-financial targets³ | 25% | | | | | 0%-50% | 0%-37.5% | 0%-37.5% ⁶ | 0% | 0% | 0% |
| Total bonus awarded | | | | | | | | | 0% | 0% | 0% |
| To be paid in cash ⁴ | | | | | | | | | 0% | 0% | 0% |
| To be deferred in shares ⁴ | | | | | | | | | 0% | 0% | 0% |

¹ The original Group underlying profit before tax target was set at £241.0m. After adjustment to reflect foreign exchange rate movements and underspend of growth capital investment, the revised target was £234.0m, with the threshold and maximum amounts (set at +/- 5% of the target) adjusted accordingly.

² The original Group free cash flow target was set at £153.3 million. After adjustment to reflect foreign exchange rate movements and underspend of growth capital investment, the revised target was £147.1m, with the threshold and maximum amounts (set at +/- 10% of the target) adjusted accordingly.

³ Details of the non-financial targets for the Executive Directors are set out in section 2(c)(iv) below.

⁴ If a bonus had been payable to any Executive Director, a proportion would have been paid in cash shortly following the date of the award and a proportion would have been deferred into forfeitable shares in the Company for a period of one year from the date of the award in accordance with the terms of the current Policy and the EDBP. However, as no bonuses are payable, these provisions do not apply.

As explained in section 1(a) above, Mr Garat, the current Group CEO, was not eligible for the 2020 bonus and, as explained in sections 1(c) and 1(d), Mr Finch and Mr Ashley ceased to be eligible for the bonus when they left the Company in 2020. For Mr Davies who remained eligible for the 2020 bonus, the Committee reviewed the Group's financial and safety performance and, while the 'safety underpin' was satisfied, neither the threshold Group profit before tax or Group free cash flow targets were met and, as the 'financial gateway' was therefore also not met, it was not necessary for the Committee to further consider Mr Davies' performance against his non-financial bonus targets.

No discretion was applied by the Committee in determining Mr Davies' 2020 bonus award as the outturn reflected the Company's overall financial performance and consequent shareholder experience.

(iv) Summary of 2020 non-financial bonus targets

Non-financial bonus targets represented 25% of Executive Directors' 2020 bonus opportunities. Details of the non-financial bonus targets set for Executive Directors, which related to objectives aimed at delivering the Group's strategy and managing the Group's risks, are set out in the table below. However, as noted above, as two Executive Directors had left and no payout would be made to the remaining eligible Executive Director as the 'financial gateway' was not achieved, no assessment of Executive Directors' performance against these non-financial targets was made.

| | FWI Index objective 5% weighting | Other Safety objectives 13% weighting | Strategic / Risk management objectives 7% weighting |
|-----------------------------------|--|---|---|
| Dean Finch and Matt Ashley | Achieve 2020 Fatality Weighted Injuries (FWI) Index score on a per million mile basis at least as good as 2019 | <ul style="list-style-type: none"> Deliver further progress on improving safety systems and processes Develop a new driver training package for roll-out over the next two years Review new vehicle specifications and determine if viable options exist to work with manufacturers to further enhance vehicle safety Audit the implementation of Group driver oversight and risk profiling standards and continue to enhance their effectiveness Continue to improve the management of distracted driving Implement the five Global Safety Policies in Casablanca consistent with full roll-out over two years Carry out an evaluation of the feasibility and benefit of installing driver monitoring systems on vehicles in Casablanca | <ul style="list-style-type: none"> Review and enhance the Group's policies around Environmental, Social and Governance (ESG) issues Drive customer retention and customer satisfaction Build and develop talent throughout the Group including continued development of our graduate and high potential programmes Successfully implement the M&A strategy and integrate acquisitions Continue to drive excellence through the business Further develop strategies on electric vehicles and new vehicle technologies Enhance the Group's ability to grow in North America through conducting an end-to-end review of driver resourcing processes |
| Chris Davies | Achieve 2020 Fatality Weighted Injuries (FWI) Index score on a per million mile basis at least as good as 2019 | <ul style="list-style-type: none"> Deliver further progress on improving safety systems and processes Review the reporting of the cost of safety for consistency, to better inform safety investment decisions Support improvements in safety performance and contain insurance costs through enhanced risk and claims management Make appropriate financial resources available to continue investment in DriveCam and other Group safety technologies Expedite the purchase of the new fleet in Casablanca to improve vehicle safety | <ul style="list-style-type: none"> Optimise processes and systems across the Group to manage gearing within the Group's stated range Refresh investor relations approach to lay the foundations to attract a more diverse shareholder register Complete thorough due diligence on 2020 acquisitions and carry out post-integration reviews of 2019 acquisitions to ensure returns are being maximised Execute the Group's cyber security strategy to minimise cyber risk Finalise the Group's medium-term refinancing requirements Review back office/central costs across the Group and drive savings through increased use of shared services and/or automation |

(d) Long-Term Incentive Plan (LTIP) vesting and awards

(i) LTIP awards vesting in 2021

The three-year LTIP awards granted to Executive Directors in 2018 (which have not already lapsed) are scheduled to vest in April 2021 as the measurement period relating to them ended on 31 December 2020. Details of the performance conditions attaching to the 2018 LTIP awards, and the extent to which they have been met, are set out in the table below:

| Performance condition | Weighting | Threshold (30% vesting) | Target (50% vesting) | Maximum (100% vesting) | Actual | Actual restated to remove IFRS 16 impact ¹ | Percentage vesting |
|---|-----------|----------------------------|-------------------------|---------------------------|---|--|-----------------------|
| TSR ² vs. Bespoke Index ³ | 1/6 | Equal to Index | – | ≥ Index + 10% p.a. | Index + 3.2% p.a. | – | 39.1% |
| TSR ² vs. FTSE 250 Index | 1/6 | Median | – | Upper Quintile | Fourth Quintile (ranked 170 of 218) | – | 0.0% |
| EPS ⁴ | 1/3 | 31.5p | 33.3p | 36.3p | (14.6)p ⁵ | (14.6)p | 0.0% |
| ROCE ⁴ | 1/3 | 9% | 10% | 12% | 7.7% ⁶ | 7.7% | 0.0% |
| Total vesting | | | | | | | 6.5% |

¹ As explained on page 76 of the 2018 Annual Report, the Committee determined to assess the EPS and ROCE performance measures on the LTIP awards scheduled to vest in 2021 after neutralising the impact (if any) of IFRS 16 on such measures. There is no such impact as shown in this column.

² For TSR performance measures, straight-line vesting occurs between threshold and maximum performance.

³ The Bespoke Index comprises three other UK-based passenger transport groups: FirstGroup plc; Stagecoach Group plc; and Go-Ahead Group plc.

⁴ For EPS and ROCE performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance.

⁵ Actual EPS is the fully diluted underlying earnings per share in the last year of the performance period.

⁶ Actual ROCE is the average return on capital employed over the three-year performance period.

It was a pre-condition to the LTIP awards vesting that the Committee determined that a significant negative event had not occurred that had had a material adverse impact on both the reputation of the Company and its share price as a result of the systematic failure of management to put in place and operate effective safety processes (the 'safety underpin'), which was so determined.

(ii) Vesting details

As explained in section 1(a) above, Mr Garat, the current Group Chief Executive Officer, was not granted an LTIP award in 2018 and, as explained in sections 1(c) and 1(d) above, Messrs Finch's and Ashley's LTIP awards granted in 2018 lapsed in full when they left the Company. Therefore, only the 2018 LTIP award granted to Chris Davies, the current Group Chief Financial Officer, scheduled to vest in 2021, is included in this section.

The three-year LTIP award granted to Mr Davies in 2018 took the form of a nil cost option which is scheduled to vest on 3 April 2021 (being the third anniversary of grant). In relation to this award:

- as shown in the table in section 2(d)(i) above, 6.5% total vesting has been achieved based on one of the performance conditions (TSR vs. Bespoke Index) having been achieved at between threshold and maximum vesting level;
- Mr Davies will receive an amount (gross) equivalent to the total dividend paid by the Company on the number of shares to vest to him during the vesting period, payable in cash (subject to deduction of applicable taxes);
- the shares to vest to Mr Davies will be subject to a compulsory two-year holding period, save that sufficient shares may be sold to cover tax liabilities arising on exercise of the option;
- Mr Davies will also be entitled to receive a dividend equivalent payment (gross) on the shares to vest to him during the holding period for so long as his option remains unexercised, payable in cash (subject to deduction of applicable taxes); and
- malus and clawback provisions apply to the shares to vest to Mr Davies for two years from the date of vesting, including post termination of employment.

The table below shows the number of shares over which Mr Davies' 2018 LTIP nil cost option was granted, the number of shares which are expected to vest, the total amount of the award to vest, the amount of the award to vest attributable to share price appreciation and the cash dividend payment due on vesting:

| Executive Director | Number of shares over which option was awarded | Number of shares scheduled to vest | Amount of award to vest | Amount of award to vest attributable to share price appreciation | Cash dividend payable on vesting |
|---------------------------|---|---|-------------------------------|--|--|
| Chris Davies ¹ | 139,050 | 9,061 | £18,183 ¹ | £0 ¹ | £2,652 |

¹ The amount of the 2018 LTIP award to vest to Mr Davies, and the part of that amount attributable to share price appreciation, are estimated based on the Company's average share price over the three months to 31 December 2020 (of 200.668p per share). The actual amount, which will be determined by reference to the Company's share price at the relevant vesting date in 2021, will be set out in next year's report.

No discretion was applied by the Committee in determining Mr Davies' 2018 LTIP award to vest in 2021 as the outturn reflected the Company's overall performance and consequent shareholder experience.

Directors' Remuneration Report

Annual Report on Remuneration continued

(iii) LTIP awards granted in 2020

Details of LTIP awards granted to Executive Directors in 2020 are set out in the table below:

| Executive Director | Grant date | Number of shares awarded ¹ | Award type | Award amount | Face value of award ² £'000 | Performance period | Performance conditions |
|--------------------------|------------|---------------------------------------|-----------------|----------------|--|--------------------|------------------------------------|
| Chris Davies | 12.03.20 | 162,993 | Nil cost option | 150% of salary | 553 | 01.01.20–31.12.22 | TSR, EPS, ROCE and ESG – see below |
| Dean Finch ³ | 12.03.20 | 381,850 | Nil cost option | 200% of salary | 1,296 | 01.01.20–31.12.22 | TSR, EPS, ROCE and ESG – see below |
| Matt Ashley ³ | 12.03.20 | 167,059 | Nil cost option | 150% of salary | 567 | 01.01.20–31.12.22 | TSR, EPS, ROCE and ESG – see below |

¹ The number of shares subject to the LTIP awards was determined by dividing the award amount, being a multiple of Executive Directors' base salaries, by the Company's closing share price on the last business day preceding the date of grant, being 339.4p on 11 March 2020. Whereas Mr Finch's and Mr Davies' LTIP awards were originally granted according to the relevant multiple of their base salaries as at 1 January 2020, the number of shares subject to their awards were subsequently adjusted downwards to reflect their reduced base salaries following the voluntary waivers of their 2020 salary increases.

² The face value of the LTIP awards is the number of (adjusted) Company shares over which awards were made multiplied by the Company's closing share price on the last business day preceding the date of grant, being 339.4p on 11 March 2020.

³ Mr Finch's and Mr Ashley's LTIP awards granted in 2020 lapsed in full when they left the Company.

(iv) Performance conditions attaching to 2020 LTIP awards

| Performance condition | Weighting | Threshold (25% vesting EPS and TSR 0% vesting ROCE and ESG measures) | Target (50% vesting) | Maximum (100% vesting) |
|--|-----------|--|--|--|
| TSR ¹ vs. Bespoke Index ² | 12.5% | Equal to Index | – | ≥ Index +10% pa |
| TSR ¹ vs. FTSE 250 Index | 12.5% | Median | – | Upper Quintile |
| EPS ³ | 25% | 37.6p | 39.8p | 43.3p |
| ROCE ³ | 25% | 8% | 9% | 11% |
| tCO ₂ e/million passenger km ³ | 15% | 4.6% reduction in tCO ₂ e/ million passenger km by 2022 relative to 2019 base year | 5.4% reduction in tCO ₂ e/ million passenger km by 2022 relative to 2019 base year | 6.2% reduction in tCO ₂ e/ million passenger km by 2022 relative to 2019 base year |
| UK zero emission vehicles ³ | 10% | 200 additional zero emission vehicles in service or on order by 31 December 2022 | 240 additional zero emission vehicles in service or on order by 31 December 2022 | 300 additional zero emission vehicles in service or on order by 31 December 2022 |

¹ For TSR performance measures, straight-line vesting occurs between threshold and maximum performance.

² Comprising three other UK-based passenger transport groups: FirstGroup plc; Stagecoach Group plc; and Go-Ahead Group plc.

³ For EPS, ROCE and ESG performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance.

Vested shares will be subject to a compulsory two-year holding period and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalents are payable in cash on vested shares over the vesting period and during the holding period while options remain unexercised.

(v) Indicative vesting levels for outstanding LTIP awards

The indicative vesting levels for other outstanding LTIP awards assuming their respective performance conditions had been tested through to 31 December 2020 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period) are set out in the table below:

| Performance condition | LTIP award year/type | | | |
|---|----------------------|-----------------|------------------|--------------------|
| | 2019 3-year LTIP | | 2020 3-year LTIP | |
| | Weighting | Vesting | Weighting | Vesting |
| EPS | 33.33% | 0% | 25% | 0% |
| ROCE | 33.33% | 0% | 25% | 0% |
| TSR vs. FTSE 250 Index | 16.66% | 0% | 12.5% | 0% |
| TSR vs. Bespoke Index ¹ | 16.66% | 0% | 12.5% | 0% |
| tCO ₂ e/million passenger km | – | – | 15% | 7.5% |
| UK zero emission vehicles | – | – | 10% | 5.0% |
| Total (max 100%) | | 2019: 0% | | 2020: 12.5% |

¹ Comprising three other UK-based passenger transport groups: FirstGroup plc; Stagecoach Group plc; and Go-Ahead Group plc.

(vi) Executive Deferred Bonus Plan (EDBP)

The table below sets out the awards under the EDBP in the form of forfeitable shares in the Company:

- which vested to Executive Directors on 8 March 2020 and relate to the one-year deferred element of their bonuses for the financial year ended 31 December 2018 and in respect of which dividends were paid to them via the Company's employee benefit trust during the one-year deferred period for which they have been held; and
- which were granted to the Executive Directors on 9 March 2020 and relate to the one-year deferred element of their bonuses for the financial year ended 31 December 2019 and which vested to Chris Davies as the remaining eligible Executive Director on 18 March 2021 (which vesting date was deferred due to the Company being in a closed period on the scheduled date of vesting of 9 March 2021) or which lapsed for other Executive Directors during the 2020 year prior to vesting.

| Executive Director | | As at 1 January 2020 | Vested 8 March 2020 ¹ | Granted 9 March 2020 ¹ | Lapsed | As at 31 December 2020 | Market price at date of vesting | Date of grant | Date of vesting |
|--------------------|------|----------------------|----------------------------------|-----------------------------------|---------|------------------------|---------------------------------|---------------|-----------------|
| Chris Davies | 2019 | 29,673 | 29,673 | – | – | – | 351.4p | 08.03.19 | 08.03.20 |
| | 2020 | – | – | 39,847 | – | 39,847 | – | 09.03.20 | 18.03.21 |
| Dean Finch | 2019 | 97,302 | 97,302 | – | – | – | 351.4p | 08.03.19 | 08.03.20 |
| | 2020 | – | – | 130,025 | 130,025 | – | – | 09.03.20 | – |
| Matt Ashley | 2019 | 18,263 | 18,263 | – | – | – | 351.4p | 08.03.19 | 08.03.20 |
| | 2020 | – | – | 18,899 | 18,899 | – | – | 09.03.20 | – |

¹ Executive Directors are entitled to receive dividends on deferred forfeitable shares for so long as they are deferred and held in the Company's employee benefit trust.

No forfeitable share awards will be made to eligible Executive Directors under the EDBP in 2021 as no Executive Directors received a bonus for the financial year ended 31 December 2020.

(e) Other benefits

As explained in section 1(a) above, Mr Garat is entitled to certain benefits in connection with his appointment and his relocation to the UK to take up his appointment. These comprise the following four elements: (i) the reimbursement of up to £8,000 of Mr Garat's qualifying expenditure in connection with his relocation, which expenditure in 2020 was £1,990; (ii) the reimbursement of the cost of serviced accommodation for Mr Garat in London until 31 March 2021, the cost of which in 2020 was £9,820; (iii) the reimbursement of the cost of preparation of Mr Garat's UK and Spanish tax returns for the first two tax periods following his appointment, which cost in 2020 was £3,000; and (iv) the reimbursement of legal advice obtained by Mr Garat in connection with his employment contract, which cost was £4,823. Whereas the reimbursement of qualifying expenditure referred to in item (i) is not taxable, the Company also agreed to gross-up the tax payable by Mr Garat on reimbursement of the costs referred to in items (ii), (iii) and (iv), but none of such tax became due in 2020. The aggregate value of such (as yet, un-grossed-up for tax) benefits paid in respect of the 2020 year are included in the 'other benefits' column of the single total figure of remuneration table on page 114. As Mr Garat will continue to receive the benefit of items (i), (ii) and (iii) (but not (iv)) in 2021 and will receive a gross-up for the tax due on those benefits in 2021, their value will be included in next year's report.

As explained in section 1(b) above, Mr Davies acted as the interim Group Chief Executive Officer for two months in 2020, for which he received a fixed salary supplement of £15,000 (gross) per month, net of applicable taxes, which was not taken into account for pension or any other benefit purposes. The aggregate gross value of this salary supplement is included in the 'other benefits' column of the single total figure of remuneration table on page 114.

3. Single total figure of remuneration for Non-Executive Directors

The table below sets out the single total figure of remuneration (fees) for the Non-Executive Directors who served during the financial year ended 31 December 2020 (with comparative figures provided for 2019):

| Non-Executive Director | 2020 fees ¹ £'000 | 2019 fees £'000 |
|--|---------------------------------|--------------------|
| Sir John Armitt (Chairman and Nominations Committee Chair until 4 November 2020) ² | 238 | 253 |
| Jorge Cosmen (Deputy Chairman and Nominations Committee Chair from 4 November 2020) ² | 54 | 54 |
| Lee Sander (Senior Independent Director until 3 April 2020) ^{3,4,5} | 57 | 65 |
| Matthew Crummack (Senior Independent Director from 3 April 2020) ³ | 62 | 54 |
| Mike McKeon (Audit Committee Chair) | 66 | 65 |
| Dr Ashley Steel (Remuneration Committee Chair) | 66 | 62 |
| Chris Muntwyler (Safety & Environment Committee Chair) ^{4,5} | 66 | 65 |
| Karen Geary | 54 | 13 |
| Ana de Pro Gonzalo | 54 | 13 |

¹ The Chairman's fee and the Non-Executive Directors' fees reflect their respective 50% and 20% reductions in fees for two months of the 2020 year.

² The Chairman's fee is all-inclusive so no additional fees were payable in respect of his chairmanship of the Nominations Committee until 4 November 2020. Whereas Mr Cosmen assumed the chairmanship of the Nominations Committee from 4 November 2020, he waived any additional fee for acting as chair of the Nominations Committee during the balance of 2020.

³ Mr Sander stepped down as the Senior Independent Director on 3 April 2020 when Mr Crummack assumed such role and therefore both received a pro-rated proportion of the Senior Independent Director's fee for the 2020 year.

⁴ A travel allowance was paid to certain overseas-based Directors for each Board meeting or other Board-related matter attended outside their continent of residence, in an amount per such meeting or matter of £4,000. For 2020, the allowances paid were: Lee Sander £12,000 (2019: £24,000) and Chris Muntwyler £4,000 (2019: £8,000).

⁵ Messrs Sander and Muntwyler stepped down as Non-Executive Directors on 30 December 2020.

Directors' Remuneration Report

Annual Report on Remuneration continued

With effect from 1 January 2020:

- the Committee determined that the Chairman's fee would increase by 2.5% to £259,325, broadly in line with the pay increases awarded to the Company's Group's UK employees; and
- the Board determined that the Non-Executive Directors' base fee would increase by £1,700 p.a., also broadly in line with the pay increases awarded to the Company's Group's UK employees and that the Senior Independent Director's fee would increase by £1,000 p.a. and the Committee Chairs' fees would increase by £1,000 to retain such fees at close to the median of non-executive director fees paid by the FTSE 250; but
- the Chairman and all the Non-Executive Directors volunteered to reduce their fees by 50% and 20%, respectively, for two months of the year due to the impact of the Covid-19 pandemic and therefore the amounts paid to them in 2020 reflect these reductions.

4. Payments to past Directors and payments for loss of office

(a) Payments to past Directors

After leaving the Company, the former Group Chief Executive, Dean Finch, became contractually entitled to receive and was paid his accrued unfunded pension entitlement in the (gross) amount of £721,427, net of applicable taxes. In addition, in consideration of Mr Finch waiving approximately four months of his notice entitlement, the Company agreed to pay him the equivalent of one month's base salary, pension allowance and other cash benefits in the (gross) amount of £72,024, together with a further payment in respect of his accrued but untaken holiday entitlement in the (gross) amount of £4,985, both of which amounts were also subject to deduction of applicable taxes. Save for these, no payments were made to past Directors during or in respect of the financial year ended 31 December 2020.

(b) Payments for loss of office

Save as noted in section 4(a), no payments were made to any former Directors for loss of office during or in respect of the financial year ended 31 December 2020.

5. Statement of Directors' shareholdings and share interests

(a) Directors' share ownership guidelines

In accordance with the current Policy, Executive Directors are encouraged to build up a shareholding in the Company over a five-year period from 2015 or their date of appointment if later to align their interests with those of the Company's shareholders. The Committee takes into account whether Executive Directors have met their shareholding targets when granting new LTIP awards.

In accordance with the current Policy, the shareholding target for the Group Chief Executive is shares with a value equal to 200% of base salary and for other Executive Directors shares with a value equal to 150% of base salary. Mr Garat has yet to acquire shares in the Company as he was so recently appointed. As demonstrated by the table in section 5(b) and based on the Company's closing share price as at 31 December 2020 (237.40p), Mr Davies has almost met his target ahead of five years from his appointment (in May 2017).

Under the new Policy, if approved by shareholders, the shareholding guideline will become a requirement, which will be for all Executive Directors to build a shareholding with a value equal to of 200% of base salary within five years of the later of the new Policy becoming effective and their appointment (although the incumbent CFO will five years from the the new Policy becoming effective to meet his incremental increased requirement).

There is no shareholding requirement or guideline for Non-Executive Directors as, to ensure their independence and objectivity, the question of whether they hold shares in the Company is left to their individual discretion.

(b) Executive Directors' interests in shares

Details of the Executive Directors' and their connected persons' beneficial interests in the Company's shares, and of the Executive Directors' other interests in shares, for current Executive Directors as at 31 December 2020 and for former Executive Directors as at the dates they left the Company, are shown in the table below:

| Executive Director | Shares held directly | | | Other share interests | |
|--------------------------------|--------------------------------|--|----------------------|--|--|
| | Shareholding target (% salary) | Shareholding value (% salary) ¹ | Beneficially owned | Forfeitable shares held under the EDBP not subject to performance conditions | Outstanding LTIP share option awards subject to performance conditions |
| Ignacio Garat | 200% ² | 0% | – | – | – |
| Chris Davies | 150% ³ | 149.18% | 227,215 ⁴ | 39,847 | 435,667 |
| Dean Finch⁵ | n/a | n/a | 339,903 ⁶ | – | – |
| Matt Ashley⁵ | n/a | n/a | 205,455 ⁷ | – | – |

¹ The Company's closing share price of 237.40p as at 31 December 2020 has been used for the purposes of this calculation and has been applied to the beneficially owned and forfeitable shares held under the EDBP in arriving at the shareholding value as at 31 December 2020.

² Mr Garat's current shareholding guideline applies to the five-year period commencing from his date of appointment on 1 November 2020.

³ Mr Davies' current shareholding guideline applies to the five-year period commencing from his date of appointment on 10 May 2017.

⁴ The shares beneficially owned by Mr Davies include 109,549 shares that he owns free from restriction, 15,698 shares arising from the vesting of his 2019 EDBP award, 32,524 being the deemed net of tax residual shares arising from the vesting and exercise of his 2017 2-year LTIP (recruitment incentive) award (which has not yet been exercised but which shares are not subject to compulsory holding) and 69,444 net of tax residual shares arising from the vesting and exercise of his 3-year 2017 LTIP award (which has been exercised and which shares are subject to a 2-year compulsory holding period expiring on 17 April 2022).

⁵ Messrs Finch and Ashley ceased to be Executive Directors on 31 August 2020 and 3 April 2020, respectively, which are the dates as at which their beneficial shareholdings are shown. No shareholding requirement applies to them post-termination of employment but certain shares they hold as a result of the previous vesting of LTIP awards remain subject to compulsory holding periods, including post-termination of employment.

⁶ The shares beneficially owned by Mr Finch include 174,539 shares being the net of tax residual shares arising from the vesting and exercise of his 2016 3-year LTIP award and 165,364 shares being the net of tax residual shares arising from the vesting and exercise of his 2017 3-year LTIP award (which are each subject to a 2-year compulsory holding period expiring on 11 April 2021 and 17 April 2022, respectively).

⁷ The shares beneficially owned by Mr Ashley include 135,538 shares that he owns free from restriction and 69,917 shares being the net of tax residual shares arising from the vesting and exercise of his 2016 3-year LTIP award (which are subject to a two year compulsory holding period expiring on 11 April 2021).

More information about current and former Executive Directors' interests in forfeitable shares held under the EDBP are set out in section 2(d)(vi) above. The appendix on page 127 provides more information about current and former Executive Directors' interests in shares under outstanding LTIP awards.

(c) Non-Executive Directors' interests in shares

The details of the Non-Executive Directors' and their connected persons' interests in shares, for current Non-Executive Directors as at 31 December 2020 and for former Non-Executive Directors as at the date they ceased to be Directors, all of which are held beneficially, are shown below:

| Non-Executive Director | Beneficially owned |
|------------------------------|--------------------|
| Sir John Armitt | 24,554 |
| Jorge Cosmen ¹ | 47,826 |
| Matthew Crummack | 2,696 |
| Mike McKeon | 20,869 |
| Dr Ashley Steel | 32,870 |
| Karen Geary | 14,347 |
| Ana de Pro Gonzalo | 4,347 |
| Lee Sander ² | 7,521 |
| Chris Muntwyler ² | 21,739 |

¹ Neither Jorge Cosmen nor his connected persons are now sufficiently closely connected with any of the Cosmen family companies which hold shares in the Company (including European Express Enterprises Ltd which is a major shareholder in the Company whose shareholding is shown on page 129) for such family companies' shareholdings to be considered his or his connected persons' interests in Company shares.

² Both Mr Sander and Mr Muntwyler stepped down from the Board on 30 December 2020 and their shareholdings are those as at that date.

(d) Other information

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings in shares and options over shares in the Company.

The closing price of a Company ordinary share at 31 December 2020 was 237.40p (2019: 469.6p) and the range during the year ended 31 December 2020 was 90.40p to 474.40p per share.

(e) Changes since year end

There have been no changes in current Directors' shareholdings between 31 December 2020 and the date of this Report.

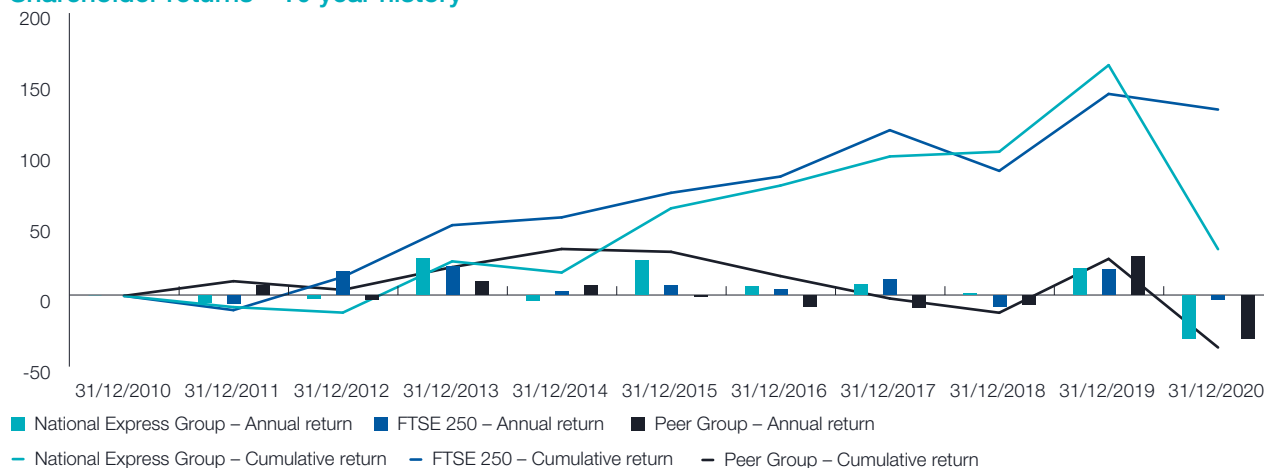
6. Comparison of overall performance

The graph below shows a comparison of the Company's cumulative total shareholder return (i.e. share price growth plus dividends paid) and annual return against the FTSE 250 Index and a Bespoke Index over the last 10 years. The FTSE 250 Index has been selected as the Company is a constituent of that Index and the Bespoke Index shows performance against a peer group of other UK-based passenger transport companies whose shares are listed and admitted to trading on the London Stock Exchange.

As can be seen from the graph:

- the Company had been outperforming the FTSE 250 Index on an annual basis in several of the years over this 10 year period, including in 2018 and 2019 prior to the Covid-19 pandemic adversely impacting the Company in 2020 (as it did other companies in the transport sector in the FTSE 250 Index); and
- the Company has significantly outperformed the Bespoke Index - comprising a peer group of three other UK listed companies in the transport sector - on an annual basis in four out of the last five years of this 10 year period, including in 2020 notwithstanding the impact of the Covid-19 pandemic, and on a cumulative basis over this last five year period.

Shareholder returns – 10 year history



7. Context of Director pay

The following table sets out the actual percentage change from 2019 to 2020 in certain elements of the remuneration paid (where applicable) to each of the persons who served as Directors during 2020, compared with the average percentage change from 2019 to 2020 in those same elements of remuneration for the Company's employees. It also sets out, by way of voluntary disclosure, a comparison with the Company's Group's whole UK employee population as this provides a more meaningful comparison in view of the fact that the Company itself only employs a small proportion of the Group's employees.

The elements of each Executive Director's remuneration included in the table below comprise base salary, taxable benefits and annual bonus calculated in the same way as in the single total figure of remuneration table on page 114. The Chairman and Non-Executive Directors' fees included in the table below are calculated in the same way as in the single total figure of remuneration table on page 119.

| Director or comparator group | Actual/Average percentage increase/(decrease) from 2019 to 2020 | | |
|--|---|-------------------------------|--|
| | Base salary/fees | Taxable benefits ¹ | Performance related bonus ² |
| Ignacio Garat, current CEO | n/a ³ | n/a ³ | n/a ³ |
| Chris Davies, current CFO (and interim CEO) | (0.8)% ⁴ | 0.0% | (100)% ⁴ |
| Dean Finch, former CEO | (41.7)% ⁵ | (50)% ⁵ | (100)% ⁵ |
| Matt Ashley, former Executive Director | (73.2)% ⁵ | (71.4)% ⁵ | (100)% ⁵ |
| Sir John Armitt, Chairman | (5.9)% ⁶ | n/a | n/a |
| Jorge Cosmen, Deputy Chairman | 0.0% ⁶ | n/a | n/a |
| Matthew Crummack, Senior Independent Director (SID) | 14.8% ^{6,7} | n/a | n/a |
| Lee Sander, Non-Executive Director | (12.3)% ^{6,7} | n/a | n/a |
| Mike McKeon and Chris Muntwyler, Non-Executive Directors | 1.5% ⁶ | n/a | n/a |
| Dr Ashley Steel, Non-Executive Director | 6.5% ^{6,8} | n/a | n/a |
| Karen Geary and Ana de Pro Gonzalo, Non-Executive Directors | 315.4% ^{6,9} | n/a | n/a |
| Company employees | 5.7% ¹⁰ | (0.09)% ¹⁰ | (100)% ¹⁰ |
| Company Group UK employees | 1.7% ¹⁰ | (0.09)% ¹⁰ | (100)% ¹⁰ |

¹ Taxable benefits comprise the gross of tax value of allowances (such as for car and travel), private medical insurance, death-in-service and life assurance cover. The Chairman and Non-Executive Directors do not receive any taxable benefits, so this is a non-applicable field for these Directors.

² The performance related bonus comprises any annual bonus payable in respect of performance during 2020. The Chairman and Non-Executive Directors are not eligible to receive any performance related bonuses, so this is a non-applicable field for these Directors.

³ All the fields are not applicable for Ignacio Garat as he joined the Company in November 2020 so there is no year-on-year comparison.

⁴ The slight year-on-year decrease in Mr Davies' base salary reflects the net impact of: (i) his voluntary waiver of his 2020 salary increase; (ii) his voluntary 20% salary sacrifice for 2 months of the 2020 year; (iii) a salary increase taking effect during the last 2 months of the 2020 year; and (iv) his fixed salary supplement for acting as interim CEO for 2 months of the 2020 year. The 100% year-on-year decrease in Mr Davies' bonus reflects that no bonus was payable in 2020.

⁵ The year-on-year decreases in Messrs Finch's and Ashley's base salaries are attributable, in the case of Mr Finch, to his voluntary 50% salary sacrifice for 2 months of the 2020 year and, in both their cases, to their serving as Directors for only part of the 2020 year. The year-on-year decreases in their taxable benefits are also attributable to them both serving as Directors for only part of the year and also, in the case of Mr Ashley, his 2-year assignment to North America, and related relocation assistance package, having come to an end during 2019 so not being payable in 2020. The 100% year-on-year decreases in Messrs Finch's and Ashley's bonuses reflect that no bonus was payable to either of them after they left the Company.

⁶ The year-on-year percentage changes in the Chairman's fees and other Non-Executive Directors' fees (as well as there being no percentage change in the Deputy Chairman's fee) reflects the net impact of their respective: (i) 2020 base fee increases determined in late 2019 prior to the Covid pandemic and their respective voluntary fee sacrifices for 2 months of the 2020 year.

⁷ The higher year-on-year percentage increase in the fees payable to Matthew Crummack, and the higher year-on-year percentage decrease in the fees payable to Lee Sander, reflect, in addition to the net impact of the matters referred to in note 6 above, that Mr Sander stood down as, and Mr Crummack assumed the role of, Senior Independent Director in April 2020.

⁸ The higher year-on-year percentage increase in the fees payable to Dr Ashley Steel reflects, in addition to the net impact of the matters referred to in note 6 above, that she served as Chair of the Remuneration Committee for the whole of the 2020 year whereas she was only in that role for part of the 2019 year.

⁹ The significant year-on-year percentage increases in the fees payable to Karen Geary and Ana de Pro Gonzalo reflect, in addition to the net impact of the matters referred to in note 6 above, that they both joined the Company in October 2019 so only received fees for 3 months of the 2019 year.

¹⁰ The year-on-year increase in both the Company's and the Company's Group's UK employees' base salaries is attributable to the Company honouring the 2020 salary increases awarded to employees for 2020 which were determined in late 2019 prior to the Covid pandemic. The higher increase for Company employees reflects that a number of these employees took on additional responsibilities in 2020 and their pay increases reflected this. The minor decrease in both the Company's and Company's Group UK employees' taxable benefits is attributable to the net impact of the cost to the Company of providing certain benefits decreasing and the cost of providing others increasing. The year-on-year decrease in both the Company's and Company's Group's UK employees' bonuses is attributable to none of such employees receiving a bonus in respect of the 2020 year due to the impact of the Covid-19 pandemic.

8. History of CEO pay

The table below sets out the total remuneration paid to the Chief Executive Officer over the last 10 years, valued using the methodology applied to the single total figure of remuneration:

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 ¹ | 2020 ² |
|--|------------------|---------|---------|---------|---------|---------|---------|---------|---------|-------------------|------------------------|
| Chief Executive Officer | D Finch | D Finch | D Finch | D Finch | D Finch | D Finch | D Finch | D Finch | D Finch | D Finch | I Garat |
| Single figure total remuneration (£'000) | 1,454 | 1,701 | 1,553 | 1,562 | 3,661 | 3,887 | 4,225 | 4,318 | 3,048 | 531 | 123 |
| Annual bonus payment (as % of maximum opportunity) | 100% | 100% | 95% | 93% | 96% | 83.5% | 95% | 90% | 100% | 0% | n/a⁴ |
| LTIP vesting level achieved (as % of maximum opportunity) | n/a ³ | 32.5% | 0% | 0% | 73.4% | 80.8% | 86.9% | 96% | 91.53% | 0% | n/a⁴ |

¹ Mr Finch served as Chief Executive Officer from 1 January 2020 to 31 August 2020.

² Mr Garat served as Chief Executive Officer from 1 November 2020 to 31 December 2020.

³ In 2011, Mr Finch was not entitled to any LTIP awards subject to performance conditions whose final year of performance ended during that year.

⁴ In 2020, Mr Garat was not entitled to any bonus award or LTIP award subject to performance conditions whose final year of performance ended during that year.

9. CEO pay ratios

The following table sets out ratios which compare the (combined) CEOs' total remuneration in the Company's financial year ended 31 December 2020 to that of the Company's Group's UK employees whose full time equivalent remuneration ranks them at the lower quartile, median and upper quartile of pay for all of the Company's Group's UK employees (together with that data for the Company's previous financial year):

| Year | Methodology | 25th percentile (lower quartile) pay ratio | 50th percentile (median) pay ratio | 75th percentile (upper quartile) pay ratio |
|-------------------|-------------|---|---------------------------------------|---|
| 2020 | Option A | 31:1 | 26:1 | 23:1 |
| 2019 ¹ | Option A | 156:1 | 136:1 | 110:1 |

¹ The CEO's single total figure of remuneration disclosed in the Company's 2019 Annual Report on Remuneration has not been restated to reflect the actual value of the former CEO's LTIP vesting in respect of the 2019 year as this maintains consistency in the basis on which CEO pay ratios are calculated each year.

Option A was used to calculate the pay ratios as it is the most statistically accurate method and the relevant pay data was available to the Company in time for the preparation of this Report. The UK employees at the lower quartile, median and upper quartiles were identified as at 31 December 2020 and their full-time equivalent total remuneration was calculated in respect of the 12 months ended 31 December 2020 on the basis explained further below. The employee at the 25th percentile is employed as a cleaner and the employees at the 50th and 75th percentiles are employed as bus drivers, with their different pay reflecting overtime and different pension contributions.

The CEO's remuneration was calculated by:

- combining the total remuneration of the former CEO (Mr Finch) and the new permanent CEO (Mr Garat) as set out in the single total figure of remuneration table on page 114 and aggregating that sum with the proportion of Mr Davies' total remuneration as derived from the single total figure of remuneration table on page 114 which relates to the two-month period during which he served as interim CEO (including the whole of the fixed salary supplement paid to Mr Davies during that period for acting in such capacity).

The total remuneration of the UK employees (including those at the lower quartile, median and upper quartiles) has been calculated using the same methodology as for the CEO's single total figure of remuneration, noting that:

- a large number of the Group's UK employees, such as bus and coach drivers and customer service centre staff, work full time but are paid by the hour (rather than having an annual fixed base salary). Their wages have been calculated as the actual number of hours worked in the year multiplied by the relevant hourly rates of pay applicable during the year;
- a number of the Group's UK employees work part time. Those who are paid on a salaried basis have had their salaries grossed up to the full time equivalent salary for their role. Those who are paid by the hour have had their wages grossed-up to a full time equivalent number of hours using the average number of hours performed by a full time employee performing the same or most similar role;
- some of the Group's UK employees receive taxable benefits, such as car, travel and other allowances and private medical insurance, the value of which has been included. In the case of part time employees, where any such benefits are pro-rated to reflect them working part time, the value of such benefits on a full time equivalent basis has been included;
- many of the Group's UK employees are members of a pension scheme and employer pension contributions have been included;
- some of the Group's UK employees receive performance-related annual bonus awards, and other Group UK employees receive ad hoc bonuses or other one-off rewards, such as loyalty bonuses, Values awards and gratuities, the cash value of which awards and rewards has been included;
- certain of the Group's UK employees who are senior managers receive performance conditioned three-year LTIP awards in the form of nil-cost options over Company shares. The estimated value of such awards which will vest in 2021 in respect of the three year performance period ended on 31 December 2020 (estimated on the same basis as in the single total figure of remuneration table), together with the cash value of dividend equivalents on vested shares under such awards, have been included; and
- where the Group's UK employees were placed on furlough during any part of 2020, the amounts actually paid to them have been included, including amounts subsequently reimbursed to the Company and its UK subsidiaries by the UK government under the Coronavirus Job Retention Scheme and topped-up amounts funded by the Company's Group.

The year-on-year (2020 vs. 2019) reduction in each of the pay ratios is principally attributable to the significantly reduced value of the performance-related pay due to all three of the individuals who performed the CEO role during the year under review. As a result of the significant detrimental impact of the Covid-19 pandemic on the Company, none of such individuals received an annual bonus award in respect of the year ended 31 December 2020 (vs. the CEO's bonus of £1.296m in 2019) and none of them had any long-term incentive awards vest to them in their capacity as CEO in respect of the performance period ended on 31 December 2020 (vs. the estimated value of the CEO's vested LTIP of £1.538m in 2019). The resulting pay ratios are therefore not necessarily representative of typical pay ratios or an indicator of future pay ratios. Other factors, such as: (i) the base salaries of all individuals who performed the CEO role being lower in 2020 (vs. 2019) due to a combination of their Covid-related salary sacrifices and both the interim CEO's salary (including the fixed salary supplement paid) and the new CEO's salary being lower than the former CEO's base salary to reflect their respective levels of experience; and (ii) the base salaries of the majority of the Company's Group's UK employees being higher in 2020 (vs. 2019) as a result of them benefitting from their 2020 pay increases during the year, have also contributed to the difference, but to a lesser extent.

The table below shows the (combined) CEOs' total remuneration and the salary component of that total remuneration and that of each of the UK employees at the lower, median and upper quartiles of the Group's UK employee population for 2020 (together with that data for the previous year):

| Year | Pay data | Group Chief Executive | 25th (lower quartile) percentile | 50th (median) percentile | 75th (upper quartile) percentile |
|------|-----------|-----------------------|-------------------------------------|-----------------------------|-------------------------------------|
| 2020 | Salary | £565,467 | £20,521 | £25,147 | £25,545 |
| 2019 | Salary | £648,000 | £22,708 | £20,390 | £33,175 |
| 2020 | Total pay | £762,170 | £25,545 | £29,418 | £34,083 |
| 2019 | Total pay | £3,729,778 | £23,889 | £23,942 | £33,804 |

Directors' Remuneration Report

Annual Report on Remuneration continued

The Committee considers that the median pay ratio is consistent with the Company's pay, reward and progression policies. This is because, when setting CEO pay, the Committee has regard to the same core considerations as those taken into account by the UK management team when setting UK employee pay, including the Company's policy to pay market rates of pay that reward employees fairly for work done and that have due regard to individual performance and Company performance where the individual has the ability to influence wider Company performance. The CEO has ultimate responsibility for, and the greatest ability to influence, the Company's performance and returns to shareholders and, to reflect this, a much higher proportion of the CEO's remuneration is comprised of performance-related pay (in the form of an annual bonus and LTIP award vesting) compared with the majority of UK employees. This means that the pay ratios will fluctuate depending on the outcomes of incentive plans each year, as they did in 2020 (vs. 2019), reflecting that the CEO's pay was much reduced in line with the Company's performance and delivery of returns to shareholders, whereas UK employees' pay increased in line with their reduced ability to influence Company performance.

10. Relative importance of spend on pay

The table below sets out the total spend on pay in 2020 compared with distributions made to shareholders in 2020 and the figures for such values in 2019 for further comparison:

| Measure | 2020 £m | 2019 £m | % Decrease from 2019 to 2020 |
|---|------------|------------|---------------------------------|
| Overall Group spend on pay including Directors ¹ | 1,193.8 | 1,416.7 | (19.28)% |
| Profit distributed by way of dividend ² | 0 | 78.3 | (100)% |

¹ Overall Group spend on pay was calculated by aggregating the Group's costs of salaries and wages, social security costs, pension costs and share-based payments for all the Group's employees whether employed in the UK or overseas in the relevant year, including for these purposes wages and social security costs which have been refunded to the Group via UK government furlough and equivalent schemes in other countries in which the Group operates. These refunded costs amounted to some £55.0m, so the overall Group spend on pay net of such refunds was £1,138.8m.

² Profit distributed by way of dividend has been used as the comparator measure as it permits a comparison between the Group's annual investment in its employed workforce and its annual cost of returning value to shareholders. In 2020, this amount was zero as the final dividend to shareholders in respect of the Company's financial year ended 31 December 2019 was withdrawn and no interim dividend in respect of the financial year ended 31 December 2020 was paid.

11. Statement of implementation of current Directors' Remuneration Policy in 2021

(a) Executive Directors' base salaries

In accordance with the current Policy, the Committee determined that:

- the new Group Chief Executive Officer's base salary would be set, effective from the date of his appointment on 1 November 2020 and throughout 2021, at an appropriate level for the role of a group chief executive of an international, diverse and operationally complex FTSE 250 company, that recognised Mr Garat's strong and relevant executive experience in an adjacent industry, but which was below the level of the outgoing Group Chief Executive to recognise that this is Mr Garat's first group chief executive role;
- the 8.5% base salary increase originally awarded to the Group Chief Financial Officer effective from 1 January 2020 (and voluntarily waived by him) would be reinstated effective from 1 November 2020 to align his salary with the market median rate for the role of a chief financial officer of an international, diverse and operationally complex FTSE 250 company, to recognise both Mr Davies' significant contribution to the Company and growth in his role since he joined the Company in 2017 and the increase in the scope of his responsibilities during 2019 which included evolving the Group's investor relations programme and spearheading its cyber security programme; and
- a further base salary increase of 6.25% would be awarded to the Group Chief Financial Officer effective from 1 November 2020 to reflect a further increase in the scope of his role during 2020 which includes new responsibilities for the Group procurement and communications functions and an important role supporting the new CEO with the development and delivery of strategy and the maintenance of strong investor relations, and to seek to aid Mr Davies' retention.

In approving these Executive Director base salaries the Committee took into consideration a number of external and internal factors, including:

- the success of the Company's strategy and its growth trajectory prior to the impact of the Covid-19 pandemic;
- the significant negative impact of the Covid-19 pandemic on the Company and its sector during 2020 and the consequential impact on employment conditions across its Group but also the Company's extensive efforts in 2020, many led by the CFO, to ensure the Company's liquidity and strength of its balance sheet which in turn has served to protect as many jobs as possible and the Company's extensive health and safety measures implemented in 2020 which have served to protect employees as far as reasonably practicable from Covid-19;
- the benchmarking exercise undertaken by the Company in 2019 of its then CEO and CFO base salaries against those of three comparator groups (comprising: (i) the companies in the top half of the FTSE 250; (ii) the 16 companies, 8 either side of the Company in the FTSE 250; and (iii) the 16 companies in the same sector as the Company with similar market capitalisations to the Company and deriving at least 25% of their revenues from international operations), which benchmarking was still considered relevant to setting the current CEO and CFO salaries applicable in 2021 as it was the best available indicator of comparable executive director pay disregarding what is hoped will be the relatively short-term impact of the Covid-19 pandemic; and
- the critical need to incentivise both the new CEO and CFO and to retain the CFO and stabilise a new executive management team to continue to steer the Company through the challenges created by the Covid-19 pandemic and to take advantage of opportunities that are expected to arise as the Company and markets emerge from the pandemic.

Accordingly, the annual base salaries of the Executive Directors in 2021 are:

| Executive Director | Base salary (gross) |
|--|------------------------|
| Ignacio Garat, Group Chief Executive Officer | £575,000 |
| Chris Davies, Group Chief Financial Officer | £425,000 |

(b) Executive Directors' pensions

In anticipation of the new Policy and in line with best corporate governance practice, the new CEO's pension allowance, of 3% of base salary, was aligned with the pension contribution rate currently applicable to the majority of the Company's Group's UK workforce. In accordance with both the current Policy and an agreement reached between the Committee and CFO in 2019, and as provided for in the new Policy, the CFO's pension allowance will remain at 25% of base salary until 1 January 2023 when it will also be aligned with the then prevailing pension contribution rate applicable to the majority of the Company Group's UK workforce.

(c) Executive Directors' annual bonus

Executive Directors' annual bonuses for the 2021 financial year will be structured and operate in certain respects in the same way as in prior years but with certain key differences to reflect the exceptional and challenging trading conditions in which the Group is expected to continue to be operating for at least part of 2021 due to the Covid-19 pandemic:

- both the CEO and CFO have a maximum bonus opportunity in 2021 equal to 150% of base salary;
- 50% of their bonus opportunities will continue to be subject to the achievement of a Group profit before tax (PBT) target, with bonus performance between threshold and maximum set by reference to financial range (rather than by a +/- percentage range) around target performance;
- 25% of their bonus opportunities will continue to be subject to the achievement of a Group free cash flow (FCF) target, and bonus performance between threshold and maximum will continue to be determined by reference to a +/- 10% range around target performance;
- 5% of their bonus opportunities will continue to be subject to the Group's Fatalities and Weighted Injuries (FWI) Index score (excluding incidents arising from the Group's new Casablanca operations as in 2019), but rather than such FWI score being set by reference to improvement on the Group's prior year score (as in previous years), it is set by reference to at least matching or improving on the Group's 2019 FWI score (rebased to remove non-responsible minor injuries) as this was the Group's best ever FWI performance and 2019 also represented the last year of the Group's normal operations pre-Covid-19;
- a further 10% of their bonus opportunities will be split between the Group achieving an improvement on its 2019 responsible accidents score and DriveCam driver risk score, as 2019 represented the last year of the Group's normal operations pre-Covid-19;
- 10% of their bonus opportunities will be subject to the achievement of specific strategic and risk management objectives; and
- unlike in previous years, the achievement of threshold PBT performance will not be a condition to payout of the bonus opportunities linked to non-financial targets, in recognition of the challenging PBT target and uncontrollable exogenous factors caused by Covid-19 which could affect its achievement and the desire to incentivise performance against the non-financial objectives.

When considering the bonus structure and setting the bonus targets for 2021, the Committee has taken into account:

- the Group's approved business plan and stretching budget for 2021, particularly having regard to significant uncontrollable exogenous factors which could affect its achievement;
- the continued challenging trading conditions for the Company's Group as it entered 2021 due to the Covid-19 pandemic as well as the assumption that Covid-19 vaccines may improve these conditions over the year; and
- the continued desire to align a significant portion of Executive Directors' short-term incentives with the financial and ESG interests of its shareholders but also the desire to incentivise Executive Directors to achieve objectives which are intended to benefit the Company in the longer-term by assisting it in delivering its strategy, managing its risks and growing, both organically and through bids and acquisitions, in existing and new markets from a position of operational safety, security, excellence and efficiency.

The Committee will disclose the exact PBT and FCF bonus targets, the threshold to maximum performance ranges and the strategic and risk management objectives (which are considered commercially sensitive), and the actual performance against these financial targets and the non-financial bonus objectives, in next year's report.

(d) Executive Directors' 2021 Long-Term Incentive Plan (LTIP) awards

Executive Directors' 2021 LTIP awards will be granted at opportunity levels and have performance conditions attaching which are similar to those awarded in previous years, but again with some differences:

- in 2021, both the CEO and CFO will be granted LTIPs with a face value equal to 200% of base salary, in line with the normal level provided by the current Policy for the CEO and the level permitted by the current Policy for the CFO to reflect his increased responsibilities, which levels are also intended to encourage Executive Director retention over the longer-term;
- the performance conditions attaching to the 2021 LTIP awards will include the following measures which seek to align Executive Directors' longer-term interests with the interests of shareholders: total shareholder return (TSR) (as measured against both a Bespoke Index and the FTSE 250 Index); earnings per share (EPS) in the final performance year; return on capital employed (ROCE) in the final performance year; and an overall reduction in the Group's total carbon emissions per million passenger kilometre (tCO₂e/m pass km) by the end of 2023 relative to the Group's 2019 base year measurements. The weightings of the performance measures and vesting levels of the 2021 LTIP awards at each of threshold, on-target and maximum performance levels are set out in the table below:

| Performance condition | Weighting | Threshold (25% vesting EPS and TSR, 0% vesting ROCE and ESG, measures) | Target (50% vesting) | Maximum (100% vesting) |
|---|-----------|--|--|--|
| TSR ¹ vs. Bespoke Index ³ | 12.5% | Equal to Index | – | ≥ Index + 10% pa |
| TSR ¹ vs. FTSE 250 Index | 12.5% | Median | – | Upper Quintile |
| EPS ^{2,4} | 25% | 25.1p | 25.6p | 26.3p |
| ROCE ^{2,5} | 25% | 8% | 9% | 11% |
| tCO ₂ e / million passenger km | 25% | 6% reduction in tCO ₂ e / million passenger km by 2023 relative to 2019 base year | 7% reduction in tCO ₂ e / million passenger km by 2022 relative to 2020 base year | 8% reduction in tCO ₂ e / million passenger km by 2023 relative to 2020 base year |

¹ For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance.

² For EPS, ROCE and ESG measures, straight-line vesting will occur between threshold and target, and between target and maximum levels of performance.

³ Comprising three other UK-based passenger transport groups, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.

⁴ EPS is fully diluted underlying earnings per share in 2023.

⁵ ROCE is return on capital employed in 2023.

Directors' Remuneration Report

Annual Report on Remuneration continued

The performance conditions will be measured over the three-year financial period ending 31 December 2023, awards will be subject to a compulsory two-year holding period post vesting and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while options remain unexercised and will be satisfied in shares rather than cash.

While the Committee has duly considered that the Company's share price may, at the proposed grant date of the 2021 LTIP awards, be depressed as a result of the continuing impact of the Covid-19 pandemic, the Committee cannot foresee when or how the share price may recover so, rather than scale back awards at grant which could be counter-productive to their value for retention purposes, it will reserve to itself as a condition of grant discretion to adjust the 2021 LTIP outturns to take into account all relevant considerations, including the Company's share price performance, over the three-year performance period.

(e) Chairman's and Non-Executive Directors' 2021 fees

With effect from 1 January 2021, the Committee determined for the Chairman, and the Board determined for the Non-Executive Directors, that none of the Chairman's fee, Non-Executive Directors' base fees, Senior Independent Director's fee or Committee Chair fees will increase from their 2020 levels. Accordingly, the annual fees for the Chairman and Non-Executive Directors in 2021 are:

| Role | Fees (gross) |
|--|--------------|
| Chairman | £259,325 |
| Senior Independent Director (additional fee) | £11,000 |
| Non-Executive Director (base fee) | £56,000 |
| Committee Chair (additional fee) | £12,000 |

(f) Total remuneration opportunity at various levels of performance

The graph on page 109 illustrates the remuneration opportunity provided to the current Executive Directors at each of minimum, on-target and maximum levels of performance for 2021, as well as their maximum remuneration opportunity assuming 50% share price appreciation. The assumptions used in determining the payout at each of those opportunity levels are set out below that graph on the same page.

12. Historical results of shareholder voting on remuneration matters

The votes cast on the resolution seeking approval of the Annual Report on Remuneration at the 2020 AGM were as follows:

| Resolution | % of votes For | % of votes Against | Number of votes withheld ¹ |
|---|----------------|--------------------|---------------------------------------|
| To approve the Annual Report on Remuneration for the year ended 31 December 2019 (advisory vote only) | 96.1 | 3.19 | 40,229,728 |

¹ A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution.

The votes cast on the resolution seeking approval of the current Policy at the 2018 AGM were as follows:

| Resolution | % of votes For | % of votes Against | Number of votes withheld ¹ |
|--|----------------|--------------------|---------------------------------------|
| To approve the Directors' Remuneration Policy (binding vote) | 95.7 | 4.3 | 86,207 |

¹ A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution.

13. Retained advisers to the Committee

During the year, the Committee retained (following a formal and transparent tender process conducted in 2013) and received remuneration and related corporate governance advice from PwC, its external remuneration consultants. Apart from advice given to the Company in relation to discrete accounting matters, PwC has no other connection with the Company, any member of its Group or any of its individual Directors. PwC has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. In view of these factors, the Committee is satisfied that the advice it receives from PwC is objective and independent. For the year under review, PwC received fees of £132,500 in connection with its work for the Committee, which were charged on a time cost basis.

14. Dilution

The Company has permitted share dilution authority reserved to it under the rules of its 2015 Long-Term Incentive Plan (LTIP), as previously approved by shareholders and in line with the Investment Association's guidelines. However, as the Company's funding strategy has been and continues to be to satisfy all outstanding share incentive awards granted under the LTIP (and its other incentive plans) through the delivery of market purchased shares via the Company's Employee Benefit Trust, as opposed to by the issue and allotment of new shares, the Company has not to date used any of its permitted share dilution authority under the 2015 LTIP.

Appendix

The table below sets out the share awards granted to current and former Executive Directors under the rules of the Company's 2015 LTIP which either vested or lapsed during 2020 or remain outstanding as at 31 December 2020:

| LTIP award year/type | Date of grant | Awards held at 01.01.20 | During 2020 | | | Awards held at 31.12.20 | Vesting date | Latest exercise date ¹ |
|--|---------------|-------------------------|-------------|-------------------------------------|------------------------|-------------------------|--------------|-----------------------------------|
| | | | Granted | Exercised/ Eligible for exercise | Lapsed | | | |
| Dean Finch | | | | | | | | |
| LTIP 3-year | 06.04.16 | 329,906 | – | 329,906 ² | – | – | 12.04.19 | – |
| LTIP 3-year | 18.04.17 | 341,476 | – | 312,564 ² | 28,912 | – | 18.04.20 | – |
| LTIP 3-year | 03.04.18 | 325,775 | – | – | 325,775 ³ | – | – | – |
| LTIP 3-year (Approved CSOP) ⁸ | 03.04.18 | 7,751 ⁹ | – | – | 7,751 ^{3,9} | – | – | – |
| LTIP 3-year | 15.04.19 | 313,044 | – | – | 313,044 ³ | – | – | – |
| LTIP 3-year | 12.03.20 | – | 414,260 | – | 414,260 ³ | – | – | – |
| | | 1,310,201 ⁹ | 414,260 | 642,470 | 1,081,991 ⁹ | – | | |
| Chris Davies | | | | | | | | |
| LTIP 2-year (RIA) | 10.05.17 | 61,366 | – | 61,366 ⁴ | – | 61,366 ⁴ | 10.05.19 | 10.05.21 |
| LTIP 3-year | 10.05.17 | 143,403 | – | 131,261 ⁵ | 12,142 | – | 18.04.20 | – |
| LTIP 3-year (Approved CSOP) ⁸ | 10.05.17 | 8,194 ⁹ | – | – | 8,194 ⁹ | – | 18.04.20 | – |
| LTIP 3-year | 03.04.18 | 139,050 | – | – | – | 139,050 | 03.04.21 | 03.04.23 |
| LTIP 3-year | 15.04.19 | 133,624 | – | – | – | 133,624 | 15.04.22 | 15.04.24 |
| LTIP 3-year | 12.03.20 | – | 176,848 | – | 13,855 ⁶ | 162,993 | 12.03.23 | 12.03.25 |
| | | 477,443 ⁹ | 176,848 | 192,627 ⁹ | 25,997 ⁹ | 497,033 | | |
| Matt Ashley | | | | | | | | |
| LTIP 3-year | 18.04.17 | 145,752 | – | – | 145,752 ⁷ | – | – | – |
| LTIP 3-year (Approved CSOP) ⁸ | 18.04.17 | 8,328 ⁹ | – | – | 8,238 ^{7,9} | – | – | – |
| LTIP 3-year | 03.04.18 | 139,050 | – | – | 139,050 ⁷ | – | – | – |
| LTIP 3-year | 15.04.19 | 133,624 | – | – | 133,624 ⁷ | – | – | – |
| LTIP 3-year | 12.03.20 | – | 167,059 | – | 167,059 ⁷ | – | – | – |
| | | 418,426 ⁹ | 167,059 | – | 585,485 ⁹ | – | | |

¹ Awards vesting under the 2015 LTIP are subject to a two-year exercise period and holding period which run concurrently. Latest exercise dates are shown only for those LTIP awards which have either yet to vest, or which have vested and are yet to be exercised.

² Mr Finch's 2016 and 2017 LTIP awards vested in 2019 and 2020, respectively, and were both exercised in 2020. Mr Finch sold sufficient shares vesting under each to satisfy his tax liabilities arising on such exercise and he continues to hold the remaining vested shares under each in accordance with the 2-year mandatory holding period which applies to each and which expire on 11 April 2021 and 17 April 2022, respectively. The share price on exercise was 155.171p per share.

³ Mr Finch's 2018, 2019 and 2020 LTIPs (and related 2018 CSOP award) lapsed in full on his leaving the Company on 31 August 2020, although a proportion of his 2020 LTIP award had lapsed earlier in 2020 when the number of shares subject to the award was adjusted downwards to reflect the voluntary waiver of his 2020 base salary increase.

⁴ Mr Davies' 2017 2-year LTIP (Recruitment Incentive) award vested on 10 May 2019, but he has not yet exercised any of the vested shares under this award.

⁵ Mr Davies' 2017 3-year LTIP (and related 2017 CSOP award) were exercised on the first business day after vesting on 18 April 2020. The share price on exercise was 242.349p per share. He sold sufficient shares vesting to satisfy his tax liability arising on such exercise and he continues to hold the remaining vested shares beneficially in accordance with the two year mandatory holding period which expires on 17 April 2022.

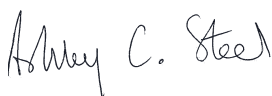
⁶ A proportion of Mr Davies' 2020 LTIP award lapsed in 2020 when the number of shares subject to the award was adjusted downwards to reflect the voluntary waiver of his 2020 base salary increase.

⁷ Mr Ashley's 2017, 2018, 2019 and 2020 LTIP awards (and his related 2017 CSOP award) lapsed in full on his leaving the Company on 3 April 2020.

⁸ All LTIP awards are granted in the form of nil-cost options, save for LTIP approved CSOP awards which are granted as market value share options with an exercise price per share equal to the share price at grant. Mr Davies' 2017 CSOP award was granted with an exercise price of 366.1p per share (which lapsed on exercise due to the share price at vesting being lower than the exercise price). LTIP approved CSOP awards comply with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of effective set-off against any shares vesting under the corresponding LTIP award.

⁹ Due to the effective set-off arrangements explained in the note above, the number of shares subject to LTIP approved CSOP awards are not counted in the total number of awards held as this would result in a double-count.

By Order of the Board



Dr Ashley Steel

Remuneration Committee Chair
18 March 2021

Directors' Report

The information set out on pages 128 to 133 (inclusive), together with the information referred to below which is incorporated by reference, comprises the Directors' Report for the year ended 31 December 2020.

The Company has chosen, in accordance with Section 414(C)(11) of the Companies Act 2006 (as amended), to set out certain information required to be included in this Directors' Report in the Strategic Report. The Company has also set out certain other information required to be included in this Directors' Report in the Corporate Governance Report and the Consolidated Financial Statements. The destinations of such information are shown in the table below:

| Information | Annual Report section | Annual Report page no(s) |
|---|--|--------------------------|
| Business model and future business developments | Strategic Report | 14 and 15 |
| Principal risks and uncertainties | Strategic Report | 38 to 41 |
| Fostering relationships with suppliers, customers and others ¹ | Strategic Report | 44 and 45 |
| Engagement with and other matters relating to employees ² | Directors' Report Corporate Governance Report | 131 and 132 68 to 71 |
| Viability and going concern | Strategic Report | 42 |
| Financial instruments | Consolidated Financial Statements | 197 to 202 |
| Governance matters, including Corporate Governance Statement ³ | Corporate Governance Report | 56 to 127 |
| Streamlined Energy and Carbon Reporting (SECR) ⁴ | Additional Information | 240 |

¹ The Company is not obliged to provide this information in accordance with paragraph 11B of Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the Regulations). This is because it is exempted in accordance with paragraph 11C of Part 4 of the Regulations as the qualifying conditions are met as the Company, which is a holding company, does not have a turnover nor does it have more than 250 employees. However, the Company has voluntarily provided this information.

² The Company is obliged to provide certain of this information in accordance with paragraph 11 of Part 4 of the Regulations as the Company is the parent company of the Group and the average number of persons employed by the Group within the United Kingdom during the year ended 31 December 2020 was more than 250. It is not however obliged to provide the information in accordance with paragraph 10 of Part 4 of the Regulations as the average number of persons employed by the Company itself does not exceed 250. The Company has therefore voluntarily provided this information.

³ The Company is obliged to make a Corporate Governance Statement pursuant to DTR 7.2. The Company is therefore exempted from the requirements of Part 8 of the Regulations in accordance with paragraph 22(a) of the Regulations.

⁴ The Company is obliged to provide this information in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

This Directors' Report and the Strategic Report together form the Management Report for the purposes of Rule 4.1.8 of the Disclosure Guidance and Transparency Rules.

The location of relevant information required to be disclosed under Rule 9.8.4 of the Listing Rules is as follows:

| Listing Rule | Nature of information | Section and page(s) of Annual Report |
|--------------|---|---|
| LR 9.8.4(5) | Emolument waivers by directors | Annual Statement by the Remuneration Committee Chair, page 96 |
| LR 9.8.4(7) | Allotment of equity securities for cash | Directors' Report, page 129 |
| LR 9.8.4(12) | Dividend waivers by shareholders | Directors' Report, page 129 |

Company status and branches

National Express Group PLC (the Company) is the holding company of the National Express group of companies (the Group).

The Company is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index.

Neither the Company nor any member of its Group has any branches.

Results and dividends

The Company's and the Group's results for the year ended 31 December 2020 are set out in the Company Financial Statements and the Consolidated Financial Statements on pages 143 to 237.

Important events since the end of the financial year

There have been no important events which have affected the Company or the Group since 31 December 2020.

Dividends

The Board has determined not to recommend a final dividend in respect of its financial year ended 31 December 2020 as a result of the impact the Covid-19 pandemic had on the Company's trading and financial results for such year and also as the Company is restricted from doing so in accordance with the terms on which it obtained amendments to its debt covenants in its principal bank debt facilities and privately placed notes (2019: 0.0p, noting that the Board originally recommended a final dividend of 11.19p in respect of its financial year ended 31 December 2019, but subsequently withdrew such recommendation after the impact of the first wave of the Covid-19 pandemic). As the Board also did not pay an interim dividend in respect of its financial year ended 31 December 2020, the total dividend for the 2020 year is 0.0p per share (2019: 5.16p).

Share capital

The Company has a single class of shares in issue in its capital comprising ordinary shares of nominal value 5 pence each, all ranking *pari passu*. As at 31 December 2020, there were 614,086,377 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Company's Articles of Association (the Articles). Further details about the Company's share capital can be found in note 32 to the Consolidated Financial Statements.

Share rights, obligations and restrictions on transfer of shares

Shareholders are entitled to participate in dividends paid or declared by the Company and any return of capital made by the Company in proportion to their holdings of ordinary shares in the Company. Shareholders are also entitled to attend and vote at all general meetings of the Company (subject to the powers under Regulation 74 of the Articles which authorise the Company's Chairman, Directors or any person authorised by the Directors to take such action as thought fit to secure the safety of people attending the meeting). Every shareholder has one vote on a show of hands and one vote for each ordinary share held on a poll on each resolution put before a general meeting. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's registrar not less than 48 hours before a general meeting.

Shareholders are subject to the obligations set out in the Articles, including the principal obligation to pay up any unpaid amount on their ordinary shares.

There are no limitations on the holding of the Company's shares. There are also no restrictions on the transfer of the Company's shares other than: (i) the typical restrictions set out in the Articles (for example, in respect of non-fully paid shares); (ii) restrictions imposed by law (such as insider trading laws); and (iii) restrictions imposed on the Directors and certain other employees of the Company and members of its Group pursuant to the Company's share dealing code.

Full details of the rights, obligations and restrictions attaching to the Company's ordinary shares, including in relation to voting rights and restrictions on transfer, are set out in the Articles, which are available at: www.nationalexpressgroup.com/about-us/corporate-governance

The Company is not aware of any agreements between existing shareholders that may result in restrictions on the voting rights attaching to, or the transfer of, the Company's ordinary shares.

Special control rights over shares

There are no special control rights attaching to the Company's shares, save that the Company can direct the Company's Employee Benefit Trust to release the shares that it holds in the Company to satisfy the vesting of outstanding awards under the Company's various share incentive plans (see Employee Benefit Trust).

Authority to issue shares

The Directors were granted the authority at the Company's 2020 Annual General Meeting to allot new shares in the Company up to a nominal value of £8,528,977 representing one third of its issued share capital as at 20 March 2020 or, in the case of a rights issue only, new shares up to a nominal value of £17,057,954 representing two thirds of its issued share capital as at 20 March 2020. The Directors were further authorised to disapply pre-emption rights on the issue of shares of up to a nominal value £1,279,346, representing 5% of its issued share capital as at 20 March 2020. On 11 May 2020 pursuant to agreements made on 6 May 2020, the Directors, under the authorities granted to them at the Company's 2019 Annual General Meeting, issued 102,347,729 new ordinary shares in the Company at a price of 230p per share (see Equity placing and related subscription for shares). No new shares were issued by Directors under the authorities granted to them at the Company's 2020 Annual General Meeting during the year ended 31 December 2020 or up to 18 March 2021, being the date this Directors' Report was approved. Such authorities remain valid until the Company's 2021 Annual General Meeting or 30 June 2021, whichever is earlier. The Directors propose to renew the Directors' authorities to issue and allot new shares and to disapply pre-emption rights on such issue and allotment at the Company's 2021 Annual General Meeting to give the Company flexibility to respond to circumstances and opportunities as they arise.

Authority to purchase own shares

The Company was granted authority at its 2020 Annual General Meeting to make market purchases of up to 51,173,864 of its own shares, representing 10% of its issued share capital as at 20 March 2020. No shares were purchased under this authority during the year ended 31 December 2020 or up to 18 March 2021, being the date this Directors' Report was approved. Such authority remains valid until the Company's 2021 Annual General Meeting or 30 June 2021, whichever is earlier. The Directors propose to renew this authority at the 2021 Annual General Meeting to give the Company the ability to return value to shareholders in this way in appropriate circumstances.

Employee Benefit Trust

IQ EQ (Jersey) Limited is a shareholder in the Company and acts as the trustee (the Trustee) of the National Express Group Employee Benefit Trust (the EBT). It is used to purchase Company shares in the market from time to time and hold them for the benefit of employees, including for satisfying awards that vest under the Company's various share incentive plans. The EBT also holds some Company shares in particular ringfenced accounts for specific employees who have had options over such shares vest to them under the Company's share incentive plans but have not yet exercised those options. The EBT purchased a total of 1,025,505 shares in the market during the year ended 31 December 2020 for an aggregate consideration of £3.9 million (including dealing costs) and released 1,552,919 shares to satisfy vested share plan awards.

As at 31 December 2020, the EBT held 877,337 Company shares in trust (representing 0.14% of the Company's issued share capital). The Trustee may vote the shares it holds in the Company at its discretion, but where it holds any shares in a ringfenced account for particular employees it will seek their instructions on how it exercises the votes attached to those shares. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on the shares in the Company held in the EBT, except the shares it holds in ringfenced accounts for particular employees where it received the dividends on such shares and passes them through to such employees.

Equity placing and related subscription for shares

On 11 May 2020, the Company placed via placing agents 101,918,947 new ordinary shares of 5 pence par value each, at a price of 230p per share, with a number of existing and new institutional shareholders pursuant to a placing and the Company issued a further 428,782 ordinary shares, at the same subscription price of 230p per share, to the then current Directors and certain Senior Managers of the Company who subscribed for shares alongside the placing, raising gross proceeds of approximately £235m. The placing (which was not technically an issue of shares for cash) and subscription (which was an issue of shares for cash) were effected at a price of 230p per share, representing a discount of approximately 3.1% to the middle market price of a Company share at the time on 6 May 2020 that the Company agreed the placing and subscription price. The total 102,347,729 new ordinary shares issued pursuant to the placing and related subscription rank *pari passu* in all respects with each other and the other ordinary shares in issue in the Company.

Major shareholdings

As at 31 December 2020, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

| Shareholder | Number of ordinary shares | Percentage of total voting rights ¹ |
|---|---------------------------|--|
| European Express Enterprises Limited | 66,481,891 | 10.83% |
| M&G plc | 42,091,624 | 6.85% |
| JP Morgan Asset Management Holdings Limited | 41,082,956 | 6.69% |
| Newton Investment Management Limited | 29,583,062 | 4.82% |
| J O Hambro Capital Management Limited | 25,165,433 | 4.10% |
| Tameside MBC re Greater Manchester Pension Fund | 18,792,873 | 3.06% |

¹ The total number of voting rights attaching to the issued share capital of the Company on 31 December 2020 was 614,086,377.

It should be noted that these holdings may have changed since the Company was notified of them however, as notification of any change is not required until the next notifiable threshold is crossed.

Between 31 December 2020 and 18 March 2021, being the period from the end of the Company's last financial year to the date on which this Directors' Report was approved, the Company was notified under DTR 5 of the following further interests in its shares representing 3% or more of the voting rights in its issued share capital:

| Shareholder | Number of ordinary shares | Percentage of total voting rights ¹ |
|-----------------------------------|---------------------------|--|
| Liontrust Investment Partners LLP | 30,633,777 | 4.99% |

¹ The total number of voting rights attaching to the issued share capital of the Company on 18 March 2021 was 614,086,377.

Directors

The names of the persons who were Directors of the Company at any time during the Company's financial year ended 31 December 2020, together with the periods during which they served as Directors, are:

| Director | Period served during 2020 |
|---------------------|---------------------------|
| Sir John Armitt CBE | 1.01.2020 – 31.12.2020 |
| Jorge Cosmen | 1.01.2020 – 31.12.2020 |
| Ignacio Garat | 1.11.2020 – 31.12.2020 |
| Chris Davies | 1.01.2020 – 31.12.2020 |
| Matthew Crummack | 1.01.2020 – 31.12.2020 |
| Mike McKeon | 1.01.2020 – 31.12.2020 |
| Dr Ashley Steel | 1.01.2020 – 31.12.2020 |
| Karen Geary | 1.01.2020 – 31.12.2020 |
| Ana de Pro Gonzalo | 1.01.2020 – 31.12.2020 |
| Chris Muntwyler | 1.01.2020 – 30.12.2020 |
| Lee Sander | 1.01.2020 – 30.12.2020 |
| Dean Finch | 1.01.2020 – 31.08.2020 |
| Matt Ashley | 1.01.2020 – 3.04.2020 |

Directors' interests

Save as disclosed:

- (a) in the Directors' Remuneration Report, none of the Directors, nor any person closely associated with them, has any interest in the Company's shares, debt instruments, derivatives or other linked financial instruments and there

has been no change in the information in the Directors' Remuneration Report regarding such interests between 31 December 2020 and 18 March 2021, being the date this Directors' Report was approved (and also being a date which is not more than one month before the date of the Notice of the Company's 2021 AGM); and

- (b) in note 37 to the Consolidated Financial Statements, none of the Directors has or had at any time during the year ended 31 December 2020 a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiary undertakings (other than the Executive Directors in relation to their Service Agreements).

Directors' service agreements and letters of appointment

The Executive Directors are party to service agreements with the Company which contain rolling terms subject to the giving by the Company or Executive Director of the relevant notice to terminate. All the Non-Executive Directors are party to letters of appointment with the Company which contain a term of between three and six years, extendable by agreement, subject to the giving by the Company or the Non-Executive Director of the relevant notice to terminate. All Directors' continued appointments as directors are also subject to annual election or re-election by shareholders and the powers of shareholders to remove directors.

These Directors' service agreements and letters of appointment are available for inspection at the Company's registered office. Further details of these agreements and letters are included in the current Directors' Remuneration Policy, a copy of which is available on the Company's website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration, and the proposed new Directors' Remuneration Policy which is set out on pages 104 to 112 of the Directors' Remuneration Report.

Directors' powers

Subject to the Companies Act 2006 (the Act), the Articles and any directions given by special resolution of the shareholders, the business of the Company is managed by the Board which may exercise all the powers of the Company. The Articles may be amended by a special resolution of the shareholders.

The Directors may pay interim dividends where, in their opinion, the financial position of the Company justifies such payment and the Directors may recommend that shareholders declare dividends and, if so declared by ordinary resolution of shareholders, arrange for payment of such dividends. Where authorised to do so by ordinary resolution of the shareholders, the Directors may issue shares or rights to subscribe for shares or securities convertible into shares in the Company. Where the Company is authorised to do so by special resolution of the shareholders, the Directors may arrange for the Company to purchase its own shares, up to any limits specified in such resolution. The Directors may also appoint other Directors in the circumstances described on the next page.

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors are set out in the Act and related legislation and the Articles.

The Board may appoint a Director either to fill a casual vacancy or as an additional Director provided that the total number of Directors does not exceed any maximum number of Directors prescribed in the Articles. A Director so appointed by the Board must retire and seek election to office at the next Annual General Meeting of the Company. Each Director must also retire and seek re-election to office at each Annual General Meeting of the Company.

In addition to the powers of removal conferred by the Act, the Company may by ordinary resolution of which special notice is given remove any Director before the expiry of their period of office and may by ordinary resolution appoint another person who is willing to act in their place. The Company may also by ordinary resolution appoint a Director either to fill a casual vacancy or as an additional Director.

In accordance with the Articles and the provisions of the UK Corporate Governance Code, all the current Directors will retire at the Company's 2021 Annual General Meeting and offer themselves for election or re-election. The Board is satisfied that each of the Directors standing for election or re-election at the 2021 Annual General Meeting is qualified for election or re-election to office by their contribution and commitment to the Board for the reasons given on pages 59 to 61 and page 80 of the Corporate Governance Report.

Directors' indemnities and insurance

The Company has granted qualifying third party indemnities to each Director and the Company Secretary to the extent permitted by law. Qualifying third party indemnities (as defined by section 234 of the Companies Act 2006) in relation to losses or liabilities incurred by the Company's Directors and Company Secretary to third parties in the actual or purported execution or discharge of their duties as officers of the Company and of its associated companies were in force during the year ended 31 December 2020 and remain in force as at 18 March 2021, being the date this Directors' Report was approved. The Company also maintains Directors' and Officers' liability insurance which provides appropriate cover in respect of legal action brought against its Directors and Company Secretary.

Significant agreements affected by a change of control

The Company is party to the following significant agreements that could be altered or terminate on a change of control of the Company following a takeover bid.

Under the terms of the Company's revolving credit facilities, the Company would upon a change of control have five days to notify the lenders of such change of control and if, following 10 days of negotiations to either confirm or alter the terms of such facilities no agreement has been reached, outstanding balances under such facilities could become repayable.

Under the terms of the Company's £1.5 billion Euro Medium Term Note (EMTN) programme (as updated on 13 October 2020), there is a change of control put option such that, upon a change of control put event, any holder of EMTNs issued under the programme may require the Company to redeem or purchase such EMTNs.

Under the terms of a Note Purchase Agreement (entered into on 30 July 2012) relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021 and a Note Purchase Agreement (entered into on 29 October 2019) relating to the issue by the Company of £134,000,000 2.38% Series A Senior Notes due 10 June 2027, €43,000,000 1.11% Series B Senior Notes due 7 May 2027, €137,000,000 1.33% Series C Senior Notes due 7 May 2030, €60,000,000 1.46% Series D Senior Notes due 7 May 2032 and \$81,000,000 3.11% Series E Senior Notes due 10 June 2027, the Company is required to offer to repay the holders of all such Notes the entire unpaid principal and interest on such Notes on a change of control of the Company.

Under the terms of the Company's £500,000,000 Perpetual Subordinated Non-Call 5.25 Fixed Rate Reset Notes (issued on 24 November 2020) there is a change of control option such that, upon a change of control event, the Company may redeem such Notes (in whole but not in part) plus accrued interest, or otherwise incur an interest rate step-up of 5% on the prevailing interest rate effective from the date on which the change of control event occurs.

Under the terms of some of the Group's vehicle leasing facilities, where the Company is a guarantor of such facilities, a change of control of the Company may amount to an event of default which could result in outstanding balances under such leasing facilities becoming repayable.

Under the rules of each of the Group's active share schemes, following a change of control of the Company, the vesting of awards made under such schemes will be accelerated and, where performance targets are attached to the awards, the number of awards to vest will be determined according to the extent to which performance targets have been met. Each of the share schemes also allows, under certain circumstances and where the acquiring company has agreed, new awards to be granted in the acquiring company in place of the original awards, which will be granted to give substantially equivalent value to the awardees.

Due to the size of certain of the Company's credit facilities, note purchase agreements and leasing facilities, absent consent from the relevant lenders, noteholders and lessors to a change of control following a takeover bid or the bidder being able to refinance such facilities and borrowings upon its takeover bid being accepted and taking effect, their repayment, termination or default upon such change of control could create significant liquidity issues for the Company and could also trigger cross-defaults into other of the Company's and the Group's credit and leasing facilities.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, save that the provisions of the Group's active share incentive schemes may cause awards made under them to Directors and employees in the form of share options to vest on a takeover bid being accepted and taking effect, or, under certain circumstances and where the acquiring company agrees, new awards to be made in the acquiring company in place of the original awards to give substantially equivalent value to the awardees.

Employee matters Engaging with our workforce and taking their views into account

The Group places considerable value on engagement with its workforce and various mechanisms are used to communicate and engage, from the top down to local level.

The Group Chief Executive Officer and Group Chief Financial Officer personally issue communications to the workforce during the year giving updates on the Group's safety, operational and financial performance and communicating the Company's strategy, risk management procedures and key Group-wide initiatives. The Company's Non-Executive Directors also engage directly with the Group's workforce in the ways described in the Corporate Governance Report on pages 68 and 69.

This personal Board-level engagement is supplemented by regular corporate communications which give updates about the Group's key successes and challenges, such as changes in trading conditions, changes in management structures, business acquisitions and disposals, contract wins and losses, major accidents or incidents, new policies and procedures, new Covid-related health and safety measures, the nominations and winners of the Group Values Awards and other newsworthy events.

Recognising that the Company is the parent of an international group of companies and, as the parent company, employs fewer than 250 employees but, via its Group, employs and engages many thousands of colleagues including employees and other workers, further communication and engagement with the wider Group workforce occurs via the Company's subsidiaries which make up its divisions and which are the direct employers or hirers of such workers. The divisions communicate and engage with their respective workforces through a variety of means, including:

- the regular issue of newsletters, providing information about divisional performance and other matters of interest to colleagues, including operational successes and challenges, patronage trends, new ticketing prices or arrangements, new business partnerships, recent accidents or incidents, and top tips for staying safe;
- one-to-team communications between team leaders and their teams and one-to-one communications between line managers and their direct reports raising awareness of matters covered by corporate communications and newsletters, dealing with team priorities and objectives or dealing with matters relevant to individual colleagues;
- consultation with trade unions where appropriate on matters that affect our employees who are their members, including regarding pay and changes in working practices;
- formal consultation with employees where required in accordance with applicable law, for example where there is a transfer of an undertaking or where certain redundancies are proposed;

- in the case of some divisions, a monthly 'ask the manager' conference call which employees of that division may join to hear an update about its performance in the month and to ask, anonymously if they wish, any questions they have for management; and
- in the case of all divisions, participation in employee engagement surveys, the results of which are shared with the workforce and, in the case of any areas identified for improvement, action plans are developed, supported by local engagement champions.

As explained elsewhere in the Annual Report, during the Covid-19 pandemic the Company and its subsidiaries have further enhanced their communication and engagement with colleagues, including by:

- establishing more forums in which colleagues can ask management questions relating to the pandemic or other matters, for example in the UK bus division a weekly 'Slido' presentation containing all questions asked of, and answers given by, management;
- having even more regular one-to-team and one-to-one meetings with colleagues to keep them updated on the latest operational and safety impacts of the pandemic on the businesses and to generally keep in touch with colleagues working from home and colleagues placed on furlough.

The views of employees and other workers, obtained via these engagement mechanisms, are often taken into account by the Company's Board and its subsidiaries' boards when taking decisions. For example, where employees suggested helpful ways in which the Company and its subsidiaries could improve new working practices and health and safety procedures introduced to manage the impact of the Covid-19 pandemic, those working practices and health and safety procedures were adjusted accordingly. When our UK bus drivers called for more support to encourage more passengers to wear face coverings on our bus services in the West Midlands, we responded by allocating more bus inspectors to encourage our passengers to do so and we liaised with the West Midlands Transport Police so that they also allocated more transport police to enforce UK government mandates on wearing face coverings on public transport.

Involving employees in Company performance

As illustrated on page 64 of the Corporate Governance Report, the Company's Values underpin its strategy and are key to the fulfilment of its Purpose. As such, promotion of those Values and encouragement of every member of the Group's workforce to live by such Values is the most effective way of involving them in the Company's and its Group's performance.

Every year, divisional employees nominate their colleagues for demonstrating behaviours which exemplify the Company's Values. The divisional winners in each Value category are given a cash prize and nominated for the Group Values Awards. The overall winners of the Group Values Awards are chosen at an annual event which brings employees from across the Group's global businesses together to honour and congratulate their achievements. Due to the Covid-19 pandemic, the Group Values Awards was held remotely in 2020 as it was important to still recognise and reward the ways in which our colleagues have gone above and beyond in the call of duty.

The Company does not operate an all employees' share scheme due to the size, nature and geography of the Group's workforce, for many of whose members shares in a UK company would not act as an appropriate reward or incentive. Rather, the Company and its Group place emphasis on fair pay structures across the Group and local bonus schemes to recognise and reward good performance.

Promoting common awareness among employees of financial and economic factors affecting Company performance

Various mechanisms ensure that the management teams across the Group are aware of the Company's strategy and of the financial, economic and other factors which affect the Company's performance and ability to deliver its strategy. These include:

- annual divisional conferences at which the Company's Executive Directors, divisional senior management and other managers attend to discuss the Group's strategy and agree the divisions' priorities to deliver strategy; and
- monthly Group Executive Committee meetings and divisional executive committee meetings, all of which are attended by the Company's Executive Directors, as well as monthly divisional subsidiary board and committee meetings at which strategic priorities are relayed and performance against them is tracked.

Various of the Company and divisional workforce mechanisms described above are also used to relay Company strategy and explain the key factors that affect the Company's performance to other members of the workforce, including those working on the frontline. For example, newsletters discuss patronage levels and ticket prices which are the key financial and economic factors affecting open network services, and one-to-team and one-to-one communications cover costs and performance levels of services which are the key financial and economic factors affecting services performed under contract.

Equal opportunities

The Company and all members of its Group are equal opportunities employers and our Group Equal Opportunities Policy is to treat all employees equally, irrespective of race, gender, disability, age, sexual preference, marital status, employment status, religious or political beliefs and social background. The Company gives full and fair consideration to disabled applicants for employment having regard to their skills and capabilities, as confirmed in its Recruitment and Selection Policy, as well as recognising its obligations in connection with the continuing employment and training of members of the workforce who have become disabled whilst in the Company's employment. Where an employee becomes disabled, the objective is to retain their services wherever possible. The Company also works to ensure the continued career development of disabled persons including through training and promotion wherever their skills and capabilities permit.

The Company and all members of its Group also promote an environment free from discrimination, harassment or victimisation and a culture in which members of the workforce are able to raise concerns without suffering detrimental treatment. They can do this by speaking with their line managers, any HR team members or via the Company's whistleblowing 'hotline', through which colleagues can raise concerns in confidence and anonymously if they wish. All such concerns raised in good faith are duly investigated and acted upon and, if or where concerns raised are material, those are then reported to the Company's Board of Directors.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 31 December 2020 (2019: nil political donations; £7,000 political expenditure). The Company's policy is that neither it nor its subsidiaries make what are commonly regarded as donations to any political party. However, the Act's definition of political donations includes expenditure that could capture other business activities which would not normally be thought of as political donations, such as subscriptions, payment of expenses and support for bodies representing either the transport industry specifically or the business community in general in policy review or reform. The resolution being proposed at the Company's 2021 Annual General Meeting to authorise political donations and expenditure is to ensure that these normal business activities are permitted and that neither the Company nor its UK subsidiaries commit any technical breach of the Act.

Audit information

Each of the persons who are Directors as at 18 March 2021, being the date this Directors' Report was approved, confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and that he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The Company's 2021 Annual General Meeting ('AGM' or 'Meeting') will be held at, and broadcast from, Ashurst LLP, London Fruit & Wool Exchange, 1 Duval Square, London E1 6PW at 2.00pm on Wednesday, 12 May 2021. A separate circular, comprising a letter from the Chairman, Notice of the Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Both documents can also be found on the Company's website at: www.nationalexpressgroup.com

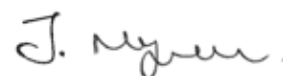
The Company is conducting the 2021 AGM as a 'hybrid' meeting as permitted by its Articles of Association adopted at its 2020 AGM. A hybrid meeting would ordinarily give shareholders (or their proxies or corporate representatives) the opportunity to attend and participate in the Meeting both physically and virtually, i.e. electronically without the requirement for physical attendance at the Meeting.

However, in line with the UK government's roadmap out of the current UK national lockdown, it is unlikely that indoor public gatherings will be permitted on the date of the Meeting. Accordingly, we currently expect to hold the Meeting as a 'closed' meeting with physical shareholder presence restricted to two Director shareholders in order to form the necessary quorum. Nevertheless, shareholders will still be able to attend and participate in the Meeting virtually. Full details on how to vote and attend the Meeting virtually can be found in the Notice of Meeting. Any update to the arrangements for the conduct of the Meeting will be made by market and announcement and communicated via our website: www.nationalexpressgroup.com/investors/aggm/2021

Approval

The Directors' Report was approved by the Board on 18 March 2021.

By Order of the Board



Jennifer Myram

Group Company Secretary
National Express Group PLC
Company number 2590560

Legal and regulatory framework

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and Article 4 of the International Accounting Standards Regulation, and have elected to prepare the parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (combining United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'.

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare such financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with applicable law and regulations.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.



Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Ignacio Garat
Group Chief
Executive
Officer

Chris Davies
Group Chief
Financial
Officer

18 March 2021

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of National Express Group Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and parent Company Balance Sheets;
- the Consolidated and parent Company statements of changes in equity;
- the Consolidated cash flow statement;
- the related notes 1 to 40 for the Consolidated Financial Statements; and
- the related notes 1 to 20 for the parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).





2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

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| Key audit matters | <p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Impairment of goodwill and other intangible and fixed assets; – North American insurance and other claims provisions; – Going Concern; and – Classification and disclosure of separately disclosed items. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk |
| Materiality | <p>The materiality that we used for the Group Financial Statements was £10 million, which was determined based on consideration of three key metrics: EBITDA before exceptional items, net assets and revenue. This is a revised approach from the prior year, when materiality was determined based on normalised profit before tax.</p> |
| Scoping | <p>The Group is organised into four operating divisions, each of which has its own sub-consolidation, plus the head office function. Audit work for these components was completed to levels of materiality between £3.1 million and £4.2 million, with head office materiality set at £8.6 million. The components and head office account for 100% of Group revenue, operating loss and Group net assets.</p> <ul style="list-style-type: none"> – Full scope audit work was completed on a divisional sub-consolidation basis for UK, North America, Germany and Spain, including Morocco (referred to as ALSA). – Full scope audit procedures have been performed on the parent Company Financial Statements and the consolidation process. – All other parts of the Group have been subject to analytical review procedures. |
| Significant changes in our approach | <p>We have included Going Concern and classification and disclosure of separately disclosed items as new key audit matters for the current year. The impact of Covid-19 had a wide-ranging adverse impact on the Group and has created uncertainty over their ability to continue as a going concern. This unprecedented pandemic has also given rise to new separately disclosed items that required management judgement around the classification and presentation.</p> <p>The valuation of customer intangibles and put option liability arising from the WeDriveU acquisition reported as a key audit matter in the prior period has not been included this year. The acquisition completed in 2019 and the finalisation of the acquisition accounting significantly reduces the judgement involved. Combined with the remaining short term period on the option, there is reduced sensitivity of the forecasting to reasonably possible changes and therefore we decided not to include this as a key audit matter in the current year.</p> |

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impairment of goodwill and other intangible and fixed assets

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| Key audit matter description | <p>Total goodwill, intangible assets and property, plant and equipment at 31 December 2020 were £3,085 million (2019: £3,250 million). The most significant balances relate to the Spanish and the North America divisions which are £1,334 million (2019: £1,341 million) and £1,364 million (2019: £1,502 million), respectively.</p> <p>There is a risk surrounding the recoverability of these balances, as assessed annually by management as part of their impairment review, using discounted cash flows on a value in use basis. This risk has been heightened in the current year as a result of the impact of COVID-19 on the Group, which has led to a number of impairments being identified and recorded. Further details are outlined in notes 2, 14 and 15 to the financial Statements.</p> <p>Estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate and perpetual growth rate to use. The perpetual growth rate applied in the model is the key judgement as the value in use models are sensitive to changes in perpetual growth rate, which must reflect a long-term view of underlying growth in each respective economy. This is inherently linked to the projected pace of recovery from Covid-19, which is another key assumption that underpins management's assessment of the recoverability of the assets and is subject to judgement. While the post-tax discount rate was also identified as a key judgement in prior years, in the current year, the models are not sensitive to it changing due to falling rates as a result of market changes providing more headroom in management's impairment assessments. It is therefore no longer deemed to be a key judgement.</p> <p>For other tangible and intangible assets we have considered management's assessment of the trigger for impairment and similarly identified the growth rates over the useful life of the assets to be the key judgement. This is also impacted by the Covid-19 recovery assumptions, which have a greater impact over a shorter useful economic life.</p> <p>Potential fraud risks are identified in relation to the key judgements in assessing goodwill and other fixed assets for impairment due to the potential risk of inappropriate management bias.</p> <p>The Audit Committee Report on page 87 refers to goodwill and fixed asset impairment as a key judgement considered by the Audit Committee. Note 2 to the financial Statements sets out the Group's accounting policy for testing goodwill and other fixed assets for impairment. The basis for the impairment reviews is outlined in note 14 to the financial Statements, including details of the pre-tax discount rate and perpetual growth rate used. Note 14 to the financial Statements also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs.</p> |
| How the scope of our audit responded to the key audit matter | <p>Our procedures for challenging management's methodology and assumptions focussed on the Group's most material goodwill and tangible and intangible interests in Spain and North America and included:</p> <ul style="list-style-type: none"> – obtaining an understanding of relevant controls around impairment identification, review and the associated forecasts; – assessing the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions; – understanding the underlying process used to determine the risk-adjusted discount rates; – assessing the appropriateness of any changes to assumptions since the prior period; – challenging the cash flow forecasts with reference to historical forecasts, actual performance and independent evidence to support any significant expected future changes to the business. This included challenge of the forecasted short-term recovery from Covid-19 and the assumptions underlying the expected recovery rate and considering these in the context of external benchmarks; – working with our valuation specialists to benchmark the discount rates and perpetual growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetual growth rates versus the risk adjustments made to the underlying cash flows; – evaluating whether there was sufficient headroom or indicators of impairment based on the above assessed reasonableness of assumptions underpinning the models for goodwill, tangible assets and intangible assets impairment models; and – assessing the appropriateness of the disclosure included in the Financial Statements including the sensitivity analysis provided. |
| Key observations | <p>We determined that there is currently sufficient headroom for both the Spanish division (ALSA) and the North America division such that we concur with management that no impairment is required to goodwill. We have also concluded that the related disclosures are appropriate.</p> <p>Further, we conclude that the impairments recorded against other tangible and intangible assets in the current year are materially accurate and in line with the expected impairment levels assessed through our audit responses to the above risk.</p> |

5.2. North American insurance and other claims provision



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| Key audit matter description | <p>The Group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £80.7 million at 31 December 2020 (2019: £93.7 million), £76.2 million (2019: £76.2 million) relates to the North America division. This reflects historical claims being managed by the Group, as well as provision for new claims identified in the year, including amounts arising from Covid-19 as disclosed in Note 2 and 5 of the Financial Statements. Due to the judgement involved in estimating provisional liabilities, a contingent liability for Covid-19 General Liability claims has also been disclosed in Note 36 to the Financial Statements.</p> <p>Estimation of insurance and other claims provisions is highly judgemental and is based on assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the Balance Sheet date. The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided for.</p> <p>Given the level of complexity and judgement involved in making these estimations, management utilises an independent actuarial expert to estimate a range of potential outcomes for the liability relating to their large portfolio of low value claims. There is a risk of material misstatement, whether due to error or inappropriate management bias, and therefore the eventual outcome could be materially different from that estimated and provided for.</p> <p>There are a number of key judgements in relation to the insurance and other claims provision: appropriateness of the Income Statement charge; actuarial assessment of the high volume lower value claims and claims specific to Covid-19, determined by management in conjunction with Willis Towers Watson ("WTW") as independent actuaries as noted above; assessment of the provision for historical acquisition provisions and larger individual claims; and finalisation of the fair value of provisions recorded in respect of acquisitions in the prior period. There were no acquired provisions in the year.</p> <p>Other than the need for estimating claims specific to Covid-19, for which management engaged the services of an independent actuarial expert, there have been no significant changes to the nature or basis of the provision in the current year so we have assessed the level of risk as remaining stable.</p> <p>The Audit Committee Report on page 88 refers to North American insurance and other claims provisions as a key judgement considered by the Audit Committee. This area has also been highlighted as a key accounting estimate and judgement in note 2 to the Financial Statements. Details of the Group claims provision are given in note 26 to the Financial Statements, with the contingent liability relating to Covid-19 General Liability disclosed in note 36 to the Financial Statements.</p> |
| How the scope of our audit responded to the key audit matter | <p>Our procedures performed for challenging management's methodology and assumptions included:</p> <ul style="list-style-type: none"> – Obtaining an understanding of the relevant controls around the claims handling process and estimation and recognition of the liability; – Working with our actuarial specialists, we challenged the assumptions inherent in the valuation produced by the Group's actuary in North America for the high-volume lower value claims and Covid-19 claims, such as the loss development factors and ultimate expected losses, and further challenged the position through re-performing the actuarial calculation to develop a valuation range. This included an assessment of historical accuracy of forecasting and settlements entered into. Additionally we have assessed the competence of management's expert and considered their independence and objectivity. – For the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to independent third party reports to assess the expected range of possible outcomes. – We compared the overall level of provision recorded to the range determined by management and the Group's actuary, to assess whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as working with our actuarial specialists to perform the independent assessment of the range for higher-volume lower value claims. – We considered the appropriateness of the recognition of the provision in the context of the applicable reporting framework (IAS 37) and the disclosure of a contingent liability. |
| Key observations | <p>As part of our detailed audit work testing the various aspects of the provision, including the Covid-19 claims provision and Income Statement charge for the year, we did not identify any material exceptions.</p> <p>As a result, we concluded the overall balance sheet position is in line with our expectations and lies on the mid-point of the reasonable range.</p> |

5.3. Going Concern

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| Key audit matter description | <p>Due to the wide-ranging adverse impact of the pandemic on the global economy and the transport sector in general, the Group continue to face uncertainties regarding their ability to continue as a going concern. Whilst the Group has significant liquidity, it is reliant on continuing to comply with its amended covenants, with those related to EBITDA being more sensitive to events or actions outside of the control of the Group. In response to this risk, management have negotiated changes to their covenants. These include renegotiations on interest cover, gearing ratios, net debt and minimum liquidity which are set out in Note 2 to the Financial Statements. From June 2022 the covenants return to the pre-pandemic levels.</p> <p>Given the increased uncertainty brought about by the pandemic and ongoing risk of covenant breach in the next 12 months, we have identified Going Concern as a new key audit matter to be disclosed in the audit report.</p> <p>There are judgements surrounding the forecasting of the future cash flows and financial performance that will allow the entity to continue as a Going Concern. Management have created forecasts for base case and downside scenarios (reasonable worst case), with reverse stress testing also performed to determine levels at which covenant thresholds are breached. The results of these forecasts and the key assumptions mentioned below are set out in Note 2 to the Financial Statements.</p> <p>There are a number of key judgements identified within this forecasting surrounding the following assumptions:</p> <ul style="list-style-type: none"> – Recovery of passenger numbers due to the easing of lockdowns, the reopening of schools in North America, the pace and effectiveness of vaccination programmes, and the wider macroeconomic recovery of the UK and ALSA divisions in particular; – Government assistance ceasing past H1 2021 across all divisions; – The ability to deliver mitigated savings should the business start tracking towards its reasonable worst case scenario. <p>The forecasting is sensitive to the above assumptions as any outcome wherein these assumptions are not achieved could result in the Group breaching covenants in future with liquidity challenges also arising. As such, it would result in the Group not taking appropriate mitigating action (whether cost reduction or obtaining further covenants amendments/waivers) in time to ensure it can continue as a Going Concern.</p> <p>The Board's conclusion on the Group's ability to continue as a going concern, including the key assumptions made in modelling base and downside scenarios are reported in Note 2 to the Financial Statements and on page 84 of the Audit Committee Report.</p> |
| How the scope of our audit responded to the key audit matter | <p>Our procedures performed for challenging management's methodology and assumptions included:</p> <ul style="list-style-type: none"> – Obtaining an understanding of the relevant controls around the budgeting process at a business unit and Group level; – Assessing underlying assumptions which support management's analysis of its cost base and the levels of inherent risk in its revenue streams; – Performing a sensitivity analysis to determine whether the forecast was appropriate in light of any contradictory evidence considering the significant judgement involved; – Challenging the recovery assumptions in the forecasts against external economic forecasts from the IMF and OECD, as well as other relevant information about respective markets (i.e. US School Bus/Transit industry reports) that may contradict management's assessment; – Considering recent available evidence of infection levels, government supports and vaccination programmes in Spain, the UK and the US, comparing and contrasting that to the reasonable worst case assumptions used; – Reviewing and assessing the level of headroom available to the Group from its loan facilities and assessed the risk of breaching this; – Obtaining signed copies of financial facilities and covenant waivers and agreeing the terms and conditions of the waivers against the forecasted performance; – Challenging management's reverse stress test analysis by assessing the point at which covenants are breached in the context of a reasonable worst case scenario and performing a sensitivity analysis on the key variables; – Obtaining and performing analysis on the 2020 actual results and benchmarking this against management's historical forecasts, including agreeing the Group forecasts back to local divisional budgets, to assess the appropriateness of management's previous budgeting; and – Assessing the disclosures made by the Group around its going concern assumptions. |
| Key observations | <p>After considering all available evidence, including contradictory evidence, we concur with management's conclusion that the series of scenarios and events which would be required to trigger a covenant breach is considered to be 'remote', and therefore that the going concern basis of preparation is appropriate and that there are no events which may cast significant doubt on the ability of the Group to continue as a going concern.</p> |

5.4. Classification and disclosure of separately disclosed items

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| Key audit matter description | <p>The Group ordinarily presents a "middle column" on the face of the Income Statement, representative of exceptional items that are material and not in the ordinary course of business. As a result of Covid-19 there are a number of items this year which meet management's consideration criteria for treatment as separately disclosed items as set out in Note 2 and 5 to the Financial Statements and on page 87 of the Audit Committee Report.</p> <p>Consistent with prior years, management's criteria for treatment as a separately disclosed item include items that are material in quantum or nature, not in the normal course of business and that are consistent with prior year treatment. Further, management have considered FRC guidance to ensure that these items do not effectively 'carve out' elements of broader costs recognised. For instance Covid-19 related costs in the "middle column" of the Income Statement should be incremental and directly related to the impacts of the pandemic, but the identification of such impacts on an entity's performance may be difficult without use of necessarily arbitrary assumptions which can overlook potential benefits. Due to the quantitative and qualitative significance of these items and the level of judgement inherent in ensuring that they represent truly exceptional costs consistent with the Group's historical practice, this is a new key audit matter in the current year.</p> |
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| How the scope of our audit responded to the key audit matter | <p>Our procedures performed for challenging management's methodology and assumptions in identifying and recording exceptional items included:</p> <ul style="list-style-type: none"> – Obtaining an understanding of relevant controls around the identification and disclosure of separately disclosed items; – Challenging the assumptions applied by management by considering recently published guidance from IASB, ESMA and FRC in presenting the separately disclosed items through the "middle column" of the Income Statement to assess whether these continue to be consistent with the previous application of management's separately disclosed items and in a manner that does not result in the Company effectively presenting a pro-forma Income Statement that assumed the pandemic did not occur; – Assessing the accuracy, completeness and occurrence of underlying charges that were ultimately classified and disclosed as exceptional; and – Evaluating and challenging the disclosures made by the Group around its separately disclosed items by assessing them against the disclosure criteria. |
| Key observations | We have concluded that separately disclosed items were materially consistent with management's existing policies and recently published guidance from IASB, ESMA and FRC. |

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

| | Group Financial Statements | Parent Company Financial Statements |
|--|---|---|
| Materiality | £10m (2019: £12m) | £8.6m (2019: £8m) |
| Basis for determining materiality | <p>We determined materiality after considering EBITDA before exceptional items, net assets and revenue. This materiality level equates to 0.7% of net assets, 5.4% of EBITDA before exceptional items and 0.5% of revenue.</p> <p>This is a revised approach from the prior year, when materiality was determined based on 5% of normalised profit before tax.</p> | The parent Company materiality has been set at 86% (2019: 67%) of Group materiality, which equates to 0.5% (2019: 0.6%) of the parent Company's net assets. |
| Rationale for the benchmark applied | <p>The benchmarks have been chosen to determine a materiality that considers both Balance Sheet and Income Statement metrics as we recognise users' concerns have shifted to be more asset-based and liquidity-based given the current year going concern risk.</p> <p>The previously used normalised profit before tax, which has been historically stable, has been impacted in the current year to the extent of not being an appropriate benchmark for current year materiality when considering the users of the financial Statements.</p> | Net assets is considered as an appropriate benchmark for the parent Company given that it is mainly a holding company. |

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

| | Group Financial Statements | Parent Company Financial Statements |
|--|--|---|
| Performance materiality | 70% (2019: 70%) of Group materiality | 70% (2019: 70%) of parent Company materiality |
| Basis and rationale for determining performance materiality | <p>When determining performance materiality we have considered the quantum of likely uncorrected misstatements that we anticipated in planning the audit for the current year. This included our professional judgement and considerations on:</p> <ul style="list-style-type: none"> – the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit; – relevant factors about the Group's control environment, as outlined in Section 7.2; and – the impact of Covid-19 on the business and the whether it would affect our ability to forecast misstatements and its impact on management bias. | |

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5m (2019: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focussed our Group audit scope primarily on the audit work at the four operating divisions (UK, Germany, Spain (ALSA) and North America) and the Group head office function. Each operating division produces its own sub-consolidation and was subject to an audit that was scoped relevant to

its component materiality level, which was between £3.1 million and £8.6 million (2019: between £4.4 million and £8 million). This audit work was performed by Deloitte Touche Tohmatsu Limited member firms. The Group head office work was performed to a component materiality level of £8.6 million (2019: £8m). We also tested the consolidation process and carried out analytical procedures to reconfirm our conclusion that there were no significant risks of material misstatement to the Group from the remaining components not subject to audit.

The four operating divisions and the Group head office function contributed 100% (2019: 100%) of Group revenue and 100% (2019: 100%) of Group operating loss and 100% (2019: 100%) of Group net assets.

7.2. Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography. For the four operating divisions and for head office we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Management systems for each business that govern the general ledger and contract accounting balances. In addition, we identified the Group-level Hyperion consolidation system as relevant for which we engaged IT specialists as part of our planned audit procedures in relation to the IT control environment.

During the course of our audit we placed reliance on controls relevant to the recording of certain revenue streams in the Spanish division and the UK Coach division, which included reliance on relevant IT systems. Other than for the above mentioned areas, we generally planned for and executed a fully substantive audit in the current year, with no controls reliance taken in North America, Germany or the UK.

We identified a number of control deficiencies in relation to the North American division during the current year, which we consider aggregate to a significant deficiency in financial control. Management is seeking to remediate these deficiencies in FY21, as reported on page 85 in the Audit Committee report. As a result, we reconsidered our risk assessment and modified the nature and extent of our testing.

7.3. Working with other auditors

The Group audit team continued to follow a programme of planned oversight designed so that the Senior Statutory Auditor and/or a senior member of the audit team continually oversees each of the three non-UK divisions where the Group audit scope was focussed. In previous years, this included at least one physical visit per year, but in light of Covid-19 travel restrictions this has been replaced with virtual communications and oversight. In relation to the current year audit the Senior Statutory Auditor has maintained appropriate oversight of non-UK components and both UK divisions for component reporting and reviewing purposes.

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/ auditors responsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;

- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team, including significant component audit teams, and relevant internal specialists, including tax, valuations, pensions, IT and actuary regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- the estimation of North American insurance and other claims given the level of judgement involved;
- management assumptions on the perpetual growth rate applied to the goodwill impairment model;
- the completeness and accuracy of deferred revenue in relation to pre-booked tickets and pre-paid travelcards in the UK components and the cut off of contractual revenue in the Spain division;
- the completeness and accuracy of the accrued grant income dependent on the gross loss of the contracts and their percentage completion in the German division;
- management assumptions on the forecasted cash flows used in the assessment of the entity to continue preparing accounts on the Going Concern basis; and
- the judgement applied to the classification and disclosure of separately disclosed items.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation and Regulations from the Traffic Commissioners.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence, regulatory solvency requirements and environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of goodwill and other intangible and tangible fixed assets, the valuation of the North America insurance and other claims provision, Going Concern and the classification and disclosure of separately disclosed items as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and overseas tax authorities in the jurisdictions in which the Group operates;
- completed focussed testing on the deferred revenue balance at the year end in the UK division by recalculating the deferred income held by each of the divisions based on journeys paid for compared to travelled by the year end and formed an expectation of revenues in Spain through examining a sample of key contracts;
- performed specific procedures around the completeness and accuracy of the accrued grant income within the German division when considering the gross loss and percentage completion of the contracts; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addressing the risk of fraud in relation to management's forecasting to assess the ability to continue as a going concern, we challenged recovery assumptions against external economic forecasts from the IMF and OECD and also considered recent available evidence of infection levels, government supports and vaccination programme in Spain, the UK and the USA, comparing and contrasting that to the reasonable worst case assumptions used. Additionally, we challenged management's reverse stress test analysis by assessing the point at which covenants are breached in the context of a reasonable worst case scenario and performing a sensitivity analysis on the key variables. We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 27;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 42;
- the Directors' statement on fair, balanced and understandable set out on page 134;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 36 to 41];
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 84 and 85; and
- the section describing the work of the Audit Committee set out on page 83 to 89.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

We were appointed by the Board on 14 June 2011 to audit the Financial Statements for the year ended 31 December 2011 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the year ending 31 December 2021 and subsequent financial periods through to 31 December 2030. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering periods from our initial appointment through to the period ending 31 December 2020.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed



Stephen Griggs, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

18 March 2021

Financial Statements
Group Income Statement
For the year ended 31 December 2020

| | Note | Underlying result 2020 £m | Separately disclosed items (note 5) 2020 £m | Total 2020 £m | Underlying result 2019 £m | Separately disclosed items (note 5) 2019 £m | Total 2019 £m |
|---|------|------------------------------------|--|---------------------|------------------------------------|--|---------------------|
| Revenue | 4 | 1,955.9 | – | 1,955.9 | 2,744.4 | – | 2,744.4 |
| Operating costs | 5, 6 | (2,006.7) | (330.6) | (2,337.3) | (2,449.1) | (53.0) | (2,502.1) |
| Group operating (loss)/profit | | (50.8) | (330.6) | (381.4) | 295.3 | (53.0) | 242.3 |
| Share of results from associates and joint ventures | 18 | (2.1) | – | (2.1) | 0.4 | – | 0.4 |
| Finance income | 10 | 3.3 | – | 3.3 | 8.6 | – | 8.6 |
| Finance costs | 10 | (56.5) | (8.0) | (64.5) | (64.3) | – | (64.3) |
| (Loss)/profit before tax | | (106.1) | (338.6) | (444.7) | 240.0 | (53.0) | 187.0 |
| Tax credit/(charge) | 11 | 29.3 | 88.7 | 118.0 | (55.2) | 16.5 | (38.7) |
| (Loss)/profit for the year | | (76.8) | (249.9) | (326.7) | 184.8 | (36.5) | 148.3 |
| (Loss)/profit attributable to equity shareholders | | (82.1) | (249.6) | (331.7) | 176.2 | (35.1) | 141.1 |
| Profit/(loss) attributable to non-controlling interests | | 5.3 | (0.3) | 5.0 | 8.6 | (1.4) | 7.2 |
| | | (76.8) | (249.9) | (326.7) | 184.8 | (36.5) | 148.3 |
| Earnings per share: | 13 | | | | | | |
| – basic earnings per share | | | | (57.9)p | | | 27.6p |
| – diluted earnings per share | | | | (57.9)p | | | 27.5p |

Details relating to separately disclosed items are provided in note 5.

Financial Statements

Group Statement of Comprehensive Income For the year ended 31 December 2020

| | Note | 2020 £m | 2019 £m |
|--|------|----------------|------------|
| (Loss)/profit for the year | | (326.7) | 148.3 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Actuarial (losses)/gains on defined benefit pension plans | 34 | (48.4) | 23.8 |
| Deferred tax on actuarial losses/(gains) | 11 | 10.8 | (4.3) |
| Losses on equity instruments classified as fair value through other comprehensive income | 17 | (1.6) | – |
| | | (39.2) | 19.5 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on retranslation of foreign operations | 33 | 34.5 | (109.1) |
| Exchange differences on retranslation of non-controlling interests | | 0.7 | (1.9) |
| Exchange gains reclassified to Income Statement on disposal of subsidiaries | | – | (1.0) |
| (Losses)/gains on net investment hedges | 33 | (10.0) | 38.1 |
| (Losses)/gains on cash flow hedges | 33 | (50.3) | 10.8 |
| Cost of hedging | 33 | 0.2 | 1.0 |
| Hedging losses/(gains) reclassified to Income Statement | 33 | 34.8 | (3.2) |
| Tax on exchange differences | 11 | 1.6 | (1.7) |
| Deferred tax on cash flow hedges | 11 | 3.8 | (2.5) |
| | | 15.3 | (69.5) |
| Comprehensive expenditure for the year | | (23.9) | (50.0) |
| Total comprehensive (expenditure)/income for the year | | (350.6) | 98.3 |
| Total comprehensive (expenditure)/income attributable to: | | | |
| Equity shareholders | | (356.3) | 93.0 |
| Non-controlling interests | | 5.7 | 5.3 |
| | | (350.6) | 98.3 |

Group Balance Sheet At 31 December 2020

| | Note | 2020 £m | 2019 ¹ £m |
|---|------|------------------|-------------------------|
| Non-current assets | | | |
| Intangible assets | 14 | 1,851.8 | 1,901.8 |
| Property, plant and equipment | 15 | 1,233.2 | 1,348.2 |
| Non-current financial assets | 17 | 14.3 | 24.9 |
| Investments accounted for using the equity method | 18 | 15.6 | 17.9 |
| Trade and other receivables | 20 | 91.7 | 9.6 |
| Finance lease receivable | 35 | 10.6 | 3.6 |
| Deferred tax assets | 27 | 140.5 | 31.8 |
| Defined benefit pension assets | 34 | 12.3 | 14.2 |
| Total non-current assets | | 3,370.0 | 3,352.0 |
| Current assets | | | |
| Inventories | 21 | 27.0 | 29.4 |
| Trade and other receivables | 22 | 391.7 | 496.8 |
| Finance lease receivable | 35 | 4.3 | 1.4 |
| Derivative financial instruments | 17 | 44.9 | 44.5 |
| Current tax assets | | 2.6 | 1.6 |
| Cash and cash equivalents | 23 | 520.5 | 478.3 |
| Total current assets | | 991.0 | 1,052.0 |
| Assets classified as held for sale | 19 | 18.8 | 4.3 |
| Total assets | | 4,379.8 | 4,408.3 |
| Non-current liabilities | | | |
| Borrowings | 28 | (1,313.0) | (1,091.0) |
| Derivative financial instruments | 28 | (10.6) | (9.6) |
| Deferred tax liability | 27 | (40.7) | (56.4) |
| Other non-current liabilities | 25 | (202.7) | (178.2) |
| Defined benefit pension liabilities | 34 | (147.4) | (104.2) |
| Provisions | 26 | (54.8) | (43.1) |
| Total non-current liabilities | | (1,769.2) | (1,482.5) |
| Current liabilities | | | |
| Trade and other payables | 24 | (861.3) | (1,056.5) |
| Borrowings | 28 | (167.0) | (649.2) |
| Derivative financial instruments | 28 | (23.0) | (37.8) |
| Current tax liabilities | | (2.2) | (8.8) |
| Provisions | 26 | (81.1) | (61.0) |
| Total current liabilities | | (1,134.6) | (1,813.3) |
| Total liabilities | | (2,903.8) | (3,295.8) |
| Net assets | | 1,476.0 | 1,112.5 |
| Shareholders' equity | | | |
| Called-up share capital | 32 | 30.7 | 25.6 |
| Share premium account | | 533.6 | 532.7 |
| Own shares | | (3.5) | (6.0) |
| Hybrid reserve | | 497.6 | – |
| Other reserves | 33 | 367.8 | 130.7 |
| Retained earnings | | 9.6 | 391.4 |
| Total shareholders' equity | | 1,435.8 | 1,074.4 |
| Non-controlling interests in equity | | 40.2 | 38.1 |
| Total equity | | 1,476.0 | 1,112.5 |

¹ Prior year balances have been represented to reclassify IFRIC 12 liabilities from borrowings to trade payables, see note 2 for further information

I Garat
Group Chief Executive
18 March 2021

C Davies
Group Chief Financial Officer

Financial Statements

Group Statement of Changes in Equity For the year ended 31 December 2020

| | Share capital £m | Share premium account £m | Own shares (note 32) £m | Hybrid reserve £m | Other reserves (note 33) £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|--|---------------------|-----------------------------|----------------------------|----------------------|--------------------------------|-------------------------|----------------|---------------------------------|--------------------|
| At 1 January 2020 | 25.6 | 532.7 | (6.0) | – | 130.7 | 391.4 | 1,074.4 | 38.1 | 1,112.5 |
| Loss for the year | – | – | – | – | – | (331.7) | (331.7) | 5.0 | (326.7) |
| Comprehensive expense for the year | – | – | – | – | 13.0 | (37.6) | (24.6) | 0.7 | (23.9) |
| Total comprehensive expense | – | – | – | – | 13.0 | (369.3) | (356.3) | 5.7 | (350.6) |
| Shares issued during the year (net of transaction costs) | 5.1 | 0.9 | – | – | 224.1 | – | 230.1 | – | 230.1 |
| Shares purchased | – | – | (3.9) | – | – | – | (3.9) | – | (3.9) |
| Own shares released to satisfy employee share schemes | – | – | 6.4 | – | – | (6.4) | – | – | – |
| Share-based payments | – | – | – | – | – | (0.3) | (0.3) | – | (0.3) |
| Tax on share-based payments | – | – | – | – | – | (1.6) | (1.6) | – | (1.6) |
| Issuance of hybrid instrument (net of transaction costs) | – | – | – | 495.5 | – | – | 495.5 | – | 495.5 |
| Accrued payments on hybrid instrument | – | – | – | 2.1 | – | (2.1) | – | – | – |
| Deferred tax on hybrid bond payments | – | – | – | – | – | 0.4 | 0.4 | – | 0.4 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | (1.6) | (1.6) |
| Other movements with non-controlling interests | – | – | – | – | – | (2.5) | (2.5) | (2.0) | (4.5) |
| At 31 December 2020 | 30.7 | 533.6 | (3.5) | 497.6 | 367.8 | 9.6 | 1,435.8 | 40.2 | 1,476.0 |

In May 2020, the Group issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1m and as the share issue qualified for merger relief under Section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve rather than the share premium account (see note 33). At the same time, the Group directly issued 428,782 ordinary shares of 230p each to members of the Board and executive management team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares has been recorded in share premium.

In November 2020, the Group issued a Sterling denominated hybrid instrument of £500m, with an annual coupon rate of 4.25%. The contractual terms of the instrument allow the Group to defer coupon payments and the repayment of the principle indefinitely. However any deferred payments must be made in the event of a dividend distribution. The terms also allow for the instrument to be redeemed at the option of the Group at five years after issue (first call date) and 10 years (second call date), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or change of control). As the Group has the unconditional right to avoid transferring cash or another financial asset in relation to this instrument, it is classified within equity. The annual coupon rate is fixed for the first five years, and thereafter reset according to the specific terms of the issuance. The net proceeds were £495.5m.

| | Share capital £m | Share premium account £m | Own shares (note 32) £m | Other reserves (note 33) £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---------------------|-----------------------------|----------------------------|--------------------------------|-------------------------|-------------|---------------------------------|--------------------|
| At 1 January 2019 | 25.6 | 532.7 | (7.0) | 196.4 | 426.6 | 1,174.3 | 22.9 | 1,197.2 |
| Change in accounting policies ¹ | – | – | – | – | (9.5) | (9.5) | – | (9.5) |
| At 1 January 2019 (restated) | 25.6 | 532.7 | (7.0) | 196.4 | 417.1 | 1,164.8 | 22.9 | 1,187.7 |
| Profit for the year | – | – | – | – | 141.1 | 141.1 | 7.2 | 148.3 |
| Comprehensive expense for the year | – | – | – | (67.6) | 19.5 | (48.1) | (1.9) | (50.0) |
| Total comprehensive income | – | – | – | (67.6) | 160.6 | 93.0 | 5.3 | 98.3 |
| Shares purchased | – | – | (6.2) | – | – | (6.2) | – | (6.2) |
| Own shares released to satisfy employee share schemes | – | – | 7.2 | – | (7.2) | – | – | – |
| Share-based payments | – | – | – | – | 5.6 | 5.6 | – | 5.6 |
| Tax on share-based payments | – | – | – | – | 0.5 | 0.5 | – | 0.5 |
| Reclassification in reserves | – | – | – | 1.9 | (1.9) | – | – | – |
| Dividends | – | – | – | – | (78.3) | (78.3) | – | (78.3) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (1.5) | (1.5) |
| Recognition of liabilities with non-controlling interests | – | – | – | – | (100.0) | (100.0) | – | (100.0) |
| Acquisitions and disposals of non-controlling interests | – | – | – | – | – | – | 9.6 | 9.6 |
| Other movements with non-controlling interests | – | – | – | – | (5.0) | (5.0) | 1.8 | (3.2) |
| At 31 December 2019 | 25.6 | 532.7 | (6.0) | 130.7 | 391.4 | 1,074.4 | 38.1 | 1,112.5 |

¹ Opening balances in 2019 were restated for the adoption of IFRS 16 'Leases'

Financial Statements
Group Statement of Cash Flows
For the year ended 31 December 2020

| | Note | 2020 £m | 2019 £m |
|---|------|----------------|------------|
| Cash generated from operations | 39 | (31.0) | 438.2 |
| Tax paid | | (8.1) | (25.0) |
| Interest paid | | (64.7) | (65.7) |
| Interest received | | 7.1 | 8.7 |
| Net cash flow from operating activities | | (96.7) | 356.2 |
| Cash flows from investing activities | | | |
| Payments to acquire businesses, net of cash acquired | 19 | (9.6) | (108.3) |
| Deferred consideration for businesses acquired | 19 | (27.3) | (14.8) |
| Proceeds from the disposal of business, net of cash disposed | 19 | 4.4 | 21.7 |
| Purchase of property, plant and equipment | | (215.3) | (116.5) |
| Proceeds from disposal of property, plant and equipment | | 17.7 | 9.7 |
| Payments to acquire intangible assets | | (22.7) | (28.0) |
| Proceeds from disposal of intangible assets | | 2.3 | 1.5 |
| Payments to settle net investment hedge derivative contracts | | (15.7) | (26.9) |
| Receipts on settlement of net investment hedge derivative contracts | | 10.9 | 15.9 |
| Payments relating to associates and investments | | (0.1) | (5.3) |
| Net cash flow from investing activities | | (255.4) | (251.0) |
| Cash flows from financing activities | | | |
| Share issue proceeds ¹ | | 230.1 | – |
| Issuance of hybrid instrument ² | | 495.5 | – |
| Lease payments | | (97.7) | (91.1) |
| Increase in borrowings | | 732.3 | 414.1 |
| Repayment of borrowings | | (940.5) | – |
| Payments to settle foreign exchange forward contracts | | (39.8) | (45.9) |
| Receipts on settlement of foreign exchange forward contracts | | 18.8 | 66.7 |
| Purchase of own shares | | (3.9) | (6.2) |
| Contribution from non-controlling interests | | – | 3.1 |
| Acquisition of non-controlling interests | | (4.0) | (1.8) |
| Dividends paid to non-controlling interests | | (2.2) | (0.7) |
| Dividends paid to shareholders of the Company | 12 | – | (78.3) |
| Net cash flow from financing activities | | 388.6 | 259.9 |
| Increase in cash and cash equivalents | | 36.5 | 365.1 |
| Opening cash and cash equivalents | | 478.3 | 117.7 |
| Increase in cash and cash equivalents | | 36.5 | 365.1 |
| Foreign exchange | | 5.7 | (4.5) |
| Closing cash and cash equivalents | 23 | 520.5 | 478.3 |

¹ Net of transaction fees totalling £5.3m

² Net of transaction fees totalling £4.5m

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the Group) for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 18 March 2021. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the United Kingdom (UK), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

Going concern

These Financial Statements have been prepared on the going concern basis (see Group Finance Director's Review on page 27) under the historical cost convention, except for the recognition of derivative financial instruments, financial assets at fair value through other comprehensive income and contingent consideration.

In adopting the going concern basis, the Directors have considered the Group's

- business activities;
- principal risks and uncertainties as set out on pages 36 to 41;
- exposure to the range of potential impacts of Covid-19 and also the depth and length of support provided by customers and governments; and,
- financial position, liquidity position and borrowing facilities as set out in the Group Finance Director's report within these Financial Statements.

The Group entered the Covid-19 pandemic in a strong liquidity position and this was further strengthened with an additional £190 million of bank loans and £230 million proceeds from the share placing in May 2020, and then a further £500 million (gross of fees) from the issuance of a hybrid instrument in November 2020. As at 31 December 2020, and also as of the date of publishing these Financial Statements, the Group had a total of £2.8 billion of debt capital, committed facilities and Bank of England Covid Corporate Finance Facility (CCFF), as set out in the Group Finance Director's report. At 31 December 2020 the Group had £1.9 billion in cash, undrawn committed facilities and CCFF available to it. For the purposes of the going concern assessment the Directors have excluded the £600 million CCFF when determining liquidity headroom and, whilst the Group can draw upon it up until 21 March 2021 for 12 months, the Directors are currently intending to allow it to lapse. The Directors have also not assumed any renewal or replacement of the £357 million of borrowing facilities that are currently scheduled to mature between now and the end of March 2022; any renewal or replacement of these, as well as any amounts issued under the £600 million CCFF programme, would provide further upside to the liquidity headroom in the Group's going concern assessment.

The Group has positive relationships and regular dialogue with its lenders. As set out on page 26, certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. For the 30 June and 31 December 2021 test dates, the gearing covenant has been waived by the lenders and the interest cover covenant has been amended to a minimum of 1.5x and 2.5x at 30 June and 31 December 2021 respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test (up to and including Q1 2022), a £1.6 billion maximum net debt test as at 30 June and 31 December 2021 and a restriction on dividend payment until normal covenant arrangements are back in place. All covenants are assessed on a pre-IFRS 16 basis.

The Directors continue to have a high degree of confidence in the long-term prospects. The Group has been winning contracts over recent months, with a strong pipeline of further opportunities. Whilst the pandemic has had a profound and rapid impact on travel patterns, with a shift away from public transport, this is not, in our view, sustainable as economies recover. Infrastructure constraints have not disappeared and climate change is rising in the public conscience and on government agendas. Clean, safe and efficient public transport is a clear solution, and this provides a strong backdrop for long-term growth for the Group.

2 Accounting policies continued

Notwithstanding the positive long-term outlook, the pandemic has clearly had an unprecedented impact on the Group and on the transport sector in general, and there is uncertainty over the pace of recovery in revenue over the short-term. In every country in which the Group principally operates, nationwide lockdowns of varying lengths were imposed from March 2020 and this resulted in the Group's revenue reducing by more than 50% year-on-year during the months of April and May 2020. As lockdown restrictions eased during the summer of 2020 we saw a steady improvement in activity levels, passenger numbers and revenue; Group revenue steadily recovered to around 30% down year-on-year by September. However, in response to second waves of Covid-19 governments re-imposed lockdowns and mobility restrictions. The UK Government announced in late October 2020 that the virus was spreading through England at a faster rate than their worst case scenario; a situation that was echoed elsewhere in the main countries in which the Group operates. The re-imposition of lockdowns and restrictions have not had as severe an impact on the Group's revenue as the initial lockdowns in Q2, but they have slowed down the pace of recovery. The second half of 2020 has turned out to be very close, in terms of both our assumptions on the external environment and our projections of the Group's financial results, to the reasonable worst case we set out at the time of publishing the half year Financial Statements in August. By December 2020 the Group's revenue remained circa 30% down year on year. The positive developments on vaccines, along with increased scale (relative to the initial outset of the pandemic) of governments' test and trace capabilities and wider abilities to contain the virus, bode well for the medium term recovery.

Our observations of, and responses to, the impact of the pandemic over recent months, along with our latest expectations of its continued impact over the going concern assessment period, have been carefully considered in arriving at an updated base case and reasonable worst case. We have then corroborated our own assumptions with external references, such as the predictions published by the IMF and OECD. The Directors have reviewed the base case and reasonable worst case projections, along with reverse stress tests. These scenarios and stress tests were used to evaluate liquidity headroom and compliance with revised covenants.

The key assumptions in the base case scenario are as follows:

- In the first half of 2021, a continuation of the circumstances observed in late 2020 and in early 2021: lockdowns and mobility restrictions with reduced commuting and consumer reticence for discretionary travel, along with continued social distancing mandated on UK public transport.
- In the second half of 2021 vaccines start to make a material impact on infection rates in the countries in which the Group principally operates, with a consequent lifting of mobility restrictions allowing a steady recovery in revenue such that by December 2021 group revenue recovers to close to what it was in December 2019 (although on a like-for-like basis, i.e. excluding new business or contracts, would remain below 2019).
- In Q1 2022 Group revenue is assumed to have recovered to be higher than it was in Q1 2019, albeit still below on a like-for-like basis.
- In the UK, a national lockdown is assumed for the first quarter of 2021, with the coach network fully shut down during that period.
- In North America school bus c.40% of schools remain closed for the entirety of the first half; an increased proportion of closures compared to Q4 2020. Closed schools continue to pay contribution towards costs, in order for us to minimise the number of employees that we lay off, at broadly the same levels as in Q4 2020. All schools assumed to be open after the summer break.
- Government support continues to be available as follows:
 - Job retention schemes in UK until end of April 2021, utilised in coach but not in bus.
 - Job retention scheme available in Spain at the enhanced level until May 2021 and then at pre-pandemic levels of support thereafter for the remainder of the assessment period.
 - US government funding available during H1 2021 at similar levels to 2020 to contribute to benefits for employees temporarily laid-off.
 - The Covid-19 Bus Services Support Grant ("CBSSG") continues to operate in the UK for the first part of the year, after which it is assumed to be replaced by a support scheme to pay for bus operators to maintain certain service levels until passenger levels return to close to pre-pandemic levels.
 - Covid-19 compensation provided by authorities in Germany and Spain on the same basis as provided in 2020; principally in H1.
- Substantial cost saving initiatives including group-wide reductions in administrative and managerial headcount. The majority of these cost saving initiatives have already been implemented or are already in progress.
- A partial unwind (cash inflow) of the negative working capital movement incurred in 2020; reflecting an increase in passenger revenue (and a reduction in subsidies, compensation or grants paid in arrears), along with an increase in payables as activity levels increase.

The key assumptions in the reasonable worst case scenario are as follows:

- Covid-19 vaccines are ineffective or are delayed, such that they do not have any impact on infection rates until late in the year.
- Lockdowns and severe mobility restrictions apply across the majority of the year and, accordingly, Group revenue for 2021 does not improve from 2020, and is therefore 25%-30% down on 2019 (even greater on a like-for-like basis), followed by a much slower recovery in Q1 2022 than assumed in the base case.
- 20% of schools remain closed in North America after the summer break.
- The UK Coach network is closed for the majority of the first half.
- Materially lower levels of government support available across the Group, including no revenue support from 1st July 2021. This is partially mitigated by reducing service levels in order to reduce costs.
- No partial unwind of the negative working capital movement incurred in 2020; reflecting continued lower levels of payables combined with delays in collection of receivables.

2 Accounting policies continued

Against this reasonable worst case the Group has applied mitigations in the form of further reductions in expenditure, over and above those reflected in the base case. The majority of these further cost savings have already been identified and can be swiftly implemented should the reasonable worst case scenario occur. Whilst the cost savings in the base case and reasonable worst case would involve restructuring activity, they do not involve significant structural changes to the Group.

In the base case and reasonable worst case scenarios the Group has a strong liquidity position over the next 12 months. The monthly cash consumption in the reasonable worst case is projected to average c.£40 million at the peak adverse point; this compares with £1.9 billion of liquidity as at 31 December 2020, or £1.3 billion excluding the £600 million CCFF. In the base case and reasonable worst case scenarios the Group also has headroom on all of its revised covenant tests.

In addition to the base case and reasonable worst case scenarios, the Directors have reviewed reverse stress tests, in which the Group has assessed the set of circumstances that would be necessary for the Group to either breach the limits of its borrowing facilities or breach any of the covenant tests.

In applying a reverse stress test to liquidity the Directors have concluded that the set of circumstances required to exhaust it are so extreme as to be considered clearly remote.

Covenants that include EBITDA as a component are more sensitive to reverse stress testing, because of the material impact that events or actions outside of the control of the Group, such as government-imposed lockdowns or withdrawal of government or customer support, can have on short-term revenue. The Directors have therefore conducted in-depth stress testing on the interest cover covenant, being the only covenant test during the going concern period that contains an EBITDA component. In doing so, a key assumption is the consideration and application of all cost mitigations that would be within the Group's control, and indeed that the Directors would have no alternative but to pursue, if faced with a short-term material EBITDA reduction and no lender support to amend or waive EBITDA-related covenants; this is a key assumption. Taking this into account the Directors concluded that the circumstances that would be necessary for covenants to be breached were remote.

In any case, should there be a more severe set of circumstances than those assumed in the reasonable worst case, the Group could also have a number of further mitigations available to it including: deeper and broader cost cutting measures, seeking further amendments or waivers of covenants, the renewal or replacement of borrowing facilities maturing in the next 12 months, raising further equity, sale and leaseback of vehicles, disposal of properties and disposal of investments or other assets.

In conclusion, the Directors have a reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Financial Statements. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements for the year ended 31 December 2020.

Changes in accounting policies and the adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for changes arising from new standards and amendments to existing standards that have been adopted in the current year.

Inter-Bank Offered Rate ("IBOR") Reform – Phase 1 (amendments to IFRS 9, IAS 39 and IFRS 7) were issued in September 2019 and were applied for the first time with effect from 1 January 2020. The Group does not hold any derivative financial instruments linked to IBOR rates such as LIBOR and EURIBOR that expire beyond 31 December 2021, therefore no existing hedge relationships have been affected as a result of adopting this amendment.

The Group has also early adopted Covid-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment gives lessees the option not to assess whether a Covid related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

The following other amendments and interpretations have been applied for the first time with effect from 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting

These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group makes certain adjustments to the statutory profit measures in order to derive many of its alternative performance measures (APMs). The Group's policy is to exclude items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods. The Group's policy remains unchanged from prior periods, however has been clarified to confirm how these adjustments are identified. The Board believes that making these adjustments to profit 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. These measures are consistent with how business performance is measured internally by the Board and Executive Committee. For additional information about the Group's accounting policy relating to separately disclosed items, see page 154.

2 Accounting policies continued

Prior year representation

In September 2019 the Group entered into a service concession arrangement with a Moroccan transport authority for the operation of public transport bus services. The infrastructure used in the agreement comprised public service vehicles. During December 2019, the Group acquired a number of vehicles, totalling £17.5m, subject to a lease arrangement. The right-of-use asset was correctly presented within infrastructure intangibles. However the liability for these leases was recorded in lease liabilities within borrowings, whereas in accordance with IFRIC 12 should have been recorded as a financial liability within contract liabilities.

This has been corrected by representing each of the financial statement line items for the prior period as follows:

| | 31 December 2019 (Reported) £m | 31 December 2019 (Represented) £m |
|--|--------------------------------------|---|
| Trade and other payables (current) | (1,052.9) | (1,056.5) |
| Trade and other payables (non-current) | (164.3) | (178.2) |
| Borrowings (current) | (652.8) | (649.2) |
| Borrowings (non-current) | (1,104.9) | (1,091.0) |
| Total liabilities | (3,295.8) | (3,295.8) |
| Net debt | (1,241.5) | (1,224.0) |

As this was a Balance Sheet reclassification there is no impact to operating profit, earnings per share or any other primary statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires the Group to make estimates and judgements that affect the application of the Group's accounting policies and reported amounts.

Critical accounting judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Management considered, throughout the year, the financial reporting impact associated with our identified principal risks which include the effects of COVID-19, climate change, and Brexit.

(i) Critical accounting judgements

Separately disclosed items

The Directors believe that the profit and earnings per share measures before separately disclosed items provide additional useful information to shareholders on the performance of the Group. These measures are consistent with how business performance is measured internally by the Board and the Group Executive Committee. The classification of separately disclosed items requires significant management judgement after considering the nature, cause of occurrence and the scale of the impact of that item on reported performance. The Group's definition of separately disclosed items is outlined on page 154. These definitions have been applied consistently year-on-year, with additional items due to, and certain directly attributable expenses resulting from the Covid-19 pandemic. Specifically, judgement has been required to identify incremental costs associated with the pandemic that are not expected to arise in future periods and do not form part of the underlying operating activities of the Group.

Note 5 provides further details on current year separately disclosed items.

Going concern

In concluding that the going concern assessment without material uncertainties was appropriate the Directors have made a number of significant judgements as detailed on pages 149 to 151.

(ii) Key sources of estimation uncertainty

Impairment of property, plant and equipment and intangibles

Determining whether assets are impaired requires an estimation of the value in use of the cash-generating units and requires the entity to estimate the future cash flows expected to arise, the growth rate to extrapolate cash flows into perpetuity and a suitable discount rate in order to calculate present value. Cash flow projections involve the use of estimates, notably revenue levels, operating margins and the proportion of operating profit converted to cash in each year. Given the level of headroom in ALSA and the volatility of inputs to the discount rate (particularly the beta and equity risk premiums including country-specific risk premiums), long term growth rates and short

term cash flow projections, we consider impairment to be a new key source of estimation uncertainty with respect to our ALSA division. The key assumptions used and their sensitivities are included in note 14.

2 Accounting policies continued

Insurance and other claims

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. The estimation of the claims provision is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries. At the 31 December 2020 the claims provision was £80.7m (2019: £93.7m).

In certain rare cases, additional disclosure regarding these claims may seriously prejudice the Group's position and consequently this disclosure is not provided. Given the differing types of claims, their size, the range of possible outcomes and the time involved in settling these claims, there is a reasonably possible chance that a material adjustment would be required to the carrying value of the claims provision in the next financial year. These different factors also make it impracticable to provide sensitivity analysis on one single measure and its potential impact on the overall claims provision. For further information see note 26.

Valuation of put liability

In conjunction with the acquisition of WeDriveU, Inc. during 2019 the Group issued put options to the seller to sell the remaining shares. The first tranche of put options, for 10% of the equity of WeDriveU, has been exercised at 31 December 2020 and will be settled in 2021. There are put options over the remaining 30% of equity exercisable in two tranches from 2021 to 2022, and each tranche can be rolled over if not exercised, up to 31 December 2022 at the latest. At the 31 December 2020 the put liability was £63.0m (2019: £96.8m). The put liability valuation is sensitive to EBITDA forecasts, particularly given the disruption due to the pandemic, discount rates and the expected timing of exercise. Changes in these estimates could significantly impact the liability and details of the assumptions are set out in note 25, to these Financial Statements, along with their sensitivities.

Onerous contract provisions

Onerous contract provisions arise where the unavoidable costs of meeting the obligations under the applicable contracts exceed the economic benefits expected to be received. At the 31 December 2020 onerous contract provisions totalled £38.0m (2019: £nil). The estimation of the provisions involves the use of forecast information, which includes inputs such as passenger revenues and the level of fixed and variable costs. The key area of estimation uncertainty is in respect to the forecast of passenger revenues, in particular the extent to which the pandemic has a lasting effect on passenger revenue. Consequently this is considered to be a new significant estimate in 2020. Sensitivity analysis with respect to changes in passenger revenues is provided in note 26.

Pensions

The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. At the 31 December 2020 the UK defined benefit pension liability was £141.6m (2019: £99.1m). The key area of estimation uncertainty is in respect to the discount rate, and in particular the volatility of corporate bond yields in response to the pandemic. Whilst the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may significantly change the pension obligation. The Group makes assumptions concerning the assumptions with the assistance of advice from independent qualified actuaries. Details of the assumptions are set out in note 34, to these Financial Statements, along with their sensitivities.

Basis of consolidation

These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

The Consolidated Income Statement includes the results of subsidiaries and businesses purchased from the date control is assumed and excludes the results of disposed operations and businesses sold from the date of disposal.

Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities over which the Company has control. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing control.

2 Accounting policies continued

Interests in joint ventures

The Group has a contractual arrangement to share control of an entity. The Group recognises its interest in the assets and liabilities of the entity using the equity method of accounting. The Group Balance Sheet includes the appropriate share of the joint ventures net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial Statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint venture. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest Financial Statements under the equity method of accounting.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange prevailing at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

Presentation of Income Statement and separately disclosed items

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the underlying results of the Group. The Group's policy is to exclude items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further details relating to separately disclosed items are provided in note 5 and a full listing of the Group's alternative performance measures (APMs) are provided in the glossary on page 243.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with a customer and is recognised when the performance obligations of the contract have been fulfilled.

Contract revenues

For the purposes of disclosures, the Group has applied the term 'contract revenues' to describe documented contracts that typically cover periods of at least one year, excluding concessions and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and coach contracts in the UK.

Revenues relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract. Revenue relating to any additional performance measures in the contract are recognised when the performance has been met and in accordance with the terms of the contract.

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring services to the customer. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is resolved and when it becomes highly probable that a significant revenue reversal will not occur.

Passenger revenues

Passenger revenues primarily relate to ticket sales in the UK, German Rail, intercity coach services in Spain and urban bus services in Morocco.

2 Accounting policies continued

Revenue is recognised by reference to the date of customer travel. Revenue from tickets that cover more than one day, for example monthly travelcards and season tickets, is initially deferred as a liability and released to the Income Statement over the period of the ticket.

Deferred income liability is reduced when an eligible cancellation arises. Also, where applicable, deferred income is reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

Booking fees are non-refundable and recognised at the point of sale, reflecting fulfilment of the performance obligation. Other ancillary revenues relating to ticket sales are recognised at point of sale or, if material and related to a future performance period, recognised by reference to that period.

Loyalty points issued to customers are recorded and valued by management. Where material, the cumulative redeemable value of the points is deducted from the related revenue and deferred as a liability until the points are redeemed.

Passenger revenue in German Rail is allocated between the various transport providers in each region by the tariff authority responsible for that region, and is recognised based on passenger counts, tariff authority estimates and historical trends.

Grants and subsidies

Grants and subsidies relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract.

In the current year, revenue in relation to the Covid-19 Bus Services Support Grant (CBSSG) has been recognised within grant and subsidy revenue in the UK and is recognised in the period in which the operational revenue and costs it is supporting relates to. CBSSG requires that a minimum level of service is operated, revenue is variable and includes areas of estimation when determining the transaction price with the actual revenue not confirmed until the review process is complete. The Group has recognised revenue where the amount can be measured reliably and it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. Similarly, revenue related grants in ALSA and Germany have been recognised in the current year to compensate for the loss of passenger revenue due to pandemic. See note 4 for further details.

Private hire

Private hire operations are contracts provided in the UK, ALSA and North America divisions and are typically of a short duration. Revenue is recognised over the period in which the private hire is provided to the customer.

Other revenues

Other revenues primarily comprise non-passenger services in Spain, transit software income in North America and advertising revenues.

Revenues for non-passenger services are recognised when the performance of the service has been fulfilled and in accordance with the terms of the contract. Transit software income is recognised when the benefit of the software or service has been passed to the customer. Advertising revenue is recognised over the period of the advertising contract.

Contract costs

Costs to obtain a contract

The incremental costs to obtain a contract with a customer are recognised within 'contract costs' if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Costs to fulfil a contract

Costs that relate directly to a contract, generate resources that will be used in satisfying the contract and are expected to be recovered are recognised within 'contract costs' on the Balance Sheet. Contract fulfilment costs covered within the scope of another accounting standard, such as property, plant and equipment and intangible assets, are not capitalised as contract fulfilment assets but are treated according to those standards.

Contract costs are amortised on a straight-line basis over the term of the specific contract they relate to, consistent with the pattern of recognition of the associated revenue.

Contract assets and liabilities

Contract assets are recognised where the Group has performed its obligations to allow the recognition of revenue, however the amounts have not yet been invoiced to the customer.

Contract liabilities are recognised when amounts are advanced by customers, however the Group has not yet met the performance obligation to allow the recognition of the balance as revenue.

2 Accounting policies continued

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attached to it. When the grant relates to an expense item, it is recognised in operating costs within the Income Statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Revenue related grants are recognised in grant and subsidy revenue in the period in which the operational revenue it is supporting relates to. Where the grant relates to property, plant and equipment, the value is included in liabilities as deferred income and credited to the Income Statement over the expected useful economic life of the assets concerned.

Government grants received in excess of the amounts recognised in the Income Statement are held as deferred grant income within trade and other payables, whereas, government grants recognised in the Income Statement that are yet to be received are held as grant receivables in trade and other receivables.

Service concession arrangements

In Germany, Spain and Morocco, the Group provides services through public-private partnerships with public authorities responsible for the provision of public transport services.

Concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated facilities supplied by the Group, or made available to it for or without consideration.

The characteristics of these contracts vary depending on the country and activities concerned.

Financial asset model

The Group applies the financial asset model when the concession grantor contractually guarantees the payment of amounts specified in the contract or the shortfall, if any, between amounts received from users of the public service and amounts specified.

Financial assets resulting from the application of IFRIC 12 'Service Concession Arrangements' are recorded in the Group Balance Sheet as financial assets or liabilities within working capital. These financial assets are assessed for impairment in line with the provisions of IFRS 9.

Income received from the public authorities is recognised in line with the requirements of IFRS 15. In Germany, subsidy income from the Public Transport Authority (PTA) is recognised over the life of the franchise and by using the input method to measure progress against the performance obligation. The amount recognised in each period is based on a percentage of completion, applying net costs incurred as a proportion of total expected net costs, which is what the subsidy is intended to compensate. In accordance with IFRS 15, costs payable to the PTA are netted against subsidy income. In ALSA, subsidy income from the local authority is recognised as the services are provided and in accordance with the terms of the contract.

Intangible asset model

The Group applies the intangible asset model when income is directly received from the passengers and there is no contractual guarantee from the concession grantor. The intangible asset corresponds to the right granted by the public authority to the Group to charge passengers of the public service.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Group Balance Sheet and are amortised on the basis of the expected pattern of consumption applicable over the term of the concession.

Income received from passengers is recognised in line with the requirements of IFRS 15 and the policy detailed on page 154.

Infrastructure assets which are subject to a lease arrangement are recorded in accordance with IFRIC 12. The liability is recorded at the present value of the future payments within financial liabilities. The asset is recorded according to the underlying classification of the IFRIC 12 contract (as set out above).

Taxes

Current tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the Balance Sheet date.

2 Accounting policies continued

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax base and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions, as well as assumptions on the tax elections within the Group's control.

Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

On the acquisition of a business, identifiable assets and liabilities acquired are measured at their fair value. Contingent liabilities assumed are measured at fair value unless this cannot be measured reliably, in which case they are not recognised but are disclosed in the same manner as other contingent liabilities.

The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued. Any contingent consideration is recognised at fair value at the acquisition date and subsequently until it is settled.

The cost of the acquisition in excess of the Group's interest in the net fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management is committed to the sale and when the sale is expected to complete within one year from the date of classification. Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or is a subsidiary acquired exclusively for resale.

Discontinued operations are excluded from the results of continuing operations and presented as a single amount after tax. Comparatives are also represented to reclassify the operation as discontinued.

Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary, associate or joint arrangement at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is identified at the lowest aggregation of assets that generate largely independent cash inflows, and which is reviewed by management for monitoring and managing the Group's business operations.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2 Accounting policies *continued*

Other intangible assets

Customer contracts

Customer contracts acquired as part of a business combination are initially recorded at the fair value attributed to those contracts on acquisition.

Service concessions

Service concession intangible assets represent a right to charge passengers for the use of the public service. See page 156 for further details.

Contract costs

Contract costs include costs to obtain and costs to fulfil a contract. See page 155 for further details.

Software

Acquired and internally developed software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software or fair value if acquired as part of a business combination. Computer software that is integral to a tangible fixed asset is recognised within property, plant and equipment.

Amortisation is charged on a straight-line basis over the expected useful lives of the assets as follows:

| | |
|--------------------|--|
| Customer contracts | – over the life of the contract (1 to 33 years) |
| Contract costs | – over the term of the specific contract (1 to 15 years) |
| Software | – over the estimated useful life (3 to 7 years) |

The useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Repairs and maintenance costs are expensed as incurred.

Freehold land is not depreciated. All other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|--|------------------|
| Land and buildings | – 15 to 50 years |
| Public service vehicles | – 8 to 20 years |
| Plant and equipment, fixtures and fittings | – 3 to 15 years |

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset, with any gain or loss arising included in the Income Statement in the period of derecognition.

Impairment

Intangible assets with definite useful lives, and property, plant and equipment are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable. Goodwill is subject to an impairment test on an annual basis or more frequently if there are indicators of impairment. Assets that do not generate independent cash flows are combined into cash-generating units.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the country-specific weighted average cost of capital (WACC). The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets, the growth rate used to extrapolate the cash flows beyond the three-year period and discount rates applied in calculating the value in use.

Impairment losses relating to goodwill cannot be subsequently reversed.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group determines the classification of its financial instruments at initial recognition.

Financial assets

Financial assets are classified at initial recognition as (i) subsequently measured at amortised cost, (ii) fair value through other comprehensive income or (iii) fair value through profit and loss. The classification depends on the purpose for which the financial assets were acquired.

2 Accounting policies continued

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the Group Balance Sheet at fair value with net changes in fair value recognised in the Income Statement within finance costs. Transaction costs arising on initial recognition are expensed in the Income Statement.

Financial assets at fair value through other comprehensive income

The Group has elected to recognise its non-listed equity investments at fair value through other comprehensive income. Gains and losses on these financial assets are never recycled to the Income Statement. Dividends are recognised as other income in the Income Statement when the right of payment has been established. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables and cash and cash equivalents in the Balance Sheet.

Financial liabilities

Financial liabilities are classified at initial recognition as (i) financial liabilities at fair value through profit or loss, (ii) loans and borrowings, (iii) payables or (iv) derivatives designated as hedging instruments, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised. Amortisation is included as finance costs in the Income Statement. This category applies to interest-bearing loans and borrowings.

Equity instruments

Hybrid instruments

Hybrid instruments issued by the Group are classified on initial recognition according to the substance of the arrangement. Hybrid instruments are recorded within Equity where the contractual terms of the instruments allow the Group to defer coupon payments and the repayment of the principle amount indefinitely. These features give the Group the unconditional right to avoid the payment of cash or another financial asset for the principal or coupon and consequently are classified as equity instruments. These equity instruments are not re-measured from period to period. Coupon payments made are treated the same as an equity dividend distribution and where not made, are accrued within the hybrid reserve, with a corresponding reduction in retained earnings.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as fuel derivatives, interest rate derivatives, foreign exchange forward contracts and cross currency interest rate swaps to hedge its risks associated with fuel price, interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

2 Accounting policies continued

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

The Group's interest rate derivatives are designated as either fair value hedges or cash flow hedges. For fair value hedges, the gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk-free interest rate.

The Group's fuel derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

Foreign exchange forward contracts and cross currency interest rate swaps are used to hedge the Group's net investment in foreign currency denominated operations, and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold.

The Group also uses foreign exchange forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period. Similarly, any material ineffective portion of the Group's cash flow and net investment hedges is recognised in the Income Statement.

Movements in the fair value of the hedging instrument arising from costs of hedging for cash flow and net investment hedges are recognised in equity, disclosed separately and amortised to the Income Statement over the term of the hedge relationship on a rational basis.

Any material ineffectiveness is recognised in the income statement within operating costs for fuel derivatives and finance costs for all other derivatives.

Hedge accounting is discontinued when the hedging instrument or hedged item expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. For fuel derivatives, this can arise due to a change in the highly probable forecast transaction as a result of a change in divisional volume requirements. In such instances, accumulated fair value gains or losses are transferred from Other Comprehensive Income to the Income Statement for affected trades when hedge accounting has been discontinued.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Trade and other receivables

Trade and other receivables are recognised and carried at the transaction price determined under IFRS 15, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. The Group uses provision matrices based on historical ageing of receivables and credit loss experience, adjusted as necessary for any forward-looking factors specific to the debtors and economic environment.

Trade receivables are derecognised where the Group enters into factoring arrangements without recourse and the risks and rewards have been fully transferred. The Group classifies the cash flows from receivable factoring arrangements within cash from operating activities in the Statement of Cash Flows.

Cash and cash equivalents

Cash and cash equivalents as defined for the Statement of Cash Flows comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception, and bank overdrafts. In the Consolidated Balance Sheet, cash and cash equivalents are presented net of bank overdrafts where there is a legal right of offset, otherwise are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The Group classifies the cash flows from advance factoring of divisional revenues within cash from operating activities in the Statement of Cash Flows.

2 Accounting policies continued

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the Financial Statements where the expected future outflow is not probable.

Onerous contracts

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

Where the Group assesses a contract is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss on assets dedicated to that contract.

Insurance

The Group's policy is to not insure low value, high frequency claims within the businesses. To provide protection against higher value claims the Group purchases insurance cover from a selection of proven and financially strong insurers. Liabilities in respect of claims risk include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data and are discounted to take account of the expected timing of future cash settlements. To the extent insurance liabilities are insured and awaiting settlement, a separate asset is recognised in other receivables.

Leases

Group as a lessee

Lease identification

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Non-lease components, and contracts which do not contain a lease are expensed in the Income statement on a systematic basis over the contract term.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

2 Accounting policies continued

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Covid-19-related rent concessions

The Group applies the option to not assess whether eligible rent concessions that are a direct consequence of the Covid-19 pandemic are lease modifications, and accounts for them in accordance with other applicable guidance.

Group as a lessor

As a lessor, the Group continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Where the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset it is classified as a finance lease and if not is an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Where the sub-lease is classified as a finance lease, the right-of-use asset with respect to the head lease is derecognised and a finance lease receivable is recognised equal to the net investment in the sub-lease. The net investment in the lease is calculated as the present value of the aggregate of lease payments receivable and any unguaranteed residual value. Where the interest rate implicit in the sub-lease cannot be readily determined, the Group uses the discount rate used for the head lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Retirement benefits

Defined contribution schemes

Payments to defined contribution schemes are charged to the Income Statement as they fall due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Defined benefit schemes

Plan assets, including qualifying insurance policies, are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the Group Balance Sheet as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

Current service costs are recognised within operating costs in the Income Statement. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately the plan amendment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs.

Re-measurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in Other Comprehensive Income and are not reclassified to profit or loss in subsequent periods.

Full actuarial valuations are carried out triennially and are updated for material transactions and other material changes in circumstances up to the end of the reporting period.

Share-based payments

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

2 Accounting policies continued

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or re-issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

New standards and interpretations not applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group:

- Onerous contracts; cost of fulfilling a contract - amendments to IAS 37
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Annual improvements to IFRS standards 2018 – 2020
- Property, plant and equipment; proceeds before intended use – amendments to IAS 16
- Revised Conceptual Framework for Financial Reporting
- Classification of liabilities as current or non-current - amendments to IAS 1
- Amendments to IFRS 17 'Insurance Contracts'

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Exchange rates

The most significant exchange rates to UK Sterling for the Group are as follows:

| | 2020 Closing rate | 2020 Average rate | 2019 Closing rate | 2019 Average rate |
|-----------------|----------------------|----------------------|----------------------|----------------------|
| US Dollar | 1.37 | 1.28 | 1.33 | 1.28 |
| Canadian Dollar | 1.74 | 1.72 | 1.72 | 1.69 |
| Euro | 1.12 | 1.13 | 1.18 | 1.14 |

If the results for the year to 31 December 2019 had been retranslated at the average exchange rates for the year to 31 December 2020, North America would have achieved underlying operating profit of £122.2m on revenue of £1,222.5m, compared with underlying operating profit of £123.0m on revenue of £1,230.1m as reported, and ALSA would have achieved a underlying operating profit of £111.0m on revenue of £836.1m, compared with underlying operating profit of £109.5m on revenue of £824.7m as reported.

4 Revenue and segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide. Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. Group financing activities and income taxes are managed on a group basis and are not allocated to reportable segments.

The principal services from which each reportable segment derives its revenues are as follows:

- UK – bus and coach operations
- German Rail – rail operations
- ALSA (predominantly Spain and Morocco) – bus and coach operations
- North America (USA and Canada) – school bus, transit bus and shuttle operations

Further details on the activities of each segment are described in the Strategic Report.

Central functions is not a reportable segment but has been included in the segmental analysis for transparency and to enable a reconciliation to the consolidated Group.

4 Revenue and segmental analysis continued

(a) Revenue

Revenue is disaggregated by reportable segment, class and type of service as follows:

| | 2020 | | | | | |
|---|-------------------------|--------------------------|----------------------------|--------------------|----------------------|----------------|
| | Contract revenues £m | Passenger revenues £m | Grants and subsidies £m | Private hire £m | Other revenues £m | Total £m |
| Analysis by class and reportable segment: | | | | | | |
| UK | 24.1 | 194.1 | 135.7 | 26.1 | 8.2 | 388.2 |
| German Rail | – | 38.5 | 94.5 | – | 6.2 | 139.2 |
| ALSA | 134.1 | 276.3 | 106.7 | 27.9 | 14.3 | 559.3 |
| North America | 826.4 | – | – | 24.6 | 18.2 | 869.2 |
| Central functions | – | – | – | – | – | – |
| Total revenue | 984.6 | 508.9 | 336.9 | 78.6 | 46.9 | 1,955.9 |
| Analysis by major service type: | | | | | | |
| Passenger transport | 984.6 | 508.9 | 336.9 | 78.6 | 24.9 | 1,933.9 |
| Other products and services | – | – | – | – | 22.0 | 22.0 |
| Total revenue | 984.6 | 508.9 | 336.9 | 78.6 | 46.9 | 1,955.9 |

Included in grants and subsidies is £84.7m (2019: nil) revenue recognised in the UK in respect of the Covid Bus Services Support Grant (CBSSG) in England and Covid Support Grant (CSG) in Scotland. Under these schemes, grant income may be claimed by operators of local bus services in England and Scotland to close the shortfall of revenue earned by them during the period affected by Covid-19 and the costs incurred by them in that period. The grant income is recognised in the Income Statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (i) the Group will comply with the conditions attaching to the grant and (ii) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the review process.

Also included in grants and subsidies is £15.6m (2019: nil) additional subsidies in Germany in respect of the Federal Framework Regulation on Aid to Public Transport. Under this arrangement, additional subsidies may be claimed by public transport operators in Germany to compensate for the loss of passenger revenue due to Covid-19. Similarly, a further £15.3m (2019: nil) was recognised in ALSA from Public Transport Authorities to compensate for revenue shortfalls due to Covid-19. In both cases subsidy income has been recognised in the same period in the Income Statement to match the period in which the related shortfall of revenue occurred and to the extent there is reasonable certainty that the Group has complied with the conditions.

In German Rail, at the commencement of the Rhine-Münster Express (RME) contract in 2015 a fixed amount of subsidy was agreed with the PTA for the life of the contract and the amount recognised each year was measured by considering the proportion of contract costs incurred at each balance sheet date. As it does every year, the Group has re-forecast the contract out-turn and re-assessed the estimate of the stage of completion. As a result of Covid-19 this year the re-assessment resulted in revenue recognised in previous years totalling £5.2m being reversed and re-phased to later years.

There have been no other material amounts of revenue recognised in the year that relate to performance obligations satisfied or partially satisfied in previous years. Revenue received where the performance obligation will be fulfilled in the future is classified as deferred income or contract liabilities and disclosed in note 24.

| | 2019 | | | | | |
|---|-------------------------|--------------------------|----------------------------|--------------------|----------------------|----------------|
| | Contract revenues £m | Passenger revenues £m | Grants and subsidies £m | Private hire £m | Other revenues £m | Total £m |
| Analysis by class and reportable segment: | | | | | | |
| UK | 41.4 | 464.2 | 54.8 | 14.2 | 25.1 | 599.7 |
| German Rail | – | 49.8 | 35.7 | – | 4.4 | 89.9 |
| ALSA | 207.8 | 492.7 | 18.3 | 56.7 | 49.2 | 824.7 |
| North America | 1,126.9 | – | – | 83.3 | 19.9 | 1,230.1 |
| Central functions | – | – | – | – | – | – |
| Total revenue | 1,376.1 | 1,006.7 | 108.8 | 154.2 | 98.6 | 2,744.4 |
| Analysis by major service type: | | | | | | |
| Passenger transport | 1,376.1 | 1,006.7 | 108.8 | 154.2 | 52.5 | 2,698.3 |
| Other products and services | – | – | – | – | 46.1 | 46.1 |
| Total revenue | 1,376.1 | 1,006.7 | 108.8 | 154.2 | 98.6 | 2,744.4 |

There are no material inter-segment sales between reportable segments.

4 Revenue and segmental analysis continued

(b) Operating (loss)/profit

Operating (loss)/profit is analysed by reportable segment as follows:

| | Underlying operating loss 2020 £m | Separately disclosed items 2020 £m | Segment result 2020 £m | Underlying operating profit 2019 £m | Separately disclosed items 2019 £m | Segment result 2019 £m |
|---|---|---|---------------------------------|---|---|---------------------------------|
| UK | (49.0) | (50.4) | (99.4) | 85.0 | (0.9) | 84.1 |
| German Rail | (4.9) | (19.1) | (24.0) | 5.0 | (1.4) | 3.6 |
| ALSA | 6.7 | (100.2) | (93.5) | 109.5 | (15.7) | 93.8 |
| North America | 12.4 | (188.4) | (176.0) | 123.0 | (35.0) | 88.0 |
| Central functions | (16.0) | 27.5 | 11.5 | (27.2) | – | (27.2) |
| Operating (loss)/profit | (50.8) | (330.6) | (381.4) | 295.3 | (53.0) | 242.3 |
| Share of results from associates and joint ventures | (2.1) | – | (2.1) | 0.4 | – | 0.4 |
| Net finance costs | (53.2) | (8.0) | (61.2) | (55.7) | – | (55.7) |
| (Loss)/profit before tax | (106.1) | (338.6) | (444.7) | 240.0 | (53.0) | 187.0 |
| Tax credit/(charge) | | | 118.0 | | | (38.7) |
| (Loss)/profit for the year | | | (326.7) | | | 148.3 |

Further information on separately disclosed items is provided in note 5.

(c) Depreciation

Depreciation is analysed by reportable segment as follows:

| | 2020 £m | 2019 £m |
|-------------------|--------------|--------------|
| UK | 40.8 | 36.6 |
| German Rail | 3.3 | 2.0 |
| ALSA | 66.1 | 62.3 |
| North America | 112.5 | 100.9 |
| Central functions | 0.9 | 1.3 |
| | 223.6 | 203.1 |

(d) Non-current assets

Non-current assets and additions are analysed by reportable segment as follows:

| | Intangible assets 2020 £m | Property, plant and equipment 2020 £m | Total non-current assets 2020 £m | Non-current asset additions 2020 £m | Intangible assets 2019 £m | Property, plant and equipment 2019 £m | Total non-current assets 2019 £m | Non-current asset additions 2019 £m |
|-----------------------|------------------------------------|---|--|---|------------------------------------|---|--|---|
| UK | 56.7 | 293.0 | 349.7 | 23.8 | 34.3 | 329.5 | 363.8 | 77.2 |
| Central functions | 10.8 | 2.0 | 12.8 | 2.3 | 9.3 | 2.5 | 11.8 | 2.6 |
| Total UK | 67.5 | 295.0 | 362.5 | 26.1 | 43.6 | 332.0 | 375.6 | 79.8 |
| German Rail | 13.6 | 10.1 | 23.7 | 12.4 | 23.6 | 8.4 | 32.0 | 15.3 |
| ALSA | 960.1 | 374.4 | 1,334.5 | 56.8 | 946.0 | 394.8 | 1,340.8 | 164.5 |
| North America | 810.6 | 553.7 | 1,364.3 | 137.4 | 888.6 | 613.0 | 1,501.6 | 162.2 |
| Total overseas | 1,784.3 | 938.2 | 2,722.5 | 206.6 | 1,858.2 | 1,016.2 | 2,874.4 | 342.0 |
| Total | 1,851.8 | 1,233.2 | 3,085.0 | 232.7 | 1,901.8 | 1,348.2 | 3,250.0 | 421.8 |

4 Revenue and segmental analysis continued

(e) Geographical information

| | Revenue from external customers | | Non-current assets | |
|-------------|---------------------------------|----------------|--------------------|----------------|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| UK | 388.2 | 599.7 | 362.5 | 375.6 |
| Germany | 139.2 | 89.9 | 23.7 | 32.0 |
| Spain | 458.5 | 746.2 | 1,233.3 | 1,203.4 |
| Morocco | 87.4 | 64.5 | 88.2 | 124.1 |
| Switzerland | 13.4 | 14.0 | 13.0 | 13.3 |
| USA | 807.0 | 1,152.7 | 1,238.0 | 1,362.1 |
| Canada | 62.2 | 77.4 | 126.3 | 139.5 |
| | 1,955.9 | 2,744.4 | 3,085.0 | 3,250.0 |

Due to the nature of the Group's businesses, the origin and destination of revenue are the same.

No single external customer amounts to 10% or more of the total revenue.

Information reported to the Group Executive Committee does not regularly include an analysis of assets and liabilities by segment.

5 Separately disclosed items

As set out in our accounting policies, we report underlying measures because we believe they provide both management and stakeholders with useful additional information about the financial performance of the Group's businesses.

The total separately disclosed items before tax for the year ended 31 December is a net charge of £338.6m (2019: £53.0m). The items excluded from the underlying result are:

| | 2020 £m | 2019 £m |
|---|----------------|---------------|
| Intangible amortisation for acquired businesses (a) | (52.6) | (53.0) |
| Directly attributable gains and losses resulting from the Covid-19 pandemic (b) | (262.5) | – |
| Restructuring costs (c) | (14.0) | (8.8) |
| Other separately disclosed items (d) | (1.5) | 8.8 |
| Separately disclosed operating cost items | (330.6) | (53.0) |
| Interest charges directly resulting from the Covid-19 pandemic (e) | (8.0) | – |
| Total separately disclosed items | (338.6) | (53.0) |

(a) Intangible amortisation for acquired businesses

Consistent with previous periods the Group continues to classify the amortisation for acquired intangibles as a separately disclosed item.

(b) Directly attributable gains and losses resulting from the Covid-19 pandemic

As a result of the Covid-19 pandemic and in order to improve the transparency and usefulness of the financial information, the Group has identified a net expense of £262.5m relating to directly attributable gains and losses resulting from the pandemic. The net result relates to five separately identifiable areas of accounting judgement and estimates as follows:

| | 2020 £m |
|---|----------------|
| One-off costs, cancellation charges and compensation payments (i) | (46.4) |
| Discontinuation of fuel trades (ii) | (17.3) |
| Onerous contract provisions and associated impairment (iii) | (133.4) |
| Re-measurement of the WeDriveU put liability (iv) | 33.9 |
| Impairments and associated charges (v) | (99.3) |
| | (262.5) |

These items are considered to be separately disclosed items as they meet the Group's definition, being both significant in nature and value to the results of the Group in the current period. The impact that Covid-19 has had on underlying trading, such as the impact of lost revenue, is not recognised within separately disclosed items.

Further charges are anticipated during 2021 to reflect actions that will be taken as a direct result of the length of time that any government restrictions or safety requirements are in place, and customer behaviour is impacted.

5 Separately disclosed items continued

(i) One-off costs, cancellation charges and compensation payments (£46.4m expense)

The Group incurred a total of £15.9m of one-off charges primarily relating to incremental health and safety costs, legal and professional fees relating to a) the arrangement of the Bank of England's CCFF and b) covenant waivers on the Group's banking facilities, and transaction costs associated with the cancellation of projects and acquisitions.

In addition, to maintain and secure the Group's supply base in order to be able to rapidly and flexibly increase capacity as demand picks up, the Group made a number of compensatory payments to third party coach operators totalling £12.7m.

The Group also incurred costs from penalties (whereby the pandemic prevented it from fulfilling certain contractual obligations), the write-off of receivables (where settlement arrangements were reached with customers) and from making a provision for employee compensation claims as a consequence of Covid-19.

(ii) Discontinuation of fuel trades (£17.3m expense)

Hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption, as a result of the impact of Covid-19. This resulted in a £17.3m expense being recycled from Other Comprehensive Income to the Income Statement.

For the remaining effective hedges, gains or losses on the derivatives continue to be recognised in Equity and on settlement are recycled to the Income Statement against the respective operating expense, and are not included in separately disclosed items.

(iii) Onerous contract provisions and associated impairment (£133.4m expense)

As a result of the pandemic, the Group undertook a review of its contracts with customers, and recorded onerous contract provisions totalling £105.7m across the Group, of which £64.8m was utilised in the current year. The majority of these contracts had only one to two years remaining and given the impact of Covid-19 on these contracts the Group considered it probable that the contract losses could not be recovered over the remaining contract term. In conjunction with these contracts, customer contract intangibles, property, plant and equipment and costs to fulfil a contract, totalling £15.7m, were impaired.

In last year's notes to the Financial Statements, a contingent liability was disclosed with respect to the Rhine- Ruhr Express contract in German Rail on the basis that the Directors considered that it was possible, but not probable, that it could be loss making in the future. Consideration for the Group's services under this contract is fixed, with profitability dependent on the value of operating costs incurred by the Group. Following the launch of the third and final line in December 2020, and reflecting the pandemic impact over the short to medium term, as well as the updated outlook for operating costs, the latest assessment resulted in the impairment of contract costs recorded within intangibles, totalling £16.8m, after which the contract was assessed to be profitable over the remaining term.

In addition, following the termination of a contract in North America, a previously recognised onerous contract provision of £6.5m was released in full and property, plant and equipment of £1.7m dedicated to the contract were impaired.

(iv) Re-measurement of the WeDriveU put liability (£33.9m gain)

The put liability, resulting from the acquisition of WeDriveU, is required to be re-measured at each reporting date. The gain of £33.9m has been derived from an internal valuation, using forecast earnings over the exercise period. Whilst the valuation previously assumed that the put options would be exercised in full at the latest possible date (31 December 2022), the vendor has now given notice to exercise put options over 10% of the equity of WeDriveU (with settlement expected during the first half of 2021). The remaining put options (over 30% of the equity) are assumed to be exercised at the end of 2022.

Whilst WeDriveU was broadly tracking as expected prior to Covid-19, some level of re-measurement may have arisen if new growth opportunities had not materialised. However the most significant driver for the gain is the adjustment to the short term earnings as a result of the pandemic. Consequently the gain has been categorised as part of the overall impact due to Covid-19.

The key assumptions used and their sensitivities are included in note 25.

(v) Impairments and associated charges (£99.3m expense)

In addition to the Group's goodwill impairment test and the identification of assets relating to onerous contracts, the Group reviewed its non-current assets to assess whether the impact of the pandemic and the subsequent restructuring activity changed the usage of such assets. Furthermore, during the year the Group decided to exit certain contracts or lines of business that were anticipated to be low margin over the medium term and/or that were now considered less strategically relevant. Accordingly, any dedicated assets associated with these contract or lines of business were identified and assessed for impairment, after first considering if they could be re-used or repurposed.

The overall result of this review was the impairment of £67.5m of property, plant and equipment, including £63.0m public service vehicles. In addition, £7.3m of goodwill and £23.3m of intangible assets were impaired, including £21.7m of customer contracts.

5 Separately disclosed items continued

(c) Restructuring costs

During the period, the Group incurred £14.0m of costs in respect of group-wide restructuring initiatives and redundancies, as part of the Group's mitigations against the adverse impact of the pandemic on profit and cash.

During the prior year, the Group incurred restructuring and redundancy costs in North America following changes in the management of school bus and transit businesses and other associated costs.

(d) Other separately disclosed items

The Group has recognised an expense of £0.8m in respect of equalisation of Guaranteed Minimum Pensions (GMP). In October 2018 the High Court ruled that GMP should be equalised between men and women. Whilst in 2018 the Group equalised benefits for existing members, a further High Court ruling in November 2020 provided further detail and this resulted in the charge recognised in the year.

During the prior year the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. A net gain of £8.8m, after transaction costs was recognised. In the current year, this gain was reduced by £0.6m relating to the final settlement of amounts that were held in escrow.

(e) Interest charges

Interest charges of £8.0m primarily relate to fees associated with the gearing covenant waiver on the Group's US private placement and banking facilities and the Bank of England's CCFF programme. The CCFF facility was unutilised during the period and not used to underpin the Group's underlying operating activities. Consequently these charges are not considered to be an underlying finance cost of the Group.

6 Operating costs

| | 2020 £m | 2019 £m |
|---|----------------|----------------|
| Cost of inventories recognised in expense | 81.0 | 82.8 |
| Staff costs | 1,138.8 | 1,416.7 |
| Depreciation – owned assets | 146.3 | 132.4 |
| – leased assets | 77.3 | 70.7 |
| Intangible asset amortisation | 69.0 | 59.7 |
| Gain on disposal of property, plant and equipment | (8.7) | (10.3) |
| Gain on disposal of intangible assets | (2.3) | (3.6) |
| Amortisation of fixed asset grants | (2.9) | (1.3) |
| Leases (note 35) – variable lease payments | – | – |
| – expenses relating to short-term leases | 7.9 | 10.3 |
| – expenses relating to leases of low-value assets | 5.2 | 7.6 |
| – Covid-19-related rent concessions | (0.7) | – |
| Separately disclosed items ¹ (note 5) | 278.0 | – |
| Other charges | 548.4 | 737.1 |
| Total operating costs | 2,337.3 | 2,502.1 |

¹ Excludes amortisation from acquired intangibles which is included within intangible asset amortisation above

In addition to revenue related grants as disclosed in note 4, government grants have also been recognised in relation to expenses totalling £54.9m (2019: £nil) in response to the Covid-19 pandemic. These arrangements were designed to provide relief to companies in respect of staff costs for jobs retained amid the pandemic. The principal arrangements are the Coronavirus Job Retention Scheme (CJRS) in the UK, ERTE in Spain and Switzerland, CNSS in Morocco and the US CARES Act in North America. The amounts recognised reflect the grants receivable in respect of the year ended 31 December 2020 and relate to the costs reclaimable for employees furloughed or retained to the extent that it is reasonably certain that the grant will be received. These grants have been netted within staff costs.

7 Auditor's remuneration

An analysis of fees paid to the Group's auditor is provided below:

| | 2020 £m | 2019 £m |
|-----------------------------------|------------|------------|
| Audit of the financial statements | 0.7 | 0.5 |
| Audit of subsidiaries | 0.9 | 0.9 |
| Audit-related assurance services | 0.4 | 0.1 |
| | 2.0 | 1.5 |

8 Employee benefit costs

(a) Staff costs

| | 2020 £m | 2019 £m |
|------------------------------|----------------|----------------|
| Wages and salaries | 987.8 | 1,234.5 |
| Social security costs | 139.6 | 165.5 |
| Pension costs (note 34) | 11.2 | 10.3 |
| Share-based payment (note 9) | 0.2 | 6.4 |
| | 1,138.8 | 1,416.7 |

The average number of employees, including Executive Directors, during the year was as follows:

| | 2020 | 2019 |
|-------------------------------|---------------|---------------|
| Managerial and administrative | 5,150 | 4,934 |
| Operational | 46,603 | 44,644 |
| | 51,753 | 49,578 |

Included in the above are the following costs related to the Group's key management personnel who comprise the Executive Directors of the parent Company. Further details are disclosed in the Directors' Remuneration Report:

| | 2020 £m | 2019 £m |
|-----------------------------|------------|------------|
| Basic salaries | 0.9 | 1.4 |
| Benefits | 0.3 | 0.7 |
| Performance-related bonuses | – | 2.2 |
| Share-based payment | (0.4) | 2.6 |
| | 0.8 | 6.9 |

(b) Share schemes

Details of options or awards outstanding at the end of the year under the Group's share schemes are as follows:

| | Number of share options 2020 | Number of share options 2019 | Exercise price | Future exercise periods |
|--|------------------------------------|------------------------------------|-------------------|-------------------------------|
| Long-Term Incentive Plan | 5,307,399 | 6,391,119 | nil | 2021-2025 |
| West Midland Travel Long Service Option Scheme | 160,859 | 134,956 | 175p-412p | 2021-2030 |
| Executive Deferred Bonus Plan | 39,847 | 145,238 | nil | 2021 |
| | 5,508,105 | 6,671,313 | | |

(i) Long-Term Incentive Plan (LTIP)

The LTIP is open to Executive Directors and Senior Management with awards made at the discretion of the Remuneration Committee, normally on an annual basis and in the form of a nil cost option over a certain number of shares in the Company. The vesting of shares on the third anniversary of grant is subject to the Group's achievement against specific performance conditions and growth targets set at the date of grant. These comprise diluted underlying earnings per share (EPS), return on capital employed (ROCE), the relative total shareholder return (TSR) of the Group against a comparator group of companies and the FTSE 250 Index, plus two new environmental performance measures from the 2020 LTIP award onwards. These new measures relate to a reduction in the Group's total carbon emissions per million passenger kilometre (tCO₂e/m pass km) and an increase in the number of zero emission vehicles (ZEVs) purchased or on order in the UK division, to advance its ambition to operate only zero emission vehicles in UK bus by 2030 and in UK coach by 2035. All are measured over the three-year financial period commencing with the year of grant. Unvested shares automatically lapse.

8 Employee benefit costs continued

An accrual entitlement in respect of dividends paid by the Company during the vesting period attaches to vested shares and is paid to participants on vesting. Similarly, dividends are payable on unexercised vested shares held by Executive Directors during their compulsory two-year holding period which runs from the date of vesting (in parallel with the two-year exercise period).

The LTIP allows for the grant to UK participants of an HMRC approved share option over shares with a market value of up to a maximum of £30,000 outstanding at any time. These are awarded at the same time as, and with the same performance conditions as, the LTIP awards and work by way of set-off versus the vested LTIP share value on exercise with the excess LTIP option award being forfeited.

Vested shares for all LTIP awards are normally delivered in the form of market purchased shares held in the Company's Employee Benefit Trust (the Trust). No cash settlement alternative is available at present.

(ii) Executive Deferred Bonus Plan (EDBP)

The delivery of the annual bonus award for Executive Directors is structured in two distinct parts, an initial cash payment under the annual bonus plan and a one-year deferred payment award in the form of forfeitable shares in the Company granted under the EDBP. Release of the shares on the first anniversary of grant is not subject to any additional performance condition, save for continuing employment. Participants are entitled to receive any dividends paid by the Company on the shares while they are held in the Trust during the deferred period.

(iii) West Midlands Travel Long Service Option Scheme (WMT LSOS)

The WMT LSOS is used to reward WMT employees who attain 25 years' service. The market-value option award over a certain number of shares in the Company is exercisable between the third and tenth anniversary of grant. There are no performance conditions and shares are delivered on exercise through the Trust. No cash settlement alternative is available. During the year, the WMT LSOS was closed to new participants.

The Travel West Midland Share Incentive Plan (TWM SIP), already having been closed to new entrants, has now been fully closed. No shares (2019: 1,079) were held by the Trustee for the benefit of existing participants.

9 Share-based payments

The charge in respect of share-based payment transactions included in the Group's Income Statement for the year is as follows:

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Expense arising from share and share option plans | 0.2 | 6.4 |

During the year ended 31 December 2020, the Group had three share-based payment arrangements, which are described in note 8(b).

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

| | 2020 | | 2019 | |
|---|-------------------------|-----------------------------------|-------------------------|-----------------------------------|
| | Number of share options | Weighted average exercise price p | Number of share options | Weighted average exercise price p |
| Options without a nil exercise price: | | | | |
| At 1 January | 134,956 | 320 | 155,521 | 298 |
| Granted during the year | 45,000 | 175 | 15,000 | 412 |
| Forfeited during the year | (1,000) | 412 | (8,773) | 325 |
| Exercised during the year | (5,351) | 285 | (19,802) | 283 |
| Expired during the year | (12,746) | 269 | (6,990) | 129 |
| Outstanding at 31 December | 160,859 | 283 | 134,956 | 320 |
| Exercisable at 31 December | 81,859 | 295 | 87,156 | 282 |
| Options with a nil exercise price: | | | | |
| At 1 January | 6,536,357 | nil | 6,090,694 | nil |
| Granted during the year | 3,248,293 | nil | 2,327,084 | nil |
| Forfeited during the year | (2,687,710) | nil | – | nil |
| Exercised during the year | (1,547,568) | nil | (1,805,321) | nil |
| Expired during the year | (202,126) | nil | (76,100) | nil |
| Outstanding at 31 December | 5,347,246 | nil | 6,536,357 | nil |
| Exercisable at 31 December | 540,248 | nil | 391,272 | nil |
| Total outstanding at 31 December | 5,508,105 | | 6,671,313 | |
| Total exercisable at 31 December | 622,107 | | 478,428 | |

9 Share-based payments continued

The options outstanding at 31 December 2020 had exercise prices that were between 175p and 412p (2019: between 225p and 412p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

| Exercise price (p) | 2020 Number | 2019 Number |
|--------------------|----------------|----------------|
| 100-300 | 84,199 | 52,818 |
| 301-350 | 32,760 | 34,338 |
| 351-450 | 43,900 | 47,800 |
| | 160,859 | 134,956 |

The options have a weighted average contractual life of one year (2019: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 210p (2019: 417p).

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

| | Share options without nil exercise price | | Share options with nil exercise price | |
|--|---|---------|--|---------|
| | 2020 | 2019 | 2020 | 2019 |
| Risk-free interest rate | 0.15% | 0.72% | 0.22% | 0.78% |
| Expected volatility | 23% | 20% | 23% | 16% |
| Peer group volatility | – | – | 33%-44% | 25-31% |
| Expected option life in years | 5 years | 5 years | 3 years | 3 years |
| Expected dividend yield | 3.62% | 3.65% | 0.00% | 0.00% |
| Weighted average share price at grant date | 209p | 412p | 276p | 414p |
| Weighted average exercise price at grant date | 175p | 412p | nil | nil |
| Weighted average fair value of options at grant date | 38p | 42p | 231p | 337p |

Experience to date has shown that approximately 24% (2019: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant, divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

10 Net finance costs

| | 2020 £m | 2019 £m |
|--|---------------|---------------|
| Bond and bank interest payable | (36.3) | (40.9) |
| Lease interest payable (note 35) | (12.6) | (12.8) |
| Other interest payable | (4.3) | (4.7) |
| Unwind of discounting | (1.6) | (2.7) |
| Net interest cost on defined benefit pension obligations (note 34) | (1.7) | (3.2) |
| Finance costs before separately disclosed items | (56.5) | (64.3) |
| Separately disclosed finance costs (note 5) | (8.0) | – |
| Total finance costs | (64.5) | (64.3) |
| Lease interest income (note 35) | 0.6 | 0.2 |
| Other financial income | 2.7 | 8.4 |
| Net finance costs | (61.2) | (55.7) |
| Of which, from financial instruments: | | |
| Financial assets measured at amortised cost | 0.7 | 0.8 |
| Financial liabilities measured at amortised cost | (51.3) | (57.1) |
| Derivatives | 2.0 | 7.6 |
| Loan fee amortisation | (1.7) | (1.3) |

11 Taxation

(a) Analysis of taxation (credit)/charge in the year

| | 2020 £m | 2019 £m |
|---|----------------|-------------|
| Current taxation: | | |
| UK corporation tax | (8.4) | 7.7 |
| Overseas taxation | 10.1 | 20.4 |
| Current income tax charge | 1.7 | 28.1 |
| Adjustments with respect to prior years – UK and overseas | (1.8) | (7.0) |
| Total current income tax (credit)/charge | (0.1) | 21.1 |
| Deferred taxation (note 27): | | |
| Origination and reversal of temporary differences | (119.6) | 20.9 |
| Adjustments with respect to prior years – UK and overseas | 1.7 | (3.3) |
| Deferred tax (credit)/charge | (117.9) | 17.6 |
| Total tax (credit)/charge for the Group | (118.0) | 38.7 |
| The tax (credit)/charge for the Group is disclosed as follows: | | |
| Tax (credit)/charge on profit before separately disclosed items | (29.3) | 55.2 |
| Tax credit on separately disclosed items | (88.7) | (16.5) |
| | (118.0) | 38.7 |

In the current year, the tax credit on separately disclosed items of £88.7m (2019: £16.5m) comprises an £11.5m tax credit on intangibles and £77.2m tax credit on tax deductible expenditure included in separately disclosed items.

The tax relief relating to intangible amortisation is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

(b) Tax on items recognised in Other Comprehensive Income or Equity

| | 2020 £m | 2019 £m |
|---|---------------|------------|
| Current taxation: | | |
| Current tax charge on exchange movements offset in reserves | – | 1.7 |
| | – | 1.7 |
| Deferred taxation: | | |
| Deferred tax (credit)/charge on actuarial losses/(gains) | (10.8) | 4.3 |
| Deferred tax (credit)/charge on cash flow hedges | (3.8) | 2.5 |
| Deferred tax credit on foreign exchange differences | (1.6) | – |
| Deferred tax credit on accrued hybrid instrument payments | (0.4) | – |
| Deferred tax charge/(credit) on share-based payments | 1.6 | (0.5) |
| | (15.0) | 6.3 |

11 Taxation continued

(c) Reconciliation of the total tax (credit)/charge

| | 2020 £m | 2019 £m |
|--|----------------|-------------|
| (Loss)/profit before income tax | (444.7) | 187.0 |
| Notional charge at UK corporation tax rate of 19% (2019: 19%) | (84.5) | 35.5 |
| Recurring items: | | |
| Non-deductible goodwill impairment | 1.5 | – |
| Non-deductible intangible amortisation | 0.3 | 1.2 |
| Effect of overseas tax rates | (23.7) | 7.7 |
| Tax incentives | (0.6) | (1.2) |
| State taxes | (0.6) | – |
| Non-recurring items: | | |
| Adjustments to prior years within current and deferred tax (excluding movements in tax provisions) | (0.1) | (10.3) |
| (Release)/increase of tax provisions | (8.4) | 2.9 |
| Non-deductible expenditure | (0.8) | 2.9 |
| Overseas financing deductions | (1.7) | – |
| Non-taxable profit on disposal of Investment | (6.5) | – |
| Current year losses not recognised | 7.1 | – |
| Total tax (credit)/charge reported in the Income Statement (note 11(a)) | (118.0) | 38.7 |

Included within the tax reconciliation are a number of non-recurring items, the effect of a reduction in recognition of Spanish tax losses and the release of tax provisions and a non-taxable disposal. Items expected to recur in the tax reconciliation for 2020 include the difference in rates between the UK and our overseas markets and tax incentives on re-investment credits. During the year it was announced that the UK corporation tax rate would no longer reduce to 17%. As at 31 December 2019 UK deferred tax was held at 17% therefore included within the deferred tax prior year adjustment is a tax credit of £1.2m in relation to change in UK tax rates. As at 31 December 2020 the UK deferred tax is held at 19%.

(d) Tax provisions

At 31 December 2020, the Group held tax provisions of £2.4m (2019: £10.8m), representing a number of tax uncertainties such as the deductibility of interest expense in the UK and Spain and tax audits in Spain. All UK corporation tax returns up to 2018 have been submitted and agreed by HMRC. The net decrease of £8.4m in tax provisions during the year represents; i) the release of tax reserves where the statute of limitation has closed (£0.5m), ii) a reduction in deferred tax assets in relation to Spanish issues (£2.9m) and iii) a decrease of tax reserves relating to risks in the US business (£5.0m). Based on the experience of the Group Tax department and after discussions of the various tax uncertainties with our tax advisers, the year end tax provision represents management's best estimate of the tax uncertainties of which we are aware. The provision for the Group's tax uncertainties of £2.4m is included in current tax liabilities.

(e) Temporary differences associated with Group investments

No deferred tax (2019: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2019: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

(f) Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Based on current forecasts, it is estimated that the losses recognised for deferred tax purposes will be utilised within three to four years. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements relates to gross losses of £6.3m (2019: £17.7m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. The majority of the unrecognised losses relates to US entities where it is uncertain when, or if, the losses will be utilised.

(g) Deferred tax included in the Income Statement

| | 2020 £m | 2019 £m |
|--|----------------|-------------|
| Accelerated capital allowances | 20.6 | 29.8 |
| Other short-term temporary differences | (33.6) | 6.6 |
| Recognition of losses | (104.9) | (18.8) |
| Deferred tax (credit)/charge (note 11(a)) | (117.9) | 17.6 |

Details on the Balance Sheet position of deferred tax are included in note 27.

11 Taxation continued

(h) Factors that may affect future tax charges

On 3 March 2021 the UK Chancellor of the exchequer announced a tax rise from 19% to 25% from 1 April 2023. Currently the UK deferred tax asset is held at 19% therefore the increase in tax rate would lead to a tax credit of £12.8m through the profit and loss account and £9.3m through the SOCIE.

12 Dividends paid and proposed

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Declared and paid during the year | | |
| Ordinary final dividend for 2019 paid of nil per share (2018: 10.17p) | – | 51.9 |
| Ordinary interim dividend for 2020 of nil per share (2019: 5.16p) | – | 26.4 |
| | – | 78.3 |
| Proposed for approval (not recognised as a liability at 31 December) | | |
| Ordinary final dividend for 2020 of nil per share (2019: 11.19p per share ¹) | – | 57.1 |

¹ In the period, due to the impact of the Covid-19 pandemic and associated business and economic uncertainty the Group cancelled its final 2019 dividend of 11.19p per share, which would have been due on 12 May 2020.

A final dividend has not been proposed for the current period.

13 Earnings per share

| | 2020 | 2019 |
|---------------------------------------|---------|-------|
| Basic earnings per share | (57.9)p | 27.6p |
| Underlying basic earnings per share | (14.6)p | 34.5p |
| Diluted earnings per share | (57.9)p | 27.5p |
| Underlying diluted earnings per share | (14.6)p | 34.4p |

Basic EPS is calculated by dividing the earnings attributable to equity shareholders, a loss of £333.8m (2019: £141.1m profit) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust (note 32) which are treated as cancelled. Earnings attributable to equity shareholders is inclusive of amounts accruing to the holders of the hybrid instrument and is calculated as follows:

| | 2020 £m | 2019 £m |
|---|----------------|--------------|
| (Loss)/profit attributable to equity shareholders | (331.7) | 141.1 |
| Accrued payments on hybrid instrument | (2.1) | – |
| Earnings attributable to equity shareholders | (333.8) | 141.1 |

For diluted EPS, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The reconciliation of basic and diluted weighted average number of ordinary shares is as follows:

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Basic weighted average shares | 576,031,523 | 510,435,913 |
| Adjustment for dilutive potential ordinary shares ¹ | – | 2,433,486 |
| Diluted weighted average shares | 576,031,523 | 512,869,399 |

¹ Potential ordinary shares have the effect of being anti-dilutive in 2020 and therefore have been excluded from the calculation

The underlying basic and underlying diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33 since, in the opinion of the Directors, they reflect the underlying performance of the business' operations.

The reconciliation of the earnings and earnings per share to their underlying equivalent is as follows:

| | 2020 | | | 2019 | | |
|---|---------------|----------------|------------------|--------------|----------------|------------------|
| | £m | Basic EPS p | Diluted EPS p | £m | Basic EPS p | Diluted EPS p |
| Earnings attributable to equity shareholders | (333.8) | (57.9) | (57.9) | 141.1 | 27.6 | 27.5 |
| Separately disclosed items | 338.6 | 58.8 | 58.8 | 53.0 | 10.4 | 10.3 |
| Separately disclosed tax | (88.7) | (15.4) | (15.4) | (16.5) | (3.2) | (3.2) |
| Separately disclosed non-controlling interests | (0.3) | (0.1) | (0.1) | (1.4) | (0.3) | (0.2) |
| Underlying (loss)/profit attributable to equity shareholders¹ | (84.2) | (14.6) | (14.6) | 176.2 | 34.5 | 34.4 |

¹ Includes amounts accruing to the holders of the hybrid instrument

14 Intangible assets

| | Customer contracts £m | Infrastructure investment intangible £m | Software £m | Contract costs £m | Total finite life assets £m | Goodwill £m | Total £m |
|-------------------------------------|--------------------------|--|----------------|----------------------|--------------------------------|----------------|----------------|
| Cost: | | | | | | | |
| At 1 January 2020 | 847.2 | 74.5 | 109.1 | 27.4 | 1,058.2 | 1,526.1 | 2,584.3 |
| Acquisitions | 2.8 | – | – | – | 2.8 | 20.6 | 23.4 |
| Additions | – | – | 15.0 | 7.8 | 22.8 | – | 22.8 |
| Disposals | (0.6) | – | (1.3) | – | (1.9) | – | (1.9) |
| Reclassifications | (4.6) | – | 5.3 | – | 0.7 | – | 0.7 |
| Foreign exchange | 17.0 | 2.9 | (1.2) | 1.6 | 20.3 | 27.4 | 47.7 |
| At 31 December 2020 | 861.8 | 77.4 | 126.9 | 36.8 | 1,102.9 | 1,574.1 | 2,677.0 |
| Amortisation and impairment: | | | | | | | |
| At 1 January 2020 | 565.4 | 0.9 | 72.3 | 4.3 | 642.9 | 39.6 | 682.5 |
| Charge for year | 47.8 | 3.8 | 15.1 | 2.3 | 69.0 | – | 69.0 |
| Disposals | (0.6) | – | (1.3) | – | (1.9) | – | (1.9) |
| Impairment | 35.8 | – | 0.4 | 16.8 | 53.0 | 7.3 | 60.3 |
| Reclassifications | (0.2) | – | (0.5) | – | (0.7) | – | (0.7) |
| Foreign exchange | 14.6 | 0.1 | (0.8) | 0.3 | 14.2 | 1.8 | 16.0 |
| At 31 December 2020 | 662.8 | 4.8 | 85.2 | 23.7 | 776.5 | 48.7 | 825.2 |
| Net book value: | | | | | | | |
| At 31 December 2020 | 199.0 | 72.6 | 41.7 | 13.1 | 326.4 | 1,525.4 | 1,851.8 |
| At 1 January 2020 | 281.8 | 73.6 | 36.8 | 23.1 | 415.3 | 1,486.5 | 1,901.8 |

The impairment charge includes £30.5m of assets (2019: £nil) which arose following strategic reviews in the ALSA and North America divisions, and with respect to onerous contracts, £12.9m (2019: £nil) of customer contract intangibles in ALSA and £16.8m (2019: £nil) franchise contract costs in German Rail.

The Group recognises infrastructure investment intangibles for public service vehicles where the Group has the right to charge passengers of the public service in accordance with IFRIC 12 'Service Concession Arrangements'. Note 38 includes further details of the Group's service concession arrangements.

Customer contracts includes the following individually material assets, all of which arose through past acquisitions.

| Segment | Nature of contract | Remaining useful economic life at 31 December 2020 | Net book value at 31 December 2020 £m | Remaining useful economic life at 31 December 2019 | Net book value at 31 December 2019 £m |
|---------------|--|--|---------------------------------------|--|---------------------------------------|
| North America | School bus and paratransit service contract in North America | 11 years | 22.4 | 12 years | 25.1 |
| North America | Employee shuttle contract in North America | 9 years | 19.0 | 10 years | 22.0 |
| North America | Paratransit bus service contract in North America | 12 years | 14.2 | 13 years | 17.0 |
| North America | School bus and paratransit service contract in North America | 12 years | 10.3 | 13 years | 13.5 |
| ALSA | Urban and charter bus service contract in Spain | 5 years | 13.8 | 6 years | 15.9 |

14 Intangible assets continued

| | Customer contracts £m | Infrastructure investment intangible £m | Software £m | Contract costs £m | Total finite life assets £m | Goodwill £m | Total £m |
|------------------------------|--------------------------|--|----------------|----------------------|--------------------------------|----------------|-------------|
| Cost: | | | | | | | |
| At 1 January 2019 | 836.4 | – | 96.8 | 21.5 | 954.7 | 1,502.7 | 2,457.4 |
| Acquisitions | 49.8 | – | – | – | 49.8 | 101.7 | 151.5 |
| Additions | 6.6 | 77.3 | 18.5 | 7.9 | 110.3 | – | 110.3 |
| Disposals | – | – | (3.5) | – | (3.5) | (6.4) | (9.9) |
| Reclassifications | (2.3) | – | 0.3 | – | (2.0) | 2.3 | 0.3 |
| Foreign exchange | (43.3) | (2.8) | (3.0) | (2.0) | (51.1) | (74.2) | (125.3) |
| At 31 December 2019 | 847.2 | 74.5 | 109.1 | 27.4 | 1,058.2 | 1,526.1 | 2,584.3 |
| Amortisation and impairment: | | | | | | | |
| At 1 January 2019 | 547.6 | – | 67.2 | 3.0 | 617.8 | 42.1 | 659.9 |
| Charge for year | 47.8 | 0.9 | 9.5 | 1.5 | 59.7 | – | 59.7 |
| Disposals | – | – | (2.0) | – | (2.0) | – | (2.0) |
| Reclassifications | – | – | 0.2 | – | 0.2 | – | 0.2 |
| Foreign exchange | (30.0) | – | (2.6) | (0.2) | (32.8) | (2.5) | (35.3) |
| At 31 December 2019 | 565.4 | 0.9 | 72.3 | 4.3 | 642.9 | 39.6 | 682.5 |
| Net book value: | | | | | | | |
| At 31 December 2019 | 281.8 | 73.6 | 36.8 | 23.1 | 415.3 | 1,486.5 | 1,901.8 |
| At 1 January 2019 | 288.8 | – | 29.6 | 18.5 | 336.9 | 1,460.6 | 1,797.5 |

Goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

| | 2020 £m | 2019 £m |
|---------------|------------|------------|
| UK | 52.6 | 29.0 |
| North America | 652.7 | 679.4 |
| ALSA | 820.1 | 778.1 |
| | 1,525.4 | 1,486.5 |

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows into perpetuity beyond the three-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

| | Pre-tax discount rate applied to cash flow projections | | Growth rate used to extrapolate cash flows into perpetuity | |
|---------------|--|------|--|------|
| | 2020 | 2019 | 2020 | 2019 |
| UK | 7.7% | 6.4% | 2.5% | 2.5% |
| North America | 7.6% | 6.3% | 3.1% | 2.9% |
| ALSA | 8.3% | 7.3% | 3.0% | 2.5% |

The discount rates increased significantly in the year but remain no higher than they were in 2018.

The key estimates applied in the impairment review are the forecast level of revenue, operating margins and the proportion of operating profit converted to cash in each year. Forecast revenue and operating margins are based on past performance and management's expectations for the future, including an estimate of the continuing impact of the Covid-19 pandemic. A growth rate for each division has been consistently applied in the impairment review for all cash-generating units based on current forecasts and long-term country-specific GDP growth rates. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital (WACC), principally derived from external sources. Capital expenditure is projected over the first three years using a detailed, contract-by-contract level forecast of the capital requirements of the Group for new and replacement vehicles and other assets. In the extrapolation of cash flows into perpetuity (the "terminal value"), capital expenditure is assumed to be a 1:1 ratio to depreciation.

The value in use of the North America division exceeds its carrying amount by £633.6m (2019: £1,371.6m, 2018: £424.9m). The reduction in the excess of the value in use over the carrying amount is due to the discount rate returning back to what it was in 2018.

14 Intangible assets continued

The value in use of the ALSA division exceeds its carrying amount by £266.8m (2019: £424.9m, 2018: £139.5m).

The assumptions used to derive the cash flow projections over the first three years of the impairment assessment are consistent with those used for the going concern and viability assessments, for which the assumptions are detailed in note 2 (for the going concern assessment) and in the viability statement. In summary, the base case projections assume Group revenue recovers to pre-pandemic levels in 2022 whereas the downside scenario assumes this is a year later, in 2023. However, whilst the pace of recovery due to the pandemic in the next one to two years could differ from that modelled, the vast majority of the value in use is in the terminal value, which is derived by applying the growth rate to the terminal year cash flow projection. Beyond the uncertainty over the medium term recovery, the Directors do not currently assume there to be any long-term net adverse impact from the pandemic. Applying the downside scenarios used for going concern or viability assessments does not materially alter the amounts by which the value in use exceeds the carrying amount.

Sensitivities to key and other assumptions

(i) North America

For North America, sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 2.1% (2019: 3.0%) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 2.2% (2019: 3.2%).

In addition, for North America, a reduction in operating profit margin of 2.8% (2019: 3.9%) will result in the value in use of the division being equal to its carrying amount.

Given the significant amount by which value in use exceeds the carrying amount, management does not consider a reasonably possible change in key assumptions would result in an impairment in the North America division.

(ii) ALSA

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 1.1% (2019: 1.5%) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 1.1% (2019: 1.5%).

A reduction in ALSA's operating profit margin of 1.6% (2019: 1.9%) will result in the value in use of the division being equal to its carrying amount.

Management have also performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the key assumptions would have on the recoverable amount of the ALSA division. In combination, a 20% reduction in the cash flows in 2021 and 2022, a 1.0% reduction in the long term growth rate and a 1.0% increase in the pre-tax discount rate would lead to a £168m impairment in ALSA.

The Directors have concluded that there is no risk of impairment for the UK and have not provided sensitivity disclosure required by IAS 36.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts and therefore that goodwill is not impaired.

15 Property, plant and equipment

| | Land and buildings £m | Public service vehicles £m | Plant and equipment, fixtures and fittings £m | Total £m |
|-------------------------------------|--------------------------|-------------------------------|--|----------------|
| Cost: | | | | |
| At 1 January 2020 | 323.6 | 2,085.5 | 187.0 | 2,596.1 |
| Acquisitions | 3.3 | 9.1 | 0.6 | 13.0 |
| Additions | 28.1 | 172.6 | 9.2 | 209.9 |
| Disposals | (22.2) | (71.6) | (12.8) | (106.6) |
| Assets transferred to held for sale | (21.8) | – | – | (21.8) |
| Reclassifications | – | – | – | – |
| Foreign exchange | 2.6 | (1.3) | 3.3 | 4.6 |
| At 31 December 2020 | 313.6 | 2,194.3 | 187.3 | 2,695.2 |
| Depreciation: | | | | |
| At 1 January 2020 | 116.8 | 1,004.8 | 126.3 | 1,247.9 |
| Charge for the year | 33.8 | 173.9 | 15.9 | 223.6 |
| Disposals | (11.3) | (51.7) | (11.4) | (74.4) |
| Impairments | 4.8 | 65.5 | 0.4 | 70.7 |
| Assets transferred to held for sale | (3.0) | – | – | (3.0) |
| Reclassifications | – | – | – | – |
| Foreign exchange | (0.3) | (5.7) | 3.2 | (2.8) |
| At 31 December 2020 | 140.8 | 1,186.8 | 134.4 | 1,462.0 |
| Net book value: | | | | |
| At 31 December 2020 | 172.8 | 1,007.5 | 52.9 | 1,233.2 |
| At 1 January 2020 | 206.8 | 1,080.7 | 60.7 | 1,348.2 |

The impairment charge includes £67.5m (2019: £nil) which arose following strategic reviews in the UK, ALSA and North American divisions and £3.2m (2019: £nil) with respect to assets relating to onerous contracts in the North America and UK divisions. The total impairment charge of £70.7m is included in separately disclosed items in the Income Statement, see note 5 for further information.

15 Property, plant and equipment continued

| | Land and buildings £m | Public service vehicles £m | Plant and equipment, fixtures and fittings £m | Total £m |
|--|--------------------------|-------------------------------|--|-------------|
| Cost: | | | | |
| At 1 January 2019 | 118.8 | 1,835.4 | 163.1 | 2,117.3 |
| Change in accounting policies ¹ | 181.4 | 172.1 | 3.8 | 357.3 |
| At 1 January 2019 restated | 300.2 | 2,007.5 | 166.9 | 2,474.6 |
| Acquisitions | 5.1 | 35.2 | 0.7 | 41.0 |
| Additions | 39.8 | 240.5 | 31.2 | 311.5 |
| Disposals | (10.3) | (126.2) | (5.7) | (142.2) |
| Reclassifications | – | – | (0.3) | (0.3) |
| Foreign exchange | (11.2) | (71.5) | (5.8) | (88.5) |
| At 31 December 2019 | 323.6 | 2,085.5 | 187.0 | 2,596.1 |
| Depreciation: | | | | |
| At 1 January 2019 | 31.6 | 912.2 | 118.7 | 1,062.5 |
| Change in accounting policies ¹ | 66.3 | 87.7 | 2.2 | 156.2 |
| At 1 January 2019 restated | 97.9 | 999.9 | 120.9 | 1,218.7 |
| Charge for the year | 32.3 | 156.1 | 14.7 | 203.1 |
| Disposals | (9.3) | (117.0) | (5.0) | (131.3) |
| Reclassifications | – | – | (0.2) | (0.2) |
| Foreign exchange | (4.1) | (34.2) | (4.1) | (42.4) |
| At 31 December 2019 | 116.8 | 1,004.8 | 126.3 | 1,247.9 |
| Net book value: | | | | |
| At 31 December 2019 | 206.8 | 1,080.7 | 60.7 | 1,348.2 |
| At 1 January 2019 ¹ | 202.3 | 1,007.6 | 46.0 | 1,255.9 |

¹ Opening balances were restated for the adoption of IFRS 16 'Leases'

During the prior year, the Group entered into an asset exchange transaction, in which it swapped an existing property for a new piece of land and a funding arrangement to construct a new property. As the funding of the new property was contingent on planning permission being granted, about which there was no certainty, consideration for the transaction was restricted to the fair value of the new land exchanged in accordance with IFRS 15. The movement analysis above includes the disposal of the property and the fair value of the new land acquired as a result of the exchange. During 2020 the Group has assessed that planning is highly probable and recognised further amounts in respect of the transaction, see note 22 for further details.

Details of leased assets included within property, plant and equipment are provided in note 35.

16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 40, along with the addresses of their registered offices. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

Incorporated in England and Wales

| | |
|------------------------------|-----------------------------|
| National Express Limited | Operation of coach services |
| The Kings Ferry Limited | Operation of coach services |
| West Midlands Travel Limited | Operation of bus services |

Incorporated in the United States

| | |
|---|-----------------------------------|
| Durham School Services LP | Operation of school bus services |
| Petermann Ltd | Operation of school bus services |
| National Express Transit Corporation | Operation of transit bus services |
| National Express Transit Services Corporation | Operation of transit bus services |
| WeDriveU Inc. | Operation of shuttle services |

Incorporated in Canada

| | |
|------------------------------|----------------------------------|
| Stock Transportation Limited | Operation of school bus services |
|------------------------------|----------------------------------|

Incorporated in Spain

| | |
|--|---|
| General Tecnica Industrial S.L.U. ¹ | Holding company for operating companies |
| NEX Continental Holdings S.L. | Holding company for operating companies |

Incorporated in Morocco

| | |
|--|---------------------------|
| Groupe Alsa Transport S.A. | Operation of bus services |
| Transport de Voyageurs en Autocar Maroc S.A. | Operation of bus services |
| Alsa Tanger S.A. | Operation of bus services |
| Alsa City Agadir S.A. | Operation of bus services |
| Alsa Citybus Rabat-Salé-Temara | Operation of bus services |
| Alsa Al Baida S.A. | Operation of bus services |

Incorporated in Germany

| | |
|----------------------------|---------------------------------------|
| National Express Rail GmbH | Operation of train passenger services |
|----------------------------|---------------------------------------|

¹ The main holding companies of the ALSA Group

17 Non-current financial assets

| | 2020 £m | 2019 £m |
|---|-------------|-------------|
| Financial assets at fair value through Other Comprehensive Income – unlisted ordinary shares | 12.9 | 14.2 |
| Derivative financial instruments – fuel derivatives | 0.4 | 0.6 |
| Derivative financial instruments – interest rate derivatives | – | 2.1 |
| Derivative financial instruments – cross currency swaps | 1.0 | 8.0 |
| Derivative financial instruments included in non-current assets | 1.4 | 10.7 |
| Total non-current financial instruments | 14.3 | 24.9 |
| Derivative financial instruments – fuel derivatives | 0.4 | 6.1 |
| Derivative financial instruments – interest rate derivatives | 1.5 | 7.9 |
| Derivative financial instruments – cross currency swaps | 2.2 | 3.5 |
| Derivative financial instruments – foreign exchange derivatives | 40.8 | 27.0 |
| Derivative financial instruments included in current assets | 44.9 | 44.5 |

Further information on the Group's use of derivatives is included in note 31.

Financial assets at fair value through other comprehensive income

| | 2020 £m | 2019 £m |
|---------------------------|-------------|-------------|
| Fair value: | | |
| At 1 January | 14.2 | 6.7 |
| Additions in the year | – | 8.2 |
| Fair movement in the year | (1.6) | – |
| Foreign exchange | 0.3 | (0.7) |
| At 31 December | 12.9 | 14.2 |

The principal financial assets at fair value through other comprehensive income are as follows:

| Name | Segment | 2020 Proportion held % | 2019 Proportion held % |
|-------------------------------------|---------------|---------------------------------|---------------------------------|
| Metros Ligeros de Madrid, S.A. | ALSA | 15 | 15 |
| Transit Technologies Holdco | North America | 8.8 | 8.8 |
| Other small investments within ALSA | ALSA | 1-16 | 1-16 |

Financial assets at fair value through other comprehensive income comprise holdings in equity shares of non-listed companies. The Group elected to designate the non-listed equity investments at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

The fair value measurement of non-listed equity investments are categorised within Level 3 (i.e. the fair values are determined by reference to significant unobservable inputs), with the fair value of the two most significant investments totalling £12.1m at 31 December 2020 (2019: £13.5m). For the first of these, the fair value was determined using recent earnings. A 10% increase/(decrease) in earnings would result in a £0.6m increase/(decrease) respectively in the fair value of the investment. For the second investment, the fair value was determined using an estimate of the discounted future cash flows. Future cash flows are estimated based on inputs including passenger growth, consumer price inflation and operating margin. The fair value is most sensitive to changes in passenger growth and inflation assumptions. A 1% increase/(decrease) in passenger growth would result in a £0.5m increase/(decrease) respectively in the fair value of the investment, whereas, a 1% increase in inflation would result in a £2.9m increase in fair value, and a 1% decrease in inflation would result in a £2.6m decrease in the fair value of the investment.

No strategic investments were disposed of during 2020, and there were no transfers of any cumulative gain or loss within Equity relating to these investments. No dividends were received from the investments during 2020 (2019: nil).

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

| | 2020 £m | 2019 £m |
|--|-------------|-------------|
| Joint ventures | 9.9 | 10.7 |
| Associates | 5.7 | 7.2 |
| Total investments accounted for under the equity method | 15.6 | 17.9 |

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

| | 2020 £m | 2019 £m |
|--|--------------|------------|
| Share of joint venture's (loss)/profit | (0.5) | 0.6 |
| Share of associates' loss | (1.6) | (0.2) |
| Total share of results from associates and joint ventures | (2.1) | 0.4 |

(a) Investments in joint ventures

The Group has one interest in a joint venture as follows:

| Name | Country of registration | Activity | Proportion held % |
|---|----------------------------|---------------------------|-------------------|
| | | | 2020 2019 |
| Bahrain Public Transport Company W.L.L. | Kingdom of Bahrain | Operation of bus services | 50 50 |

The summarised financial information for the joint venture is set out below:

| | Bahrain Public Transport Company W.L.L. | |
|--|--|-------------|
| | 2020 £m | 2019 £m |
| Share of the joint venture's balance sheet and results | | |
| Non-current assets | 11.1 | 13.7 |
| Current assets | 5.8 | 6.2 |
| Share of gross assets | 16.9 | 19.9 |
| Non-current liabilities | (2.8) | (3.8) |
| Current liabilities | (4.2) | (5.8) |
| Share of gross liabilities | (7.0) | (9.6) |
| Net assets | 9.9 | 10.3 |
| Revenue | 5.8 | 9.4 |
| Operating profit | 0.6 | 1.6 |
| (Loss)/profit after tax | (0.5) | 0.5 |
| (Loss)/profit for the year and total comprehensive income | (0.5) | 0.5 |

A reconciliation of the above summarised information to the carrying amount in the Group's Financial Statements is as follows:

| | Bahrain Public Transport Company W.L.L. | |
|---|--|-------------|
| | 2020 £m | 2019 £m |
| Group share of net assets of the joint venture | 9.9 | 10.3 |
| Adjustments to joint venture retained earnings ¹ | – | 0.4 |
| Carrying amount | 9.9 | 10.7 |

¹ Including effect of adoption of IFRS 16 'Leases' in 2019.

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

| Name | Country of registration | Proportion held % |
|--------------------------|-------------------------|-------------------|
| ALSA associates | Spain | 17-80 |
| North America associates | North America | 20 |

ALSA's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations. North America associates include a start-up company offering app-based rideshare and childcare services in the San Francisco area and a software company which provides scheduling, dispatch and time management functions in the student transportation sector.

The summarised aggregated financial information for individually immaterial associates is set out below:

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Share of operating loss | (1.6) | (0.2) |
| Share of loss for the year and total comprehensive income and expenditure | (1.6) | (0.2) |

19 Business combinations, disposals and assets held for sale

(a) Acquisitions - UK

During the period, the UK division acquired 100% control of Lucketts Group, a coach operator in Hampshire, England.

The fair values of the assets and liabilities acquired were as follows:

| | £m |
|-------------------------------|--------------|
| Intangibles | 1.0 |
| Property, plant and equipment | 11.8 |
| Inventory | 0.3 |
| Trade and other receivables | 1.7 |
| Cash and cash equivalents | 5.2 |
| Borrowings | (15.7) |
| Trade and other payables | (2.8) |
| Provisions | (0.6) |
| Deferred tax liabilities | (1.2) |
| Net assets acquired | (0.3) |
| Goodwill | 22.6 |
| Total consideration | 22.3 |
| Represented by: | |
| Cash consideration | 14.8 |
| Deferred consideration | 7.5 |
| | 22.3 |

Trade and other receivables had a fair value and a gross contracted value of £1.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £0.2m.

Goodwill of £22.6m arising from the acquisition consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £7.5m. The Group is required to pay contingent consideration on pre-determined EBITDA thresholds being met over a rolling three year period, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £7.5m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

19 Business combinations, disposals and assets held for sale continued

The acquired business contributed £7.0m of revenue and a £3.8m loss to the Group's result for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on the first day of the financial year, the Group's revenue for the year would have been £1,959.2m and the Group's operating loss would have been £380.8m.

(b) Acquisitions – further information

Deferred consideration of £0.2m was paid in the period relating to acquisitions in the UK in earlier years. Total cash outflow in the period from acquisitions in the UK division was £9.8m, comprising consideration for current year acquisitions of £14.8m and deferred consideration of £0.2m, less cash acquired in the businesses of £5.2m.

In North America and ALSA deferred consideration of £26.9m and £0.2m respectively was paid in the period relating to acquisitions in earlier years.

In addition, during the period there was an increase in the provisional fair values of businesses acquired in prior years of £0.7m and £2.3m in the North America and ALSA divisions respectively, with a resultant decrease in goodwill. These changes included a net reduction in the borrowings acquired of £0.1m.

Total acquisition transaction costs of £0.4m were incurred in the year to 31 December 2020 (2019: £5.7m).

The Group measures deferred contingent consideration at fair value through the profit and loss and by reference to significant unobservable inputs i.e. classified as level 3 in the fair value hierarchy. The significant unobservable inputs used to determine the fair value of the contingent purchase consideration are typically forecast earnings or estimating the likelihood that contracts will be renewed over a fixed period. The fair value movement in deferred contingent consideration in the year is as follows:

| | 2020 £m |
|---------------------------------|-------------|
| Fair value: | |
| At 1 January | 49.0 |
| Additions in the year | 7.5 |
| Payments during the year | (27.3) |
| Fair value movement in the year | (1.2) |
| Foreign exchange | 0.8 |
| At 31 December | 28.8 |

(c) Disposals

On 31 December 2020, the Group disposed of its 100% interest in Tayside Public Transport Co Limited, a provider of bus transportation services in Dundee, Scotland, in exchange for cash. A loss of £0.1m was recognised and comprises gross cash consideration of £11.8m less transaction costs of £1.3m, working capital adjustment of £0.4m and net assets of £10.2m. Total cash inflow in the period from the disposal was £7.2m, comprising consideration of £11.8m, less transaction costs settled of £0.1m and cash disposed in the business of £4.5m.

On 24 July 2019, the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. The retained investment was accounted for as a financial asset at fair value through other comprehensive income. A gain of £8.8m was recognised within separately disclosed items representing net consideration of £30.3m, less net assets disposed of £22.5m and exchange gains recycled from the currency translation reserve totalling £1.0m. Total cash inflow in 2019 was £21.7m.

During 2020 and subject to the Group having fulfilled its obligations under the sales agreement, including the finalisation of the closing accounts, consideration held in escrow was returned to the Group totalling £3.5m. Closing adjustments resulted in a reduction of the original gain of £0.6m and which has been recognised in separately disclosed items during the year for consistency. Transaction expenses totalling £6.3m were settled during 2020. Total cash outflow in the year from the disposal was £2.8m. No further cash flows are expected in 2021.

(d) Assets held for sale

In ALSA, a building with a carrying value of £18.8m met the held for sale criteria of IFRS 5 at 31 December 2020.

In the prior year two buildings in North America were held for sale. These buildings were sold during 2020 and proceeds equal to the carrying value were receipted. The carrying value of the buildings at 31 December 2019 was £4.3m.

20 Non-current assets – trade and other receivables

| | 2020 £m | 2019 ¹ £m |
|-------------------|-------------|-------------------------|
| Contract assets | 85.2 | 6.0 |
| Prepayments | 4.6 | 1.9 |
| Other receivables | 1.9 | 1.7 |
| | 91.7 | 9.6 |

¹ Prior year trade and other receivable balances have been represented with £6.0m reclassified from other receivables to contract assets

Contract assets have increased primarily in ALSA due to the recognition of infrastructure assets for public service vehicles where the concession grantor guarantees the contract performance in accordance with IFRIC 12 'Service Concession Arrangements'. Note 38 includes further details of the Group's service concession arrangements. In addition contract assets includes amounts in Germany that are expected to be settled after twelve months.

21 Inventories

| | 2020 £m | 2019 £m |
|-------------------------------|------------|------------|
| Raw materials and consumables | 27.0 | 29.4 |

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

| | 2020 £m | 2019 ¹ £m |
|---|--------------|-------------------------|
| Trade receivables | 157.8 | 221.4 |
| Grant receivables | 71.4 | 23.5 |
| Contract assets | 80.8 | 104.0 |
| Amounts due from associates and joint ventures (note 37) | 3.6 | 3.4 |
| Amounts due from other related parties (note 37) | 1.3 | 0.4 |
| Trade and grant receivables and contract assets | 314.9 | 352.7 |
| Less: provision for impairment of receivables | (46.3) | (36.4) |
| Trade and grant receivables and contract assets – net (note 30) | 268.6 | 316.3 |
| Other receivables | 76.0 | 116.8 |
| Prepayments | 46.7 | 53.4 |
| Accrued income | 0.4 | 10.3 |
| | 391.7 | 496.8 |

¹ Prior year trade and other receivable balances have been represented with £1.7m reclassified from other receivables to contract assets

The timing of revenue recognition, billings and cash collection results in trade receivables (billed amounts), contract assets (unbilled amounts) and customer advances and deposits (contract liabilities – note 24) on the Group's Balance Sheet. Contract assets have primarily decreased in Germany consistent with the expectation that amounts will be settled after twelve months, with the balance now recorded in non-current trade and other receivables.

Trade receivables excludes £33.3m (2019: £49.0m) that was subject to factoring arrangements without recourse and for which no customer payment had been received at year end.

During the prior year, the Group entered into an asset exchange transaction in the UK, in which it swapped an existing property for a new piece of land and a funding arrangement to construct a new property. The funding of the new property was contingent on planning permission being received, about which there was no certainty and therefore consideration was constrained to the fair value of the new piece of land. At 31 December 2020, the Group has assessed that planning permission is highly probable and as a result recognised a receivable (included in other receivables) of £12.5m representing the funding due to the Group for construction of the new property. As construction of the property takes place and the Group is reimbursed, the receivable will unwind and a new property asset will be recognised in property, plant and equipment. A £7.7m gain on disposal was recognised in the Income Statement during the year, with no further amounts expected in future years.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Information about the credit risk exposure of the Group's trade receivables is shown in note 30.

23 Cash and cash equivalents

| | 2020 £m | 2019 £m |
|----------------------------------|--------------|--------------|
| Cash at bank and in hand | 131.9 | 111.2 |
| Overnight deposits | 49.7 | 2.1 |
| Other short-term deposits | 338.9 | 365.0 |
| Cash and cash equivalents | 520.5 | 478.3 |

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions. These amounts held are not readily available for other purposes within the Group and total £18.2m.

Additionally, in some countries where the Group operates, whilst the cash held is not restricted, repatriation of cash would be subject to withholding tax. The maximum withholding tax payable would amount to £6.3m if all of the cash held were to be repatriated.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

24 Current liabilities – trade and other payables

| | 2020 £m | 2019 ¹ £m |
|---|--------------|-------------------------|
| Trade payables | 231.2 | 329.7 |
| Contract liabilities | 25.9 | 16.5 |
| Amounts owed to associates and joint ventures (note 37) | 0.7 | 1.3 |
| Amounts owed to other related parties (note 37) | 1.5 | 0.6 |
| Other tax and social security payable | 33.5 | 32.2 |
| Accruals and deferred income | 236.3 | 304.4 |
| Other payables | 314.7 | 371.8 |
| Put liability | 17.5 | – |
| | 861.3 | 1,056.5 |

¹ Contract liabilities in the prior year have been represented to reclassify IFRIC 12 liabilities of £3.6m from current borrowings, see note 2 for further information

Trade payables are normally settled on 30 to 60 day terms and other payables have an average term of four months.

Contract liabilities represents amounts advanced by customers where the Group has not yet met the performance obligation to allow the recognition of the balance as revenue. These mainly relate to season ticket and advance ticket sales which cross over the year end date and are expected to be recognised as revenue in the year to 31 December 2021 or payments receipted on account. Contract liabilities have primarily increased year-on-year in Germany, due to payments on account having been receipted prior to completion of our performance obligations.

Other payables includes £204.0m (2019: £263.3m) for the purchase of property, plant and equipment. The Group settles these amounts in accordance with the supplier's standard payment terms, typically one year.

Other payables also includes deferred fixed asset grants from government or other public bodies of £1.6m (2019: £1.1m), advance payments for factoring of divisional revenues of £78.3m (2019: £58.1m) and £15.8m (2019: £36.1m) of deferred contingent consideration for businesses acquired, of which £2.5m (2019: £0.9m) relates to businesses acquired in the year (note 19).

25 Other non-current liabilities

| | 2020 £m | 2019 ¹ £m |
|-----------------------------|--------------|-------------------------|
| Deferred fixed asset grants | 27.1 | 33.9 |
| Contract liabilities | 24.2 | 32.1 |
| Other payables | 105.9 | 15.4 |
| Put liability | 45.5 | 96.8 |
| | 202.7 | 178.2 |

¹ Contract liabilities in the prior year have been represented to reclassify IFRIC 12 liabilities of £13.9m from non-current borrowings, see note 2 for further information

25 Other non-current liabilities continued

Other payables includes £13.0m (2019: £12.9m) of deferred contingent consideration for businesses acquired, of which £5.0m (2019: £9.7m) relates to businesses acquired in the year (note 19) and £85.6m for the purchase of property, plant and equipment where standard payment terms are 18 months.

The put liability has been derived from an internal valuation, using forecast earnings over the exercise period (consistent with the base case projections used for going concern) and discounted at a rate of 0.6%. The first tranche of options, over 10% of the equity of WeDriveU, has been exercised by the vendors as at 31 December 2020 and will be settled during 2021. This element of the liability has been recorded in current liabilities (note 24). The put liability assumes that all of the remaining options (totalling 30% of the equity of WeDriveU) will be exercised at the final opportunity, being 31 December 2022. The table below shows on an indicative basis the Income Statement and Balance Sheet sensitivity of the put liability to reasonably possible changes in key assumptions. The sensitivity analysis below is based on a change in assumption while holding all other assumptions constant.

| Increase/(decrease) in put liability and loss/(gain) in Income Statement | 2020 £m |
|--|------------|
| 20% increase in EBITDA | 9.7 |
| 20% decrease in EBITDA | (9.7) |
| 0.5% increase in discount rate | (0.4) |
| 0.5% decrease in discount rate | 0.5 |
| Timing of exercise (December 2021 – 10%; December 2022 – 20%) | (3.8) |

Whilst the Group's long term expectations of WeDriveU are unchanged, the short term earnings projections for the business have been adjusted for the disruption due to the Covid-19 pandemic. This resulted in a £33.9m reduction in the carrying value of the put liability. See note 5 for further details.

26 Provisions

| | Claims provision £m | Onerous contract provisions | Other £m | Total £m |
|-------------------------------------|---------------------------|-----------------------------------|-------------|--------------|
| At 1 January 2020 | 93.7 | – | 10.4 | 104.1 |
| Charged to the Income Statement | 33.0 | 103.6 | 6.0 | 142.6 |
| Amounts settled through insurers | (12.6) | – | – | (12.6) |
| Utilised in the year | (33.0) | (64.8) | – | (97.8) |
| Unwinding of discount | 1.6 | – | – | 1.6 |
| Acquired in business combinations | – | – | 0.6 | 0.6 |
| Exchange difference | (2.0) | (0.8) | 0.2 | (2.6) |
| At 31 December 2020 | 80.7 | 38.0 | 17.2 | 135.9 |
| Current 31 December 2020 | 40.7 | 28.7 | 11.7 | 81.1 |
| Non-current 31 December 2020 | 40.0 | 9.3 | 5.5 | 54.8 |
| | 80.7 | 38.0 | 17.2 | 135.9 |
| Current 31 December 2019 | 52.9 | – | 8.1 | 61.0 |
| Non-current 31 December 2019 | 40.8 | – | 2.3 | 43.1 |
| | 93.7 | – | 10.4 | 104.1 |

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It also includes provision for employee compensation claims as disclosed in note 5. It comprises provisions for claims arising in the UK and North America.

Onerous contract provisions relate to loss making contracts in ALSA, North America and UK, all of which are expected to be utilised within the next two years. Onerous contract provisions are considered to be a new significant estimate in the year, particularly in relation to the extent to which the Covid-19 pandemic has a lasting effect on passenger revenue. A 10% decrease in revenues, whilst holding all other assumptions flat, would have increased the Income Statement charge by £34.1m in the year and resulted in a £33.1m increase to the closing Balance Sheet position.

Other primarily relates to a provision for a potential reclaim of subsidies in ALSA, all of which is expected to be utilised within the next 12 months.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

| | 2020 £m | 2019 £m |
|--|-------------|---------------|
| At 1 January | (24.6) | (20.3) |
| Change in accounting policies ¹ | – | 2.9 |
| At 1 January (restated) | (24.6) | (17.4) |
| Credit/(charge) to the Income Statement (note 11) | 117.9 | (17.6) |
| Credit/(charge) to Other Comprehensive Income or Equity | 15.0 | (6.3) |
| Exchange differences | (6.7) | 4.2 |
| Acquired in business combinations | (2.1) | 12.5 |
| Disposed in business combinations | 0.3 | – |
| Net deferred tax asset/(liability) at 31 December | 99.8 | (24.6) |

¹ Opening balances in 2019 have been restated for the adoption of IFRS 16 'Leases'

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

| Deferred tax assets | 2020 £m | 2019 £m |
|--|--------------|-------------|
| Accelerated tax depreciation | (112.7) | (89.4) |
| Losses carried forward | 202.8 | 126.4 |
| Pensions | 24.9 | 14.6 |
| Other short-term temporary differences | 25.5 | (19.8) |
| | 140.5 | 31.8 |

| Deferred tax liabilities | 2020 £m | 2019 ¹ £m |
|--|---------------|-------------------------|
| Accelerated tax depreciation | (82.3) | (143.5) |
| Losses carried forward | 22.8 | 3.9 |
| Intangibles and deductible goodwill | 8.2 | 46.3 |
| Taxation credits | 2.0 | 1.6 |
| Other short-term temporary differences | 8.6 | 35.3 |
| | (40.7) | (56.4) |

¹ Prior year balances were represented to correctly reflect the nature of the deferred tax liability

The UK, US and German businesses are included in deferred tax assets of £140.5m and the Spanish and Canadian businesses are included in deferred tax liabilities of £40.7m.

The deferred tax assets relating to losses carried forward are £225.6m (2019: £130.3m). This comprises £202.8m (2019: £126.4m) within deferred tax assets and £22.8m (2019: £3.9m) within deferred tax liabilities.

The Group has recognised deferred tax assets across the UK, US, Spanish and German businesses amounting to £294.8m (2019: £228.1m) that are considered to be able to be offset against the Group's future taxable profits. Management has based its assessment on the latest forecast budget approved by the Board which reflects improved trading performance across all divisions largely due to the expansion of the business.

28 Borrowings and derivative financial liabilities

| | 2020 £m | 2019 ¹ £m |
|--|----------------|-------------------------|
| Non-current | | |
| Bank loans | 20.4 | 82.1 |
| Bonds | 647.0 | 644.8 |
| Lease liabilities | 239.7 | 295.8 |
| Private placements | 405.9 | 68.3 |
| Non-current borrowings | 1,313.0 | 1,091.0 |
| Fuel derivatives | 3.9 | 3.1 |
| Cross currency swaps | 6.7 | 6.5 |
| Non-current derivative financial instruments | 10.6 | 9.6 |
| Non-current borrowings and derivative financial liabilities | 1,323.6 | 1,100.6 |
| Current | | |
| Bank loans | 5.5 | 105.1 |
| Bonds | – | 437.1 |
| Lease liabilities | 86.5 | 94.2 |
| Private placements | 70.9 | – |
| Accrued interest on borrowings | 4.1 | 12.8 |
| Current borrowings | 167.0 | 649.2 |
| Fuel derivatives | 17.0 | 2.3 |
| Interest rate derivatives | – | 3.7 |
| Foreign exchange derivatives | 6.0 | 31.8 |
| Current derivative financial instruments | 23.0 | 37.8 |
| Current borrowings and derivative financial liabilities | 190.0 | 687.0 |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

| | 2020 £m | Maturity | Effective interest rate | 2019 ¹ £m | Maturity | Effective interest rate |
|---------------------------------------|----------------|---------------|----------------------------|-------------------------|---------------|----------------------------|
| 7-year Sterling bond | 400.1 | November 2023 | 2.54% | 400.2 | November 2023 | 2.54% |
| 9-year Sterling bond | 246.9 | November 2028 | 2.38% | 244.6 | November 2028 | 2.38% |
| 10-year Sterling bond | – | – | – | 225.8 | June 2020 | 6.85% |
| 2.5-year Euro floating rate note | – | – | – | 211.3 | May 2020 | EURIBOR + 0.4% |
| Bonds | 647.0 | | | 1,081.9 | | |
| Short-term bank loans | – | – | – | 175.4 | 2020-2021 | Various |
| European bank loans | 2.7 | 2021-2025 | 1.53% | 2.5 | 2022 | EURIBOR + 0.90% |
| Moroccan bank loans | 4.9 | 2021-2022 | 4.66% | 9.3 | 2020-2022 | 1.40%-4.66% |
| US asset backed bank loans | 18.3 | 2021-2027 | 2.46% | – | – | – |
| Bank loans | 25.9 | | | 187.2 | | |
| US Dollar leases at fixed rate | 192.4 | 2021-2035 | 3.89% | 232.7 | 2020-2035 | 3.94% |
| European leases at fixed rate | 29.6 | 2021-2025 | 1.13% | 13.4 | 2020-2025 | 1.52% |
| European leases at floating rate | 4.2 | 2021-2024 | EURIBOR + 1.00% | 33.7 | 2020-2025 | EURIBOR + 1.00% |
| Sterling leases at fixed rate | 100.0 | 2021-2037 | 3.14% | 110.2 | 2020-2037 | 3.12% |
| Leases | 326.2 | | | 390.0 | | |
| Euro private placement | 70.9 | August 2021 | 4.55% | 68.3 | August 2021 | 4.55% |
| US private placement | 405.9 | 2027-2032 | 1.92% | – | – | – |
| Private placements | 476.8 | | | 68.3 | | |
| Accrued interest – Bonds | 2.1 | | | 11.4 | | |
| Accrued interest – Private placement | 2.0 | | | 1.2 | | |
| Accrued interest – Bank loans | – | | | 0.2 | | |
| Accrued interest on borrowings | 4.1 | | | 12.8 | | |
| Total | 1,480.0 | | | 1,740.2 | | |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

The Group currently has £782.0m of unsecured committed revolving credit facilities, of which £287.0m matures in 2021, £15.0m matures in 2024 and £480.0m matures in 2025. At 31 December 2020, there was £nil (2019: £nil) drawn down on the facilities, with £2.4m of capitalised deal fees remaining, which are classified within other receivables. In addition, £600.0m is available to be drawn on the Bank of England Corporate Covid Financing Facility (CCFF), which matures in March 2021.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under those facilities becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable. In the light of the impact of the pandemic on EBITDA generation, the Group has renegotiated its covenants during 2020. The gearing covenant has been waived by the lenders for the 30 June 2021 and 31 December 2021 periods, and the interest cover covenant has been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 periods respectively.

29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits:

| As at 31 December 2020 | < 1 year £m | 1-2 years £m | 2-3 years £m | 3-4 years £m | 4-5 years £m | > 5 years £m | Total £m |
|---|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|
| Fixed rate | | | | | | | |
| Bank loans | (5.3) | (6.2) | (3.1) | (2.7) | (2.9) | (4.4) | (24.6) |
| Bonds | – | – | (400.1) | – | – | (246.9) | (647.0) |
| Lease liabilities | (85.0) | (64.9) | (47.4) | (33.6) | (17.6) | (73.5) | (322.0) |
| Private placements | (70.9) | – | – | – | – | (405.9) | (476.8) |
| Floating rate | | | | | | | |
| Cash assets | 520.5 | – | – | – | – | – | 520.5 |
| Other debt receivables | 1.2 | – | – | – | – | – | 1.2 |
| Bank loans | (0.2) | (0.5) | (0.6) | – | – | – | (1.3) |
| Lease liabilities | (1.5) | (1.3) | (1.0) | (0.4) | – | – | (4.2) |
| As at 31 December 2019¹ | | | | | | | |
| Fixed rate | | | | | | | |
| Bank loans | (5.1) | (2.2) | (0.1) | (1.8) | (0.1) | – | (9.3) |
| Bonds | (225.8) | – | – | (400.2) | – | (244.6) | (870.6) |
| Lease liabilities | (82.6) | (60.3) | (52.4) | (39.6) | (29.6) | (91.8) | (356.3) |
| Private placements | – | (68.3) | – | – | – | – | (68.3) |
| Floating rate | | | | | | | |
| Cash assets | 478.3 | – | – | – | – | – | 478.3 |
| Other debt receivables | 2.4 | – | – | – | – | – | 2.4 |
| Bank loans | (100.0) | (75.4) | (2.5) | – | – | – | (177.9) |
| Bonds | (211.3) | – | – | – | – | – | (211.3) |
| Lease liabilities | (11.6) | (9.7) | (5.4) | (3.5) | (1.7) | (1.8) | (33.7) |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

30 Financial risk management objectives and policies

Financial risk factors and management

The Group is exposed to risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and the Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

Foreign currency

The Group has major foreign operations in the USA, Canada, Spain and Morocco and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets.

The Group seeks to reduce this foreign currency exchange movement risk by using a combination of foreign currency borrowings and entering into derivative financial instruments such as cross currency interest rate swaps and foreign exchange forward contracts.

At the year end, the Group had outstanding foreign exchange derivatives for net investment purposes of USD 522.2m and CAD 46.2m, and cross currency interest rate swaps of €222.7m. These foreign exchange forward contracts and cross currency interest rate swaps are derivative financial instruments designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

30 Financial risk management objectives and policies continued

The Group expects changes in value of both the hedging instrument and the hedged net investment to offset and systematically move in opposite directions and that there will be a 1:1 hedge ratio, given that the critical terms are closely aligned.

The Group applies the 'forward rate method' under IFRS 9 such that the effective portion of changes in fair value of forward points are retained in Other Comprehensive Income. The currency basis is excluded from the hedging instrument, and the actual currency basis on inception of the trade is treated as the 'cost of hedging' and recognised in profit or loss over the life of the hedging relationship on a straight-line basis. Any changes in the currency basis since inception will be deferred into a separate component of Other Comprehensive Income.

In these hedge relationships, the main source of ineffectiveness is movements in the Group's or the derivative counterparty's credit spread resulting in fair value movements in the hedging instrument that are not reflected in the fair value movements of the hedged net investment.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of the derivative contracts. These movements would be offset by an opposite movement in the translated value of the related portion of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £35.6m (2019: £41.2m).

| | | 2020 | | 2019 | |
|-------------------|--|---------------------------------------|----------------------------------|--------------------------------|----------------------------------|
| | | Effect on (loss)/profit before tax £m | Effect on translation reserve £m | Effect on profit before tax £m | Effect on translation reserve £m |
| As at 31 December | Strengthening/ (weakening) in currency | | | | |
| US Dollar | 10% | – | (28.5) | – | (33.7) |
| Euro | 10% | – | (4.7) | – | (5.1) |
| Canadian Dollar | 10% | – | (2.4) | – | (2.4) |
| US Dollar | (10)% | – | 28.5 | – | 33.7 |
| Euro | (10)% | – | 4.7 | – | 5.1 |
| Canadian Dollar | (10)% | – | 2.4 | – | 2.4 |

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year-on-year impact of interest rate fluctuations over the medium term. To achieve the desired fixed:floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2020, the proportion of the Group's gross debt at floating rates was 7% (2019: 24%), with the reduction reflecting the repayment of floating rate borrowings during the year and the drawdown of the US private placement at fixed long-term rates.

The Group expects changes in value of both the hedging instrument and the hedged transaction to offset and systematically move in opposite directions and that there will be a 1:1 hedge ratio, given that the critical terms are closely aligned.

In these hedge relationships, the main sources of ineffectiveness are:

- movement in the Group's and the derivative counterparty's credit spread, resulting in fair value movements in the hedging instrument that are not reflected in fair value movements in the hedged transaction; and
- any changes in the critical terms of the hedged transaction such that they no longer match those of the hedging instrument.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments were increased by 100 basis points it is estimated that the Group's profit before taxation would decrease by approximately £0.4m relating to the Euro. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2020.

30 Financial risk management objectives and policies continued

| | | 2020 | 2019 |
|-------------------|---|---|---|
| | Increase/ (decrease) in basis points | Effect on (loss)/profit before tax £m | Effect on profit before tax £m |
| As at 31 December | | | |
| Sterling | 100 | – | – |
| US Dollar | 100 | – | – |
| Euro | 100 | (0.4) | – |
| Sterling | (100) | 0.4 | 0.7 |
| US Dollar | (100) | – | 2.2 |
| Euro | (100) | – | 1.4 |

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. The Group's policy is to provide protection against sudden and significant increases in fuel prices, thus mitigating volatility in both cash and the Income Statement in the short to medium term. In order to manage the risk exposure, the Group enters into fuel derivatives to hedge 100% of estimated fuel requirements across all divisions for the next 15 months, and additionally to hedge at least 50% of the estimated fuel requirements in the Spain and North America divisions 15-24 months into the future.

Due to the impact of the Covid-19 pandemic, the uncertainty of future exposures and to mitigate the risk of further over-hedging, fuel hedge activity was only continued for periods relating to the 2022 financial year onwards.

Furthermore, during the year hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption due to the pandemic. This applied to certain derivatives maturing in both 2020 and 2021. Further information relating to this is given in note 31. In each case, offsetting trades were placed in respect of the over hedged volume and with the same maturity date as the original trade. The offsetting trades are not hedge accounted, and will continue to offset gains or losses on the discontinued trades in the Income Statement until they mature. Whilst there is the potential for further over-hedges in 2021, the impact on the Income Statement is not expected to be material.

At 31 December 2020, the Group had hedged approximately 95% of its 2021 expected usage, 52% of its expected usage in 2022 and 15% of its expected usage in 2023.

Risk component hedging has been adopted under IFRS 9, such that the hedged price risk component of the purchased fuel matches that of the underlying derivative commodity. The hedged risk component, being the commodity index of each location where fuel is purchased, is considered to be separately identifiable and reliably measurable. The use of commodity derivatives to hedge the fuel exposure is expected to result in a 1:1 hedge ratio as the notional value of the hedging instrument is consistent with the designated amount of the underlying exposure. In these hedge relationships, the main source of ineffectiveness is changes in the actual settlement date and/or settlement amount.

Fuel derivatives are designated as cash flow hedges, with the effective portion of changes in fair value of the hedging instrument being recorded within a separate component of equity, and recycled to the Income Statement as the hedged item impacts the Income Statement.

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's (loss)/profit before tax and the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives which remain effective cash flow hedges. For these derivative contracts the sensitivity of the net fair value to an immediate 10% increase or decrease in all prices would have been £9.5m at 31 December 2020 (2019: £13.5m). The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives. As noted above, movements in fair value of fuel derivatives which are not hedge accounted should equally offset within the Income Statement and hence have no impact on (loss)/profit before tax.

30 Financial risk management objectives and policies continued

| | Increase/ (decrease) in price | 2020 | | 2019 | |
|--------------------------------|-------------------------------------|---|---------------------------------------|---|---------------------------------------|
| | | Effect on (loss)/profit before tax £m | Effect on hedging reserve £m | Effect on profit before tax £m | Effect on hedging reserve £m |
| As at 31 December | | | | | |
| Sterling denominated diesel | 10% | – | 3.0 | – | 4.4 |
| US Dollar denominated diesel | 10% | – | 1.4 | – | 2.4 |
| US Dollar denominated gasoline | 10% | – | 1.0 | – | 1.5 |
| Euro denominated diesel | 10% | – | 4.1 | – | 5.2 |
| Sterling denominated diesel | (10%) | – | (3.0) | – | (4.4) |
| US Dollar denominated diesel | (10%) | – | (1.4) | – | (2.4) |
| US Dollar denominated gasoline | (10%) | – | (1.0) | – | (1.5) |
| Euro denominated diesel | (10%) | – | (4.1) | – | (5.2) |

Credit risk

(i) Risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and divisional management, and arises from cash and cash equivalents, derivative financial instruments and credit exposures to amounts due from outstanding receivables and committed transactions. The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets which comprises trade and other receivables of £312.4m (2019: £377.5m), cash and cash equivalents of £520.5m (2019: £478.3m), finance lease receivables of £14.9m (2019: £5.0m), investments of £12.9m (2019: £14.2m) and derivative financial instruments of £46.3m (2019: £55.2m).

Credit risk is primarily attributable to trade and other receivables and is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are local public (or quasi-public) bodies, including school boards in North America, municipal authorities in Spain and Morocco and the West Midlands Combined Authority in the UK, and regional authorities in Germany. The Group does not consider these counterparties to pose a significant credit risk. This has been evident throughout the Covid-19 pandemic, as these counterparties have continued to pay us. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group is monitoring the economic environment in response to the Covid-19 pandemic and is taking actions to limit its exposure to customers that are severely impacted. As a minimum, the Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

Cash and cash equivalents and derivative financial instruments are held with counterparties with a minimum of BBB- credit rating assigned by international credit rating agencies. The Group Treasury Committee continually assesses the credit risk of each counterparty, including monitoring credit ratings and tier 1 capital of each counterparty. Additionally, Group policy allows a maximum exposure of £75.0m per counterparty.

(ii) Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables (including grant receivables and contract assets) at each reporting date. Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The characteristics used to determine the groupings of customer segments are those that have the greatest impact on the likelihood of default. Given the diversity of characteristics of different customer segments, the Group applies different definitions of default for different groups of customers. The risk of default increases once the receivable is past due and increases in 30 day increments.

The Covid-19 pandemic has not given rise to a significant increase in the impairment of trade receivables. The majority of the Group's customers are governmental or similar bodies and hence there are not considered to be any issues with the recoverability of these receivables. Further there have not been any significant issues with the recoverability of non-governmental receivables. Consequently the increase in the loss allowance recognised in the Income Statement in the year of £10.7m (2019: £8.1m) is materially consistent with the prior year.

30 Financial risk management objectives and policies continued

The table below shows the credit risk exposure on the Group's trade receivables as at 31 December 2020:

| | Carrying amount £m | Current £m | Days past due | | | |
|---|-----------------------|---------------|-------------------------|------------------------------|------------------------------|--------------------|
| | | | Less than 30 days £m | Between 30 and 60 days £m | Between 61 and 90 days £m | Over 90 days £m |
| 31 December 2020 | | | | | | |
| Expected loss rate | 11.6% | 0.8% | 4.9% | 2.9% | 22.2% | 25.7% |
| Gross carrying amount – trade and grant receivables and contract assets (current and non-current) | 400.1 | 199.5 | 20.6 | 10.3 | 4.5 | 165.2 |
| Loss allowance | 46.3 | 1.5 | 1.0 | 0.3 | 1.0 | 42.5 |
| | | | | | | |
| | Carrying amount £m | Current £m | Days past due | | | |
| | | | Less than 30 days £m | Between 30 and 60 days £m | Between 61 and 90 days £m | Over 90 days £m |
| 31 December 2019¹ | | | | | | |
| Expected loss rate | 10.1% | 0.8% | 3.5% | 4.2% | 14.5% | 29.6% |
| Gross carrying amount – trade and grant receivables and contract assets (current and non-current) | 358.7 | 193.7 | 39.6 | 9.6 | 8.3 | 107.5 |
| Loss allowance | 36.4 | 1.6 | 1.4 | 0.4 | 1.2 | 31.8 |

¹ Prior year comparatives were represented for the reclassification of contract assets consistent with notes 20 and 22 and the ageing of contract assets in Germany.

Trade receivables over 90 days primarily comprises amounts due from public authorities in ALSA and German Rail, along with receivables for school bus services in North America where amounts are settled on approval from the local governing bodies at the end of the school period. A loss provision of £42.5m (2019: £31.8m) is in place against these receivables. Given that these are predominantly ongoing contractual relationships and with public bodies, the Directors believe that the remaining amounts will be collected.

The closing loss allowance for trade receivables as at 31 December 2020 reconciles to the opening loss allowance as follows:

| | 2020 £m | 2019 £m |
|---|---------------|---------------|
| At 1 January | (36.4) | (29.4) |
| Increase in loss allowance recognised in Income Statement during the year | (10.7) | (8.1) |
| Utilised in the year | 1.8 | 3.4 |
| Arising on acquisitions | (0.2) | (3.9) |
| Exchange difference | (0.8) | 1.6 |
| At 31 December | (46.3) | (36.4) |

Trade receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same item.

Impairment provisions in respect of cash and cash equivalents and finance lease receivables are also subject to the requirements of IFRS 9. As our cash and cash equivalents are held with counterparties with a minimum of BBB- credit rating, no impairment loss was identified at the reporting date. Similarly no impairment loss was identified in relation to finance lease receivables.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

Funding for the Group is coordinated centrally by the treasury function and with the Group's forecast funding requirements and its debt facilities being reported to and monitored on an ongoing basis by the treasury function and formally via the monthly Treasury Committee. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12-month view, with minimum headroom maintained, taking into account market conditions and corporate activity, including acquisitions and organic growth plans. The minimum funding headroom assumes that factoring facilities are not available.

30 Financial risk management objectives and policies continued

As a consequence of the Covid-19 pandemic the Group undertook the swift and decisive decision to raise over £1.5 billion in cash since the beginning of the pandemic, from a diversified range of funding sources including debt and equity as follows:

- In April 2020 the Group secured a commitment for £600m through the Bank of England Covid Corporate Financing Facility (“CCFF”), of which only £300m was initially issued. This was subsequently repaid in December 2020, with the £600m total facility available to utilise until March 2021;
- In April 2020 the Group secured two additional committed facilities totalling £188m, which remain undrawn at December 2020 and mature in 2021;
- In May 2020 the Group raised proceeds of £230.1m through an equity share issue; and
- In November 2020, the Group issued a £500m sterling denominated hybrid instrument, realising net proceeds of £495.5m.

Short-term funding requirements are met through use of cash & cash equivalents and drawings under unsecured committed revolving credit facilities if required. Most of the Group’s cash is held in the UK, US and Spain, although some is held in countries where repatriation is restricted and transferring cash back to the Group would be subject to withholding tax (see note 23).

The Group currently has £782.0m of unsecured committed revolving credit facilities, which mature between 2021 and 2025. At 31 December 2020 there was £nil (2019: £nil) drawn down on the facilities. The maximum draw down of the revolving credit facility during the year was £110.0m (2019: £314.7m), with the lower drawdowns in 2020 as a result of the additional liquidity secured as detailed above.

Medium and long-term funding requirements are met through committed debt facilities as detailed in note 29.

As described in note 29, the Group secured waivers or amendments from its key covenant tests for the 2020 and 2021 testing periods. In return for these waivers and amendments the Group agreed to a quarterly £250m minimum liquidity test (up to and including Q1 2022) and a £1.6bn maximum net debt test as at 30 June and 31 December 2021, both on a pre-IFRS 16 basis. Including the £600m Bank of England CCFF, as at 31 December 2020 the Group had over £1.9bn of cash and undrawn facilities, of which £0.8bn matures in Q1 2021, and therefore continues to have significant headroom on the minimum liquidity test.

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December 2020 based on the contractual undiscounted cash flows including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

| Year ended 31 December 2020 | Carrying amounts £m | Contractual cash flows £m | < 1 year £m | 1-2 years £m | 2-3 years £m | 3-5 years £m | > 5 years £m |
|---|------------------------|------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Non-derivative financial liabilities | | | | | | | |
| Bank loans | (25.9) | (27.5) | (5.9) | (7.1) | (4.1) | (6.0) | (4.4) |
| Bonds | (647.0) | (727.4) | (15.9) | (15.9) | (415.9) | (11.9) | (267.8) |
| Lease liabilities | (326.2) | (342.1) | (91.9) | (77.5) | (62.9) | (54.2) | (55.6) |
| Private placements | (476.8) | (545.0) | (81.3) | (7.9) | (7.9) | (15.7) | (432.2) |
| Trade and other payables | (985.2) | (985.2) | (833.8) | (151.4) | – | – | – |
| | (2,461.1) | (2,627.2) | (1,028.8) | (259.8) | (490.8) | (87.8) | (760.0) |
| Derivative financial liabilities | | | | | | | |
| Foreign exchange derivatives | (6.0) | (6.0) | (6.0) | – | – | – | – |
| Cross currency swaps | (6.7) | (7.0) | 0.2 | 0.2 | 0.2 | 0.5 | (8.1) |
| Fuel derivatives | (20.9) | (21.1) | (17.2) | (3.4) | (0.5) | – | – |
| | (33.6) | (34.1) | (23.0) | (3.2) | (0.3) | 0.5 | (8.1) |

30 Financial risk management objectives and policies continued

| Year ended 31 December 2019 ¹ | Contractual cash flows £m | < 1 year £m | 1-5 years £m | > 5 years £ |
|---|---------------------------------|----------------|-----------------|----------------|
| Non-derivative financial liabilities | | | | |
| Bank loans | (191.6) | (108.4) | (83.2) | |
| Bonds | (1,189.9) | (466.7) | (451.6) | (271) |
| Lease liabilities | (439.6) | (103.8) | (249.1) | (86) |
| Private placements | (72.5) | (3.1) | (69.4) | |
| Trade and other payables | (1,151.1) | (1,038.9) | (112.2) | |
| | (3,044.7) | (1,720.9) | (965.5) | (358) |
| Derivative financial liabilities | | | | |
| Foreign exchange derivatives | (31.8) | (31.8) | – | |
| Cross currency interest rate swaps | (6.0) | 6.4 | (12.4) | |
| Interest rate derivatives | (1.0) | (1.0) | – | |
| Fuel derivatives | (5.6) | (2.4) | (3.2) | |
| | (44.4) | (28.8) | (15.6) | |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

Capital risk management

The objective of capital management is to ensure that the Group is able to continue as a going concern whilst delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders.

The Group's capital structure consists of equity (refer to the Group Statement of Changes in Equity) and net debt (refer to note 39).

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Group Finance Director's review.

As a consequence of Covid-19 the Group has made two significant adjustments to its capital structure. In May, the Group transacted a share issue through an equity placing and raised £230.1m net of fees and in November the Group issued a £500m sterling denominated hybrid instrument and raised a further £495.5m net of fees. Both measures have strengthened the Group's Balance Sheet.

The Group also uses return on capital employed 'ROCE' as a measure of its ability to drive better returns on the capital invested in the Group's operations, further details of which are provided in the Group Finance Director's review.

31 Financial instruments (including cash, trade receivables and payables)

Fair values

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. After initial fair value recognition, they are measured at amortised cost using the effective interest rate method. The fair value of these instruments approximates their carrying amounts largely due to the short-term maturities.

Financial assets at fair value through other comprehensive income relates to the Group's non-listed equity investments.

The Group's derivatives are measured at fair value. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement.

31 Financial instruments (including cash, trade receivables and payables) continued

Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed of. For fair value hedges, all gains or losses are recognised in the Income Statement.

The fair value measurement of derivative instruments is categorised within Level 2 (i.e. the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, i.e. those that would be classified as Level 3 in the fair value hierarchy, other than the deferred contingent consideration disclosed in note 19 and financial assets at fair value through other comprehensive income in note 17. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value movements.

All liabilities, including bonds, private placements, leases, bank loans and trade and other payables (excluding contingent consideration) are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

The following table below illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2020:

| Classification of financial instruments As at 31 December 2020 | Assets and liabilities at amortised cost £m | At fair value through other comprehensive income £m | At fair value through profit or loss £m | Derivatives used for hedging £m | Total £m |
|---|---|---|--|--|-------------|
| Assets | | | | | |
| Investments | – | 12.9 | – | – | 12.9 |
| Fuel derivatives | – | – | – | 0.8 | 0.8 |
| Interest rate derivatives | – | – | 1.5 | – | 1.5 |
| Cross currency swaps | – | – | – | 3.2 | 3.2 |
| Foreign exchange derivatives | – | – | 10.6 | 30.2 | 40.8 |
| Cash and cash equivalents | 520.5 | – | – | – | 520.5 |
| Finance lease receivables | 14.9 | – | – | – | 14.9 |
| Trade and other receivables | 312.4 | – | – | – | 312.4 |
| | 847.8 | 12.9 | 12.1 | 34.2 | 907.0 |
| Liabilities | | | | | |
| Bank loans | (25.9) | – | – | – | (25.9) |
| Bonds | (647.0) | – | – | – | (647.0) |
| Lease liabilities | (326.2) | – | – | – | (326.2) |
| Private placements | (476.8) | – | – | – | (476.8) |
| Fuel derivatives | – | – | (2.4) | (18.5) | (20.9) |
| Cross currency swaps | – | – | – | (6.7) | (6.7) |
| Foreign exchange derivatives | – | – | (6.0) | – | (6.0) |
| Trade and other payables | (956.4) | – | (28.8) | – | (985.2) |
| | (2,432.3) | – | (37.2) | (25.2) | (2,494.7) |

31 Financial instruments (including cash, trade receivables and payables) continued

| Classification of financial instruments As at 31 December 2019 ^{1,2} | Assets and liabilities at amortised cost £m | At fair value through other comprehensive income £m | At fair value through profit or loss £m | Derivatives used for hedging £m | Total £m |
|--|--|---|--|--|-------------|
| Assets | | | | | |
| Investments | – | 14.2 | – | – | 14.2 |
| Fuel derivatives | – | – | – | 6.7 | 6.7 |
| Interest rate derivatives | – | – | 10.0 | – | 10.0 |
| Cross currency swaps | – | – | – | 11.5 | 11.5 |
| Foreign exchange derivatives | – | – | 11.2 | 15.8 | 27.0 |
| Cash and cash equivalents | 478.3 | – | – | – | 478.3 |
| Finance lease receivables | 5.0 | – | – | – | 5.0 |
| Trade and other receivables | 377.5 | – | – | – | 377.5 |
| | 860.8 | 14.2 | 21.2 | 34.0 | 930.2 |
| Liabilities | | | | | |
| Bank loans | (187.2) | – | – | – | (187.2) |
| Bonds | (1,081.9) | – | – | – | (1,081.9) |
| Finance lease obligations | (390.0) | – | – | – | (390.0) |
| Private placements | (68.3) | – | – | – | (68.3) |
| Interest rate derivatives | – | – | (3.7) | – | (3.7) |
| Fuel derivatives | – | – | – | (5.4) | (5.4) |
| Cross currency swaps | – | – | – | (6.5) | (6.5) |
| Foreign exchange derivatives | – | – | – | (31.8) | (31.8) |
| Trade and other payables | (1,102.1) | – | (49.0) | – | (1,151.1) |
| | (2,829.5) | – | (52.7) | (43.7) | (2,929.9) |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

² Trade and other payables in the prior year have been represented to correct the presentation of contingent consideration, which is valued at fair value through profit or loss

Other receivables and other payables are to be settled in cash in the currency they are held in.

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2020, there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 30).

Embedded derivatives

In accordance with IFRS 9 'Financial Instruments', the Group has reviewed its contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value at the end of each reporting period. In line with IFRS 9 the Group classifies hedges as; (i) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (ii) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (iii) hedges of a net investment in a foreign operation.

In 2020, the Group applied cash flow hedge accounting to hedge fuel price risk, to hedge net investments in its North American and European foreign operations, and to hedge interest rate risk on certain bank loans until maturity. The Group also applied fair value hedge accounting on £100.0m of the Group's fixed rate bonds until maturity in June 2020 and €78.5m private placement to hedge changes in fair value due to interest rate fluctuations.

31 Financial instruments (including cash, trade receivables and payables) continued

The movement on derivative financial instruments is detailed below:

| | At fair value through profit and loss | | | Derivatives used for hedging | | | | Total £m |
|--|---------------------------------------|---------------------------|--|------------------------------|---------------------------|----------------------------|--|-------------|
| | Fuel swaps £m | Interest rate swaps £m | Foreign exchange forward contracts £m | Fuel swaps £m | Interest rate swaps £m | Cross currency swaps £m | Foreign exchange forward contracts £m | |
| Net asset/(liability) at 1 January 2020 | – | 7.3 | (20.4) | 1.3 | (1.0) | 5.0 | 15.6 | 7.8 |
| Movements through Income Statement | (2.4) | (5.8) | 4.0 | 31.5 | 0.6 | (0.3) | – | 27.6 |
| Movements through Other Comprehensive Income | – | – | – | (50.5) | 0.4 | (5.8) | 8.9 | (47.0) |
| Cash settlements | – | – | 21.0 | – | – | (2.4) | 5.7 | 24.3 |
| Net asset/(liability) at 31 December 2020 | (2.4) | 1.5 | 4.6 | (17.7) | – | (3.5) | 30.2 | 12.7 |

| | At fair value through profit and loss | | | Derivatives used for hedging | | | |
|--|--|---|--------------------|---------------------------------|----------------------------------|---|-------------|
| | Interest rate swaps £m | Foreign exchange forward contracts £m | Fuel swaps £ | Interest rate swaps £m | Cross currency swaps £m | Foreign exchange forward contracts £m | Total £m |
| Net asset/(liability) at 1 January 2019 | 10.6 | (5.8) | (12.7) | – | (4.4) | (1.1) | (13.4) |
| Movements through Income Statement | (3.3) | 6.2 | (4.5) | (0.9) | (0.7) | – | (3.2) |
| Movements through Other Comprehensive Income | – | – | 18.5 | (0.1) | 12.6 | 5.7 | 36.7 |
| Cash settlements | – | (20.8) | – | – | (2.5) | 11.0 | (12.3) |
| Net asset/(liability) at 31 December 2019 | 7.3 | (20.4) | 1.3 | (1.0) | 5.0 | 15.6 | 7.8 |

The movement on the hedging reserve is detailed below:

| | 2020 £m | 2019 £m |
|--|---------------|--------------|
| At 1 January | (4.5) | (10.2) |
| Transferred to Income Statement | 35.8 | (2.6) |
| Revaluation through Other Comprehensive Income | (50.3) | 10.8 |
| Tax on revaluation | 3.8 | (2.5) |
| At 31 December | (15.2) | (4.5) |

31 Financial instruments (including cash, trade receivables and payables) continued

A summary of the Group's hedging activities is as follows:

| Hedge type | Net investment hedge | Fair value hedge | Cash flow hedge | Cash flow hedge |
|--|--|---------------------|-----------------------|----------------------|
| Risk | Foreign currency risk | Interest rate risk | Foreign currency risk | Commodity price risk |
| Nominal amount of hedging | CAD \$46.2m USD \$522.2m €541.2m | €78.5m | \$81m | 353.0m litres |
| Ageing of nominal amount: | | | | |
| < 1 year | CAD \$46.2m USD \$522.2m €78.5m | €78.5m | – | 186.7m litres |
| 1-2 years | – | – | – | 125.4m litres |
| 2-5 years | €222.7m | – | – | 40.9m litres |
| > 5 years | – | – | \$81m | – |
| Average hedged rate | – | 6m EURIBOR + 2.827% | 2.4265% | £0.34/litre |
| Maturity | 2020-2023 | 2021 | 2027 | 2021-2023 |
| Carrying amount of hedging instruments (£m) | | | | |
| Assets – derivatives | 33.2 | 1.5 | 0.2 | 0.8 |
| Liabilities – derivatives | – | – | (6.7) | (20.8) |
| Liabilities - borrowings | (284.6) ¹ | – | – | – |
| Carrying amount of hedged item – borrowings (£m) | – | (70.9) | (59.2) | – |
| Changes in fair value of hedged item for calculating hedge effectiveness ² | 9.2 | 1.3 | 3.0 | 34.9 |
| Changes in fair value of hedged instrument used for calculating hedge effectiveness ² | (9.2) | (1.3) | (3.0) | (34.7) |
| Amounts accumulated in reserves at 31 December 2020, net of tax | 15.9 | – | 0.8 | (16.0) |
| Accumulated fair value hedge adjustment on borrowings | – | (0.8) | – | – |

¹ Represents the carrying value of the €318.5m Euro denominated private placements

² Inclusive of cash settlements for the period

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group, which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2020, the Group had designated €222.7m of cross currency interest rate swaps and €318.5m of Private Placements as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD 522.2m and CAD 46.2m of foreign exchange forward contracts were designated as a hedge of the net assets of the Group's North America subsidiaries. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Fuel swaps are used to match the timing, type of fuel and currency in which the domestic physical fuel is purchased as closely as possible, with hedges currently in place from 2021 through to 2023.

The Group applies relevant hedge accounting to the majority of its derivatives outstanding as at 31 December 2020. Hedge accounting was discontinued for a number of fuel derivatives maturing in 2020 and 2021 where volumes were in excess of actual or expected consumption due to Covid-19. As a result, accumulated fair value movements were recycled from Other Comprehensive Income to the Income Statement within separately disclosed items (see note 5).

To reduce the impact on the income statement from the date of discontinuation of hedge accounting to the date of maturity the Group entered into offsetting trades, for the equivalent volume and maturity date. These trades do not qualify for hedge accounting with fair value movements on the de-designated trades and the new offsetting trades going through the Income Statement. Collectively these trades have a fair value of a £2.4m liability on the Group Balance Sheet as at 31 December 2020.

31 Financial instruments (including cash, trade receivables and payables) continued

For the remaining trades where hedge accounting was applied, gains or losses on the derivatives continue to be recognised in equity and on settlement are recycled to the Income Statement against the respective operating expense, and are not included in separately disclosed items. During the year, £50.5m of fair value losses (2019: £18.6m losses) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value loss of £29.5m (2019: £4.5m gain) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which a £1.8m loss was in the hedging reserve at 1 January 2020 and the remainder was generated during the year due to movements in market fuel prices. These trades have a fair value of a £17.7m liability as at 31 December 2020.

No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives can be analysed as follows:

| | 31 December 2020 Fair value £m | 31 December 2019 Fair value £m | 31 December 2020 Volume million litres | 31 December 2019 Volume million litres |
|--|---|---|---|---|
| Fuel derivatives | | | | |
| Sterling denominated – UK | (5.2) | 2.4 | 55.4 | 68.4 |
| Euro denominated – ALSA | (7.0) | 0.9 | 84.0 | 83.9 |
| US Dollar and Canadian Dollar denominated – North America | (4.4) | 0.5 | 47.3 | 73.8 |
| Fuel derivatives included in current assets/(liabilities) | (16.6) | 3.8 | 186.7 | 226.1 |
| Sterling denominated – UK | (0.8) | (0.7) | 47.6 | 47.3 |
| Euro denominated – ALSA | (2.2) | (0.7) | 64.0 | 66.7 |
| US Dollar and Canadian Dollar denominated – North America | (0.5) | (1.1) | 54.7 | 56.3 |
| Fuel derivatives included in non-current assets/(liabilities) | (3.5) | (2.5) | 166.3 | 170.3 |
| Total fuel derivatives | (20.1) | 1.3 | 353.0 | 396.4 |

Interest rate swaps at fair value through profit or loss

In July 2010, the Group entered into two £50m interest rate swaps that pay floating interest (LIBOR + margin) semi-annually and receive fixed interest annually. These were designated as fair value hedges of interest rate risk with maturities matching the Group's £225m Sterling bonds maturing in June 2020. These swaps were measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free interest rate on the swapped portion of the bonds. A fair value loss of £0.8m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £0.8m on the underlying hedged item, being the change in fair value on £100m of the Group's £225m bond which matured in June 2020 due to changes in the risk-free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro private placement. These interest rate swaps all pay floating interest (EURIBOR + margin) semi-annually, receive fixed interest semi-annually with maturities matching the Euro private placement maturing in August 2021 and are designated as a fair value hedge of the interest rate risk on the private placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the Euro private placement. A fair value loss of £1.4m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £1.4m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk-free interest rate.

Cash flow hedges

In June 2020, the Group entered into an \$81m cross currency swap that pays fixed USD interest semi-annually and receives fixed GBP interest semi-annually. This is designated as a cash flow hedge of foreign currency risk with maturities matching an \$81m private placement maturing in June 2027. No material ineffectiveness was recognised during the year.

32 Called-up share capital

| Issued called-up and fully paid: | No. of shares | £m |
|--|---------------|------|
| At 1 January 2019 and 31 December 2019 | 511,738,648 | 25.6 |
| Issued during the year | 102,347,729 | 5.1 |
| At 31 December 2020 | 614,086,377 | 30.7 |

In May 2020, the Group issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1m and as the share issue qualified for merger relief under Section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve rather than the share premium account (see note 33). At the same time, the Group directly issued 428,782 ordinary shares of 230p each to members of the Board and executive management team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares have been recorded in share premium.

The total number of share options exercised in the year by employees of the Group was 1,552,919 (2019: 1,825,123) of which all (2019: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 877,337 (2019: 1,404,751) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 1,025,505 (2019: 1,471,214) shares and 1,552,919 (2019: 1,825,123) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2019: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2020 was £2.1m (2019: £6.6m). No dividends were payable on these shares in 2020. In 2019 dividends payable on 972,605 shares held by the Trust were waived.

33 Other reserves

| | Capital redemption reserve £m | Merger reserve £m | Fair value reserve of financial assets at FVOCI £m | Cash flow hedge reserve £m | Cost of hedging reserve £m | Net investment hedge reserve £m | Translation reserve £m | Total £m |
|---|----------------------------------|----------------------|---|-------------------------------|-------------------------------|------------------------------------|---------------------------|--------------|
| At 1 January 2020 | 0.2 | 15.4 | – | (4.5) | 1.5 | 26.7 | 91.4 | 130.7 |
| Shares issued during the year (net of transaction costs) | – | 224.1 | – | – | – | – | – | 224.1 |
| Retranslation of foreign operations | – | – | 0.1 | – | – | – | 34.4 | 34.5 |
| Fair value loss on equity instruments designated at FVOCI | – | – | (1.6) | – | – | – | – | (1.6) |
| Hedge movements | – | – | – | (50.3) | – | (10.0) | – | (60.3) |
| Hedging gains reclassified to Income Statement | – | – | – | 35.8 | (0.3) | (0.7) | – | 34.8 |
| Cost of hedging | – | – | – | – | 0.2 | – | – | 0.2 |
| Deferred tax | – | – | – | 3.8 | – | – | – | 3.8 |
| Corporation tax | – | – | – | – | – | – | 1.6 | 1.6 |
| At 31 December 2020 | 0.2 | 239.5 | (1.5) | (15.2) | 1.4 | 16.0 | 127.4 | 367.8 |

33 Other reserves continued

The nature and purpose of the other reserves are as follows:

- The merger reserve included the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000 and the share issue during the year as described in note 32.
- The cash flow hedging reserve and net investment hedge reserve records the movements on designated hedging instruments, offset by any movements recognised in equity on underlying hedged items.
- The cost of hedging reserve records the movements in the currency basis, which are excluded from the hedging instrument on the designated hedging instruments in the cashflow and net investment hedge reserves.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries and cost of hedging.
- The fair value reserve is for fair value movements on financial assets that are classified as fair value through other comprehensive income.

| | Capital redemption reserve £m | Merger reserve £m | Cash flow hedge reserve £m | Cost of hedging reserve ¹ £m | Net investment hedge reserve ¹ £m | Translation reserve ¹ £m | Total £m |
|---|----------------------------------|----------------------|-------------------------------|--|---|--|-------------|
| At 1 January 2019 | 0.2 | 15.4 | (10.2) | 1.1 | (13.3) | 203.2 | 196.4 |
| Exchange differences, net of tax | – | – | – | – | – | (110.8) | (110.8) |
| Hedge movements | – | – | 8.3 | 1.0 | 38.1 | – | 47.4 |
| Hedging gains reclassified to Income Statement | – | – | (2.6) | (0.6) | – | – | (3.2) |
| Exchange gains reclassified to Income Statement on disposal of a subsidiary | – | – | – | – | – | (1.0) | (1.0) |
| Reclassified to retained earnings | – | – | – | – | 1.9 | – | 1.9 |
| At 31 December 2019 | 0.2 | 15.4 | (4.5) | 1.5 | 26.7 | 91.4 | 130.7 |

¹ Prior year amounts have been represented to provide better transparency about the nature of the movements in other reserves

34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK division (UK) and National Express Group PLC (the Company) both operate defined benefit pension schemes.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and maintains a small defined benefit scheme for National Express Services Limited. These post-employment benefits have been combined into the 'Other' category.

The UK, the Company and North America also operate or contribute into a number of defined contribution schemes.

For the Company defined benefit scheme, having completed a buy-in transaction in 2018, the defined benefit obligations are fully insured. Consequently the Company has no obligation to make any further payments into the scheme.

In 2020, the UK division agreed a new six-year annual deficit plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2024 with an average contribution of £7.6m per annum. The plan remains open to accrual for existing members only.

The assets of the defined benefit schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

The Group expects to contribute £7.7m into its defined benefit pension plans in 2021.

The total pension cost charged to underlying operating loss in the year for the Group was £11.2m (2019: £10.3m), of which £6.7m (2019: £6.4m) relates to the defined contribution schemes.

The defined benefit pension (liability)/asset included in the Balance Sheet is as follows:

| | 2020 £m | 2019 £m |
|----------------------------|----------------|----------------|
| Company | 12.3 | 14.2 |
| Pension assets | 12.3 | 14.2 |
| UK | (141.6) | (99.1) |
| Other | (5.8) | (5.1) |
| Pension liabilities | (147.4) | (104.2) |
| Total | (135.1) | (90.0) |

34 Pensions and other post-employment benefits continued

Through its defined benefit plans, the Group is exposed to a number of risks, the most significant of which relate to the UK and are detailed below. The Company scheme has a low level of risk due to the buy-in policy, whereby the present value of the scheme liabilities is fully matched by the fair value of the insurance asset.

Investment risk

The present values of scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if the return on scheme assets is below this yield, it will create a deficit. The UK scheme holds a significant proportion of return-seeking assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.

Interest risk

A decrease in bond interest rates will increase scheme liabilities but this will be partially offset by an increase in the returns on the scheme assets.

Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The Group has some inflation linking in its revenue streams, which helps to offset this risk. In addition, the UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk.

Longevity risk

The majority of the obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the liabilities. The UK scheme includes a buy-in policy covering part of the pensioner members' liabilities, which partly helps to mitigate longevity risk. The Company scheme is fully covered by a buy-in policy.

Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations, for example, reduced investment return through the ability to reclaim Advance Corporation Tax, and decreases in obligations, for example, through the ability to use CPI inflation instead of RPI to set pension increase rates. For the UK scheme the Group receives professional advice on the impact of legislative changes.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations for the principal schemes, and assumptions made, are as follows:

| | UK | Company |
|--------------------------------------|---------------|--------------|
| Date of actuarial valuation | 31 March 2019 | 5 April 2016 |
| Rate of investment returns per annum | 3.2% | 0%-2.1% |
| Increase in earnings per annum | 2.7% | – |
| Scheme assets taken at market value | £495.0m | £114.8m |
| Funding level | 84% | 97% |

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are as follows:

| | 2020 | | 2019 | |
|---|------|---------|------|---------|
| | UK | Company | UK | Company |
| Rate of increase in salaries | 2.5% | – | 2.5% | – |
| Rate of increase of pensions in payment | 2.4% | 2.9% | 2.1% | 2.9% |
| Discount rate | 1.3% | 1.4% | 2.0% | 2.1% |
| Inflation assumption (RPI) | 3.0% | 2.9% | 3.0% | 2.9% |
| Inflation assumption (CPI) | 2.4% | 2.3% | 2.1% | 2.0% |
| Post-retirement mortality in years: | | | | |
| Current pensioners at 65 – male | 19.9 | 22.4 | 19.8 | 22.3 |
| Future pensioners at 65 – male | 21.3 | 23.7 | 21.2 | 23.6 |
| Current pensioners at 65 – female | 23.2 | 25.1 | 23.0 | 24.9 |
| Future pensioners at 65 – female | 24.7 | 26.6 | 24.5 | 26.4 |

34 Pensions and other post-employment benefits continued

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation.

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

| | UK 2020 £m | Company 2020 £m | UK 2019 £m | Company 2019 £m |
|--|------------------|-----------------------|------------------|-----------------------|
| (Increase)/decrease in the defined benefit obligation | | | | |
| Effect of a 0.5% increase in pensions in payment | (27.6) | – | (25.5) | – |
| Effect of a 0.5% increase in the discount rate | 35.8 | – | 31.5 | – |
| Effect of a 0.5% increase in inflation | (32.0) | – | (28.5) | – |
| Effect of a 1 year increase in mortality rates | (18.5) | – | (14.0) | – |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK and Company schemes, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2020 and 2019 are set out in the following tables:

| | UK 2020 £m | Company 2020 £m | Other 2020 £m | Total 2020 £m |
|---|------------------|-----------------------|---------------------|---------------------|
| Group Income Statement | | | | |
| Amounts (charged)/credited: | | | | |
| Current service cost | (3.5) | – | – | (3.5) |
| Past service cost | – | (0.8) | – | (0.8) |
| Net interest (expense)/income | (1.8) | 0.3 | (0.2) | (1.7) |
| Total charge to Income Statement | (5.3) | (0.5) | (0.2) | (6.0) |

In addition, during the year £1.0m (2019: £0.6m) of administrative expenses were incurred.

The past service cost in the Company relates to Guaranteed Minimum Pension (GMP) equalisation. In October 2018 the High Court ruled that GMP should be equalised between men and women. Whilst in 2018 the Group equalised benefits for existing members, a further High Court ruling in November 2020 provided further detail and this resulted in a further charge with respect to members who have transferred out of the scheme in prior years.

The net interest expense has been included within finance costs (see note 10).

| | UK 2020 £m | Company 2020 £m | Other 2020 £m | Total 2020 £m |
|---|------------------|-----------------------|---------------------|---------------------|
| Group Statement of Comprehensive Income | | | | |
| Actuarial loss during the period from obligations | (71.6) | (17.0) | (0.8) | (89.4) |
| Expected return on plan assets greater than discount rate | 24.4 | 16.4 | 0.2 | 41.0 |
| Net actuarial loss | (47.2) | (0.6) | (0.6) | (48.4) |

| | UK 2019 £m | Company 2019 £m | Other 2019 £m | Total 2019 £m |
|--|------------------|-----------------------|---------------------|---------------------|
| Group Income Statement | | | | |
| Amounts (charged)/credited: | | | | |
| Current service cost | (3.3) | – | – | (3.3) |
| Past service cost | – | – | – | – |
| Net interest (expense)/income | (3.4) | 0.4 | (0.2) | (3.2) |
| Total (charge)/credit to Income Statement | (6.7) | 0.4 | (0.2) | (6.5) |

34 Pensions and other post-employment benefits continued

| | UK 2019 £m | Company 2019 £m | Other 2019 £m | Total 2019 £m |
|--|------------------|-----------------------|---------------------|---------------------|
| Group Statement of Comprehensive Income | | | | |
| Actuarial gain/(loss) during the period from obligations | 16.3 | (11.5) | (0.6) | 4.2 |
| Expected return on plan assets less than discount rate | 8.9 | 10.8 | 0.2 | 19.9 |
| Net actuarial gain/(loss) | 25.2 | (0.7) | (0.4) | 24.1 |

In addition to the above actuarial movements, the Statement of Comprehensive included a £0.6m loss for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.

The amounts were recognised in the Balance Sheet at 31 December as follows:

| | UK 2020 £m | Company 2020 £m | Other 2020 £m | Total 2020 £m |
|---|------------------|-----------------------|---------------------|---------------------|
| As at 31 December 2020 | | | | |
| Equities | 83.1 | – | 2.2 | 85.3 |
| Bonds and multi-asset credit | 87.9 | – | 0.9 | 88.8 |
| Insurance policy | 196.7 | 109.0 | – | 305.7 |
| Diversified growth fund | 106.9 | – | – | 106.9 |
| Other | 0.5 | 13.8 | 0.1 | 14.4 |
| Fair value of scheme assets | 475.1 | 122.8 | 3.2 | 601.1 |
| Present value of liabilities and defined benefit obligation | (616.7) | (110.5) | (9.0) | (736.2) |
| Defined benefit pension (deficit)/surplus | (141.6) | 12.3 | (5.8) | (135.1) |

None of the pension arrangements directly invest in any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group. The majority of the benefits within the plans are covered by insurance contracts. The insurance assets have been valued so as to match the defined benefit obligations. The fair value of the remainder equity and debt instruments have primarily been determined based on quoted prices in active markets.

| | UK 2019 £m | Company 2019 £m | Other 2019 £m | Total 2019 £m |
|---|------------------|-----------------------|---------------------|---------------------|
| As at 31 December 2019 | | | | |
| Equities | 75.1 | – | 2.1 | 77.2 |
| Bonds and multi-asset credit | 83.8 | – | 0.8 | 84.6 |
| Insurance policy | 196.0 | 95.1 | – | 291.1 |
| Diversified growth fund | 101.7 | – | – | 101.7 |
| Other | 1.4 | 14.2 | 0.1 | 15.7 |
| Fair value of scheme assets | 458.0 | 109.3 | 3.0 | 570.3 |
| Present value of liabilities and defined benefit obligation | (557.1) | (95.1) | (8.1) | (660.3) |
| Defined benefit pension (deficit)/surplus | (99.1) | 14.2 | (5.1) | (90.0) |

The movement in the present value of the defined benefit obligation in the year is as stated overleaf.

The Group's defined benefit obligation comprises £732.3m (2019: £656.5m) arising from plans that are wholly or partly funded and £3.9m (2019: £3.8m) from unfunded plans.

Based on the terms and conditions of the Company scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. Therefore, in accordance with IFRIC 14, the closing defined benefit surplus of this scheme has been recognised.

34 Pensions and other post-employment benefits continued

The movement in the defined benefit obligations is as follows:

| | UK £m | Company £m | Other £m | Total £m |
|---|----------------|----------------|--------------|----------------|
| Defined benefit obligation at 1 January 2020 | (557.1) | (95.1) | (8.1) | (660.3) |
| Current service cost | (3.5) | – | – | (3.5) |
| Past service cost | – | (0.8) | – | (0.8) |
| Benefits paid | 26.8 | 4.3 | 0.1 | 31.2 |
| Contributions by employees | (0.6) | – | – | (0.6) |
| Finance charge | (10.7) | (1.9) | (0.2) | (12.8) |
| Actuarial loss from changes in financial assumptions | (75.9) | (17.8) | (0.9) | (94.6) |
| Actuarial loss arising from changes in demographics | (2.4) | (0.2) | – | (2.6) |
| Actuarial gain arising from experience adjustments | 6.7 | 1.0 | 0.1 | 7.8 |
| Foreign exchange | – | – | – | – |
| Defined benefit obligation at 31 December 2020 | (616.7) | (110.5) | (9.0) | (736.2) |

| | UK £m | Company £m | Other £m | Total £m |
|---|----------------|---------------|--------------|----------------|
| Defined benefit obligation at 1 January 2019 | (580.3) | (83.7) | (7.1) | (671.1) |
| Current service cost | (3.3) | – | – | (3.3) |
| Past service cost | – | – | – | – |
| Benefits paid | 26.4 | 2.5 | 0.1 | 29.0 |
| Contributions by employees | (0.6) | – | – | (0.6) |
| Finance charge | (15.6) | (2.4) | (0.3) | (18.3) |
| Actuarial loss from changes in financial assumptions | (54.4) | (13.8) | (0.6) | (68.8) |
| Actuarial gain arising from changes in demographics | 18.5 | 2.0 | – | 20.5 |
| Actuarial gain arising from experience adjustments | 52.2 | 0.3 | – | 52.5 |
| Foreign exchange | – | – | (0.2) | (0.2) |
| Defined benefit obligation at 31 December 2019 | (557.1) | (95.1) | (8.1) | (660.3) |

The movement in the fair value of scheme assets is as follows:

| | UK £m | Company £m | Other £m | Total £m |
|---|--------------|---------------|-------------|--------------|
| Fair value of scheme assets at 1 January 2020 | 458.0 | 109.3 | 3.0 | 570.3 |
| Expected return on plan assets | 8.9 | 2.2 | – | 11.1 |
| Expected return on plan assets greater than discount rate | 24.4 | 16.4 | 0.2 | 41.0 |
| Cash contributions – employer | 10.2 | – | – | 10.2 |
| Administrative expenses | (0.2) | (0.8) | – | (1.0) |
| Cash contributions – employee | 0.6 | – | 0.1 | 0.7 |
| Benefits paid | (26.8) | (4.3) | (0.1) | (31.2) |
| Fair value of scheme assets at 31 December 2020 | 475.1 | 122.8 | 3.2 | 601.1 |

| | UK £m | Company £m | Other £m | Total £m |
|---|--------------|---------------|-------------|--------------|
| Fair value of scheme assets at 1 January 2019 | 453.0 | 98.6 | 2.7 | 554.3 |
| Expected return on plan assets | 12.2 | 2.8 | 0.1 | 15.1 |
| Expected return on plan assets greater than discount rate | 8.9 | 10.8 | 0.2 | 19.9 |
| Cash contributions – employer | 9.9 | – | 0.1 | 10.0 |
| Administrative expenses | (0.2) | (0.4) | – | (0.6) |
| Cash contributions – employee | 0.6 | – | – | 0.6 |
| Benefits paid | (26.4) | (2.5) | (0.1) | (29.0) |
| Fair value of scheme assets at 31 December 2019 | 458.0 | 109.3 | 3.0 | 570.3 |

34 Pensions and other post-employment benefits continued

| | 2020 £m | 2019 £m | 2018 £m | 2017 £m | 2016 £m |
|--|------------|------------|------------|------------|------------|
| History of experience gains and losses: | | | | | |
| UK | | | | | |
| Fair value of scheme assets | 475.1 | 458.0 | 453.0 | 486.2 | 542.4 |
| Present value of defined benefit obligation | (616.7) | (557.1) | (580.3) | (620.0) | (658.1) |
| Asset ceiling | – | – | – | – | (12.8) |
| Deficit in the scheme | (141.6) | (99.1) | (127.3) | (133.8) | (128.5) |
| Experience adjustments arising on liabilities | 6.7 | 52.2 | (1.1) | (4.3) | 1.3 |
| Experience adjustments arising on assets | 24.4 | 8.9 | (30.0) | 20.2 | 57.8 |
| Company | | | | | |
| Fair value of scheme assets | 122.8 | 109.3 | 98.6 | 134.0 | 134.2 |
| Present value of defined benefit obligation | (110.5) | (95.1) | (83.7) | (90.8) | (89.7) |
| Surplus in the scheme | 12.3 | 14.2 | 14.9 | 43.2 | 44.5 |
| Experience adjustments arising on liabilities | 1.0 | 0.3 | (2.3) | – | (0.3) |
| Experience adjustments arising on assets | 16.4 | 10.8 | (35.6) | (0.4) | 28.1 |
| Other | | | | | |
| Fair value of scheme assets | 3.2 | 3.0 | 2.7 | 2.8 | 2.6 |
| Present value of defined benefit obligation | (9.0) | (8.1) | (7.1) | (6.7) | (6.8) |
| Deficit in the scheme | (5.8) | (5.1) | (4.4) | (3.9) | (4.2) |
| Experience adjustments arising on liabilities | – | – | – | – | 0.1 |
| Experience adjustments arising on assets | 0.2 | 0.2 | – | 0.2 | 0.3 |

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £177.7m loss (2019: £129.3m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

35 Leases

Group as a lessee

The Group has lease contracts for various items of property, vehicles, plant and other equipment. Lease terms are negotiated on an individual basis, contain a wide range of different terms and conditions and may include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The Group's obligations under its leases are secured by the lessor's title to the leased assets.

(a) Amounts recognised in the Balance Sheet

Set out below is the net book value of right-of-use assets and additions during the year (included in property, plant and equipment – note 15):

| | 2020 | | | | 2019 | | | |
|-------------------------------|--------------------------|-------------------------------|--|-------------|--------------------------|-------------------------------|--|-------------|
| | Land and buildings £m | Public service vehicles £m | Plant and equipment, fixtures and fittings £m | Total £m | Land and buildings £m | Public service vehicles £m | Plant and equipment, fixtures and fittings £m | Total £m |
| Right-of-use assets | | | | | | | | |
| Additions | 29.6 | 6.4 | 0.2 | 36.2 | 30.1 | 74.1 | 0.1 | 104.3 |
| Depreciation charge | (30.6) | (46.1) | (0.6) | (77.3) | (28.7) | (41.3) | (0.7) | (70.7) |
| Net book value at 31 December | 107.0 | 213.3 | 1.1 | 321.4 | 118.2 | 265.5 | 1.5 | 385.2 |

Set out below are the carrying amounts of lease liabilities (included in borrowings – note 29) at 31 December 2020:

| | 2020 £m | 2019 ¹ £m |
|--------------------------|--------------|-------------------------|
| Lease liabilities | | |
| Current | 86.5 | 94.2 |
| Non-current | 239.7 | 295.8 |
| | 326.2 | 390.0 |

¹ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

The maturity analysis of lease liabilities is presented in note 29.

(b) Amounts recognised in the Income Statement

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Depreciation expense on right-of use assets (note 6) | 77.3 | 70.7 |
| Interest on lease liabilities (note 10) | 12.6 | 12.8 |
| Interest income on sub-leases (note 10) | (0.6) | (0.2) |
| Expenses relating to short-term leases (note 6) | 7.9 | 10.3 |
| Expenses relating to leases of low-value assets (note 6) | 5.2 | 7.6 |
| Covid-19-related rent concessions (note 6) | (0.7) | – |
| Income from sub-leasing right-of-use assets (included in other revenue) | (1.6) | (1.6) |
| Gains and losses arising from sale and leaseback transactions | – | (6.8) |

It is not expected that commitments for short-term leases will materially differ from those in place at 31 December 2020.

(c) Amounts recognised in the Cash Flow Statement

| | 2020 £m | 2019 £m | Included within |
|--|----------------|----------------|--------------------------------------|
| Payment of principal and interest | (97.7) | (91.1) | Cash flows from financing activities |
| Payments for short-term and low-value leases | (13.1) | (17.9) | Cash flows from operations |
| Total cash outflow for leases | (110.8) | (109.0) | |

35 Leases continued

(d) Extension and termination options

Some property and vehicle leases contain extension or termination options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension or termination options in new leases to provide operational flexibility. The extension and termination options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension or termination options and re-assesses these assumptions when there is a significant event or significant change in circumstances within its control. Where the Group determines it is reasonably certain that a termination option will be exercised, any termination penalty is included in the lease liability.

The Group has estimated that the potential future lease payments, should it exercise the extension or termination options, would result in an immaterial change in the lease liability.

(e) Variable lease payments

The Group does not have variable lease payments that are not included in the lease liability.

(f) Residual value guarantees

The Group has a small number of leased vehicles with residual value guarantees. At the lease commencement date the amounts expected to be payable have been included in the lease liability.

(g) Future lease commitments

At the year end the Group had no commitments relating to leases not yet commenced (2019: £7.7m).

Group as a lessor

The Group entered into finance leasing arrangements as a lessor for certain vehicles to its customers. During 2020, the Group recognised interest income on lease receivables of £0.6m (2019: £0.2m).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

| | 2020 £m | 2019 £m |
|---|-------------|------------|
| Net investment in the lease | | |
| Within one year | 4.7 | 1.6 |
| After one year but not more than five years | 11.0 | 3.5 |
| More than five years | 0.3 | 0.4 |
| Total undiscounted lease receivable | 16.0 | 5.5 |
| Unearned finance income | (1.1) | (0.5) |
| Finance lease receivable | 14.9 | 5.0 |

The maturity analysis of the discounted lease payments are as follows:

| | 2020 £m | 2019 £m |
|------------------------------------|-------------|------------|
| Net investment in the lease | | |
| Current | 4.3 | 1.4 |
| Non-current | 10.6 | 3.6 |
| | 14.9 | 5.0 |

The Group also sub-leases some of its property and public service vehicles. The Group has classified these sub-leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the right-of-use assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | 2020 £m | 2019 £m |
|---|------------|------------|
| Operating lease receipts | | |
| Within one year | 1.3 | 2.1 |
| After one year but not more than five years | 1.8 | 5.3 |
| More than five years | – | 0.1 |
| | 3.1 | 7.5 |

36 Commitments and contingencies

(a) Capital commitments

| | 2020 £m | 2019 £m |
|------------|------------|------------|
| Contracted | 97.1 | 141.7 |

The Group is committed to vehicle purchases and various land and buildings improvements.

(b) Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £7.3m (2019: £13.4m) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2020, the Group had performance bonds in respect of businesses in the US of £165.3m (2019: £157.9m), in Spain of £106.7m (2019: £83.6m), in Germany of £32.0m (2019: £26.0m) and in the Middle East of £6.0m (2019: £6.2m). Letters of credit have been issued to support insurance retentions of £117.2m (2019: £112.4m).

Covid-19 claims

As explained in note 5 the Group has made a provision for employee compensation claims as a consequence of the Covid-19 pandemic. In addition the Group could be exposed to potential claims from the general public as a consequence of the pandemic. However, as yet no general public claims have been received and therefore it is not possible to reliably estimate what, if any, liability could arise.

Tax

Tax authorities in the markets in which we operate (UK, Spain, Germany, USA, Canada and Morocco) carry out tax audits from time to time. As was detailed in note 11(d) Tax provisions, there are a number of tax uncertainties such as the deductibility of interest expense in the UK and Spain and tax audits in Spain. The Directors are satisfied that, based on current knowledge, adequate tax provisions are held to cover any tax uncertainties. The Group had tax provisions at 31 December 2020 of £2.4m (2019: £10.8m). There are no material contingent liabilities relating to tax.

37 Related party transactions

| | Amounts of transactions | | Amounts due from related parties | | Amounts due to related parties | |
|--|-------------------------|-------------|----------------------------------|------------|--------------------------------|--------------|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Joint ventures | | | | | | |
| Bahrain Public Transport Company W.L.L. | 0.5 | 0.4 | – | – | – | – |
| ALSA joint venture | – | – | – | – | – | – |
| Associates | | | | | | |
| ALSA associates | 3.7 | 5.7 | 3.6 | 3.4 | (0.7) | (1.3) |
| Total joint ventures and associates | 4.2 | 6.1 | 3.6 | 3.4 | (0.7) | (1.3) |
| Trade investments | | | | | | |
| ALSA trade investments | 4.9 | 5.8 | 0.9 | – | (1.1) | (0.1) |
| North America trade investments | 0.3 | 0.3 | – | – | – | – |
| Total investments | 5.2 | 6.1 | 0.9 | – | (1.1) | (0.1) |
| Property transactions | | | | | | |
| ALSA property transactions | 3.7 | 4.2 | 0.4 | 0.4 | (0.4) | (0.5) |
| North America property transactions | 3.2 | 4.3 | – | – | – | – |
| Total property transactions | 6.9 | 8.5 | 0.4 | 0.4 | (0.4) | (0.5) |
| Total other related parties | 12.1 | 14.6 | 1.3 | 0.4 | (1.5) | (0.6) |
| Total | 16.3 | 20.7 | 4.9 | 3.8 | (2.2) | (1.9) |

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are at appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

37 Related party transactions continued

Compensation of key management personnel of the Group

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Total compensation paid to key management personnel (note 8) | 0.8 | 6.9 |

38 Service concession arrangements

The following table sets out the nature and extent of the Group's service concession arrangements:

| Concession | Description of the arrangement | Concession period | Concession commencement | Nature of infrastructure | Classification under IFRIC 12 |
|--------------------|---|-------------------|-------------------------|--|---|
| German Rail | The Group operates two train services in Germany. | 15 years | 2015 – 2020 | Rolling stock and tracks used in the operation of the service are provided by the delegating authority. | No financial or intangible asset is recognised for construction as the infrastructure is provided to the Group. |
| Moroccan urban bus | The Group has two contracts with the Moroccan authority for the operation of public transport bus services. | 15 years | September 2019 | Public service vehicles used in the operation are provided by the Group, some of which are subject to lease type arrangements. | Intangible asset |
| | | Up to 15 years | November 2019 | Initially, public service vehicles used in operation are provided by the public authority. Replacement public service vehicles will be provided by the Group and public authority in future years. | Financial asset |
| Spanish Urban Bus | The Group has a contract with the Spanish government to operate urban commuter coach services in Spain. | 10 years | August 2019 | Public service vehicles used in the operation are provided by the Group. | Financial asset |

During the year no revenue or profit was recognised in exchanging construction services for financial or intangible assets.

39 Cash flow statement

(a) Reconciliation of Group (loss)/profit before tax to cash generated from operations

| | 2020 £m | 2019 £m |
|---|---------------|--------------|
| Total operations | | |
| (Loss)/profit before tax | (444.7) | 187.0 |
| Net finance costs | 61.2 | 55.7 |
| Share of results from associates and joint ventures | 2.1 | (0.4) |
| Depreciation of property, plant and equipment | 223.6 | 203.1 |
| Intangible asset amortisation | 69.0 | 59.7 |
| Amortisation of fixed asset grants | (2.9) | (1.3) |
| Gain on disposal of property, plant and equipment | (8.7) | (10.3) |
| Gain on disposal of intangible assets | (2.3) | (3.6) |
| Share-based payments | 0.2 | 6.4 |
| Decrease/(increase) in inventories | 2.9 | (2.6) |
| Decrease/(increase) in receivables | 56.6 | (75.0) |
| (Decrease)/increase in payables | (122.7) | 53.4 |
| Decrease in provisions | (22.9) | (26.7) |
| Separately disclosed items ¹ | 278.0 | – |
| Cash flows relating to separately disclosed items | (120.4) | (7.2) |
| Cash generated from operations | (31.0) | 438.2 |

¹ Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'

39 Cash flow statement continued

(b) Analysis of changes in net debt

Net debt is an alternative performance measure which is not defined or specified under the requirements of International Financial Reporting Standards. Please refer to the glossary on page 243 for further information.

| | At 1 January 2020 £m | Cash flow £m | Acquisitions and disposals £m | Exchange differences £m | Other movements £m | At 31 December 2020 £m |
|--|-------------------------------|-----------------|-------------------------------------|-------------------------------|--------------------------|---------------------------------|
| Components of financing activities: | | | | | | |
| Bank and other loans ¹ | (184.5) | 171.3 | (11.3) | 1.9 | (0.9) | (23.5) |
| Bonds | (1,081.9) | 448.4 | – | (12.0) | (1.5) | (647.0) |
| Fair value of interest rate derivatives | 3.3 | – | – | – | (2.3) | 1.0 |
| Fair value of foreign exchange forward contracts | (20.4) | 21.0 | – | 4.0 | – | 4.6 |
| Cross currency swaps | 11.7 | (2.4) | – | (15.0) | – | (5.7) |
| Net lease liabilities ² | (385.0) | 97.7 | (4.3) | 1.4 | (21.1) | (311.3) |
| Private placements | (68.3) | (407.9) | – | (3.6) | 3.0 | (476.8) |
| Total components of financing activities | (1,725.1) | 328.1 | (15.6) | (23.3) | (22.8) | (1,458.7) |
| Cash | 111.2 | 18.9 | 0.7 | 1.1 | – | 131.9 |
| Overnight deposits | 2.1 | 47.6 | – | – | – | 49.7 |
| Other short-term deposits | 365.0 | (30.7) | – | 4.6 | – | 338.9 |
| Cash and cash equivalents | 478.3 | 35.8 | 0.7 | 5.7 | – | 520.5 |
| Other debt receivables | 2.4 | (1.2) | – | – | – | 1.2 |
| Remove: fair value of foreign exchange forward contracts | 20.4 | (21.0) | – | (4.0) | – | (4.6) |
| Net debt³ | (1,224.0) | 341.7 | (14.9) | (21.6) | (22.8) | (941.6) |

¹ Net of arrangement fees totalling £2.4m on bank and other loans

² Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

³ Excludes accrued interest on long-term borrowings

Short-term deposits relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £1,313.0m (2019: £1,091.0m) as disclosed in note 28.

Other non-cash movements include lease additions and disposals of £21.1m (2019: £89.5m) and a £1.7m net reduction from the amortisation of loan and bond arrangement fees (2019: £0.7m). A £2.3m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £0.9m fair value increase in bonds and a £1.4m fair value increase in private placements.

39 Cash flow statement continued

| | At 1 January 2019 £m | Cash flow £m | Acquisitions and disposals £m | Exchange differences £m | Other movements ⁴ £m | At 31 December 2019 ⁴ £m |
|--|-------------------------------|-----------------|-------------------------------------|-------------------------------|---------------------------------------|--|
| Components of financing activities: | | | | | | |
| Bank and other loans ¹ | (9.0) | (169.8) | (0.7) | (5.1) | 0.1 | (184.5) |
| Bonds | (852.4) | (244.6) | – | 13.4 | 1.7 | (1,081.9) |
| Fair value of interest rate derivatives | 6.6 | – | – | (0.2) | (3.1) | 3.3 |
| Fair value of foreign exchange forward contracts | (6.8) | (20.8) | – | 7.2 | – | (20.4) |
| Cross currency swaps | (0.2) | – | – | – | 11.9 | 11.7 |
| Net lease liabilities ² | (356.3) | 91.1 | (42.6) | 12.3 | (89.5) | (385.0) |
| Private placements | (73.7) | – | – | 4.4 | 1.0 | (68.3) |
| Total components of financing activities | (1,291.8) | (344.1) | (43.3) | 32.0 | (77.9) | (1,725.1) |
| Cash | 74.6 | 36.8 | 4.3 | (4.5) | – | 111.2 |
| Overnight deposits | 1.9 | 0.2 | – | – | – | 2.1 |
| Other short-term deposits | 41.2 | 323.8 | – | – | – | 365.0 |
| Cash and cash equivalents | 117.7 | 360.8 | 4.3 | (4.5) | – | 478.3 |
| Other debt receivables | 2.1 | 0.3 | – | – | – | 2.4 |
| Remove: fair value of foreign exchange forward contracts | 6.8 | 20.8 | – | (7.2) | – | 20.4 |
| Net debt ³ | (1,165.2) | 37.8 | (39.0) | 20.3 | (77.9) | (1,224.0) |

¹ Net of arrangement fees totalling £2.7m on bank and other loans

² Opening balances were restated for the adoption of IFRS 16 'Leases'. The closing balance is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

³ Excludes accrued interest on long-term borrowings

⁴ Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 2 for further information

(c) Reconciliation of net cash flow to movement in net debt

| | 2020 £m | 2019 ^{1,2} £m |
|--|----------------|---------------------------|
| Increase in cash and cash equivalents in the year | 36.5 | 365.1 |
| Cash (outflow)/inflow from movement in other debt receivables | (1.2) | 0.3 |
| Cash inflow/(outflow) from movement in debt and leases liabilities | 291.5 | (366.6) |
| Change in net debt resulting from cash flows | 326.8 | (1.2) |
| Change in net debt resulting from non-cash movements | (44.4) | (57.6) |
| Movement in net debt in the year | 282.4 | (58.8) |
| Opening net debt ¹ | (1,224.0) | (1,165.2) |
| Net debt | (941.6) | (1,224.0) |

¹ Opening balances in 2019 were restated for the adoption of IFRS 16 'Leases'

² Closing balances in 2019 have been represented to correct the presentation of IFRIC 12 financial liabilities, see note 2 for further information

40 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2020 is shown below, along with the country of incorporation and the effective percentage of equity owned.

| Name and country of Incorporation | % equity interest | Name and country of Incorporation | % equity interest |
|---|-------------------|---|-------------------|
| United Kingdom & Ireland | | NE Trains South Limited (a) | 100 |
| Airlinks The Airport Coach Company Limited (a) | 100 | National Express Middle East Plc (previously NX Bahrain Bus Company Plc) (a) | 100 |
| Altram LRT Limited (a) | 100 | NXEC Trains Limited (a) | 100 |
| Brooke Management Limited (a) | 100 | Scotrail Railways Limited (a) | 100 |
| Central Trains Limited (a) | 100 | Silverlink Train Services Limited (a) | 100 |
| Clarkes Holdco Limited (a) | 100 | Solent Coaches Limited (a) | 100 |
| Coachman Limited (a) | 100 | Speedlink Airport Services Limited (a) | 100 |
| Coliseum Coaches Limited (a) | 100 | Stewarts Coach Group Limited (a) | 100 |
| E Clarke & Son (Coaches) Limited (a) | 100 | Stewarts Coaches Limited (a) | 100 |
| Eurolines (UK) Limited (a) | 100 | The Kings Ferry Limited (a) | 100 |
| H. Lockett & Co Limited (a) | 100 | West Midlands Accessible Transport Limited (previously Travel Coventry Limited) (c) | 100 |
| Inter-Capital and Regional Rail Limited (a) | 40 | Travel Merryhill Limited (c) | 100 |
| London Eastern Railway Limited (a) | 100 | Travel West Midlands Limited (c) | 100 |
| Locketts Holdings Limited (a) | 100 | Travel WM Limited (c) | 100 |
| Locketts Travel Limited (a) | 100 | Travel Yourbus Limited (c) | 100 |
| Lockett Services Limited (a) | 100 | West Anglia Great Northern Railway Limited (a) | 100 |
| Maintrain Limited (a) | 100 | West Midlands Transport Information Services Limited (d) | 20 |
| Midland Main Line Limited (a) | 100 | West Midlands Travel Limited (c) | 100 |
| Mortons Travel Limited (a) | 100 | Worthing Coaches Limited (a) | 100 |
| National Express Bus & Coach Services Limited (b) | 100 | Travel Coventry Limited (previously WM Card Systems Limited) (c) | 100 |
| National Express European Holdings Limited (05652775)* (a) | 100 | WM Property Holdings Limited (c) | 100 |
| National Express Finance Company Limited (a) | 100 | WM Travel Limited (c) | 100 |
| National Express Financing LP** (a) | 100 | WM Ventures Limited (c) | 100 |
| National Express Group Holdings Limited (a) | 100 | Woods Coaches Limited (a) | 100 |
| National Express Holdings Limited (02156473)* (a) | 100 | Woods Reisen Limited (a) | 100 |
| National Express Intermediate Holdings Limited (a) | 100 | | |
| National Express International Limited (a) | 100 | Bahrain | |
| National Express Limited (a) | 100 | Bahrain Public Transport Company W.L.L. (e) | 50 |
| National Express Manchester Metrolink Limited (c) | 100 | | |
| National Express North America Holdings Limited (07855182)* (a) | 100 | Germany | |
| National Express Operations (Stansted) Limited (a) | 100 | National Express Germany GmbH (f) | 95 |
| National Express Operations Limited (a) | 100 | National Express Holding GmbH (g) | 100 |
| National Express Petermann UK Limited (07855188)* (a) | 100 | National Express Rail GmbH (h) | 100 |
| National Express Rail Replacement Limited (a) | 100 | Süddeutsche Regionalbahn GmbH (g) | 100 |
| National Express Services Limited (a) | 100 | | |
| National Express Spanish Holdings Limited (a) | 100 | Czech Republic | |
| National Express Trains Limited (a) | 100 | National Express Cz s.r.o. (i) | 100 |
| National Express Transport Holdings Limited (04338163)* (a) | 100 | | |
| National Express UK Limited (a) | 100 | Netherlands | |
| NE Canada Limited (08596333)* (a) | 100 | National Express Holdings LLC BV (j) | 100 |
| NE Durham UK Limited (08270480)* (a) | 100 | | |
| NE Europe Finance Limited (07876047)* (a) | 100 | Andorra | |
| NE No.1 Ltd (a) | 100 | Estació 2017, S.A. (k) | 11 |
| NE No.2 Ltd (a) | 100 | Estació d'Autobusos d'Andorra (l) | 100 |
| NE No. 3 Limited (a) | 100 | Transports Dels Pirineus (k) | 100 |

40 Subsidiary undertakings and other significant holdings continued

| Name and country of Incorporation | % equity interest | Name and country of Incorporation | % equity interest |
|---|-------------------|--|-------------------|
| France | | Autedia, S.L. (aa) | 50 |
| Iberolines (m) | 46 | Autobuses Urbanos de Bilbao, S.A. (ah) | 75 |
| SARL Chamexpress.com (n) | 100 | Autobuses Urbanos de León, S.A.U. (ai) | 100 |
| | | Autocares Castilla-León, S.A.U. (aj) | 100 |
| Morocco | | Autocares Discrecionales del Norte, S.L.U. (ak) | 100 |
| Alsa al Baida (o) | 100 | Automóviles Luarca, S.A.U. (al) | 100 |
| Alsa City Agadir S.A. (p) | 100 | Automóviles Sigras Carral, S.A. (am) | 100 |
| Alsa City Sightseeing Maroc (q) | 100 | Autos Cal Pita, S.A. (am) | 97 |
| Alsa City Tour S.A.R.L. (q) | 95 | Autos Pelayo, S.A.U. (ab) | 100 |
| Alsa Education a la Sécurité Routière S.A.R.L. (q) | 98 | Autos Rodríguez Eocar, S.L. (an) | 80 |
| Alsa Khouribga S.A. (r) | 100 | Baleares Business Cars, S.L. (ag) | 100 |
| Alsa Tanger S.A. (s) | 100 | Berlinas de Asturias, S.L. (ag) | 100 |
| Centre de Formation Techn. Profes. Transport S.A.R.L. (q) | 99 | Berlinas Calecar, S.L.U. (aj) | 100 |
| Groupe Alsa Transport S.A. (q) | 100 | Berlinas de Canarias, S.L. (ag) | 100 |
| Immeubles Véhicules Accessoires Maroc S.A.R.L. (q) | 80 | Berlinas de Toledo, S.L. (ag) | 100 |
| Interprovincial Maroc S.A.R.L. (q) | 100 | Berlinas VTC de Cantabria, S.L.U. (ao) | 100 |
| Transport de Voyageurs en Autocar Maroc S.A. (q) | 100 | Buses de Palencia, S.L. (ap) | 100 |
| Alsa Citybus Rabat-Salé-Temara, S.A. (t) | 51 | Bus Metropolitano de Granada, S.L. (aq) | 50 |
| | | Busturialdea Lea Artibai Bus, S.A. (ar) | 65 |
| Portugal | | Canary Business Cars, S.L. (ag) | 100 |
| Alsa Metropolitano do Porto, Lda (u) | 100 | Cataluña Business Cars, S.L. (ag) | 100 |
| Tiac Viagens e Turismo Lda (v) | 100 | Center Bus, S.L. (as) | 90 |
| Alsa Todi Metropolitana de Lisboa (w) | 65 | Cetralsa Formación, S.L.U. (ab) | 100 |
| | | Cía. del Tranvía Eléctrico de Avilés, S.A. (at) | 87 |
| Slovakia | | Compañía Navarra de Autobuses, S.A. (au) | 50 |
| Efc Spol s.r.o. (x) | 80 | Compostelana, S.A.U. (av) | 100 |
| | | Concesionario Estación Autobuses Logroño, S.A. (aw) | 21 |
| Spain | | Ebrobus, S.L.U. (ab) | 100 |
| Agreda Bus, S.L. (y) | 70 | Estación Autobuses de Cartagena, S.A. (ax) | 54 |
| Alianza Bus, S.L.U. (z) | 100 | Estación Autobuses de Ponferrada, S.A. (ay) | 49 |
| Almería-Murcia Bus, S.L. (aa) | 100 | Estación Central de Autobuses de Zaragoza, S.A. (az) | 19 |
| Alsa Atlántica, S.L.U. (ab) | 100 | Estación de Autobuses de Siero, S.L. (ba) | 50 |
| Alsa Ferrocarril, S.A.U. (ab) | 100 | Estación de Autobuses Aguilar de Campoo, S.L. (bb) | 67 |
| Alsa Granada Airport S.L. (aa) | 100 | Estación de Autobuses Chamartin, S.A. (bc) | 49 |
| Alsa Grupo Intercontinental, S.L.U. (ab) | 100 | Estación de Autobuses de Aranda de Duero, S.L. (bd) | 43 |
| Alsa Grupo, S.L.U. (ab) | 100 | Estación de Autobuses de Astorga, S.L. (be) | 79 |
| Alsa Internacional, S.L.U. (ab) | 100 | Estación de Autobuses de Aviles S.L. (bf) | 100 |
| Alsa Internacional, S.L.U. y Otros U.T.E. (z) | 100 | Estación de Autobuses de Benavente, S.L. (bg) | 23 |
| Alsa Metropolitana, S.A.U. (z) | 100 | Estación de Autobuses de León, S.A. (aj) | 89 |
| Alsa Rail, S.L.U. (ab) | 100 | Estación de Autobuses de Plasencia, S.A. (bh) | 52 |
| Aplic. y Sist. Integrales Para el Transporte, S.A. (ac) | 100 | Estación de Autobuses de Ribadeo, S.L. (bi) | 50 |
| Aragonesa de Estación de Autobuses, S.A. (ad) | 23 | Estación de Autobuses de Vitoria, S.L. (bj) | 32 |
| Argabus, S.A. (ae) | 100 | Estación de Líneas Regulares, S.L. (bk) | 46 |
| Artazo Servicios Integrales, S.L. (af) | 100 | Estaciones Terminales de Autobuses, S.A. (bl) | 79 |
| Asturies Berlinas de Luxu, S.L. (ag) | 100 | Euska Alsa, S.L.U. (ak) | 100 |

40 Subsidiary undertakings and other significant holdings continued

| Name and country of Incorporation | % equity interest | Name and country of Incorporation | % equity interest |
|--|-------------------|---|-------------------|
| Ezkerraldea-Meatzaldea Bus, S.A. (ar) | 65 | Tibus Business Limousines, S.L.U. (z) | 100 |
| Gal Bus, S.L. (am) | 100 | Tibus Luxury Services, S.L.U. (by) | 100 |
| G.S. Carretera (bm) | 25 | Transporte Colectivos, S.A.U. (cb) | 100 |
| General Técnica Industrial, S.L.U. (ab) | 100 | Transportes Accesibles Peninsulares, S.L. (cc) | 100 |
| Gorbea Representaciones, S.L. (ak) | 100 | Transportes Adaptados Andaluces, S.A.U. (cd) | 100 |
| Guaguas Gumidafe, S.L. (af) | 100 | Transportes Adaptados Regionales, S.L.U. (aj) | 100 |
| Grupo Enatcar, S.A. (z) | 100 | Transportes Adaptados Cantabros, S.A. (ce) | 98 |
| Ibero-Euro Sur, S.L. (z) | 20 | Transportes Bacoma, S.A.U. (by) | 100 |
| Intercambiadores Europeos, S.L. (ab) | 60 | Transportes de Viajeros de Aragón, S.A. (az) | 59 |
| International Business Limousines, S.A.U. (bn) | 100 | Transportes Santo Domingo, S.L.U. (cf) | 100 |
| Interurbana de Autocares, S.A.U. (ab) | 100 | Viajes ALSA, S.A.U. (ab) | 100 |
| Irubus, S.A.U. (z) | 100 | Transportes Terrestres Cantabros, S.A. (ce) | 93 |
| Jimenez Lopera, S.A.U. (bn) | 100 | Transportes Unidos de Asturias, S.L. (cg) | 100 |
| Julia Travel S.A. (bo) | 50 | Transportes Unidos, S.L.U. (ab) | 100 |
| Julia Travel y Automóviles Luarca Sa Ute (bp) | 50 | Transportes Urbanos de Cantabria, S.L.U. (ce) | 100 |
| La Tafallesa, S.A.U. (au) | 50 | Transportes Urbanos de Cartagena, S.A. (ch) | 97 |
| La Unión Alavesa, S.L. (bj) | 50 | Tranvía de Vélez, S.A.U. (ci) | 100 |
| La Unión de Benisa, S.A. (bq) | 98 | Transportes Urbanos de Guadalajara, S.L. (cj) | 100 |
| Lineas Europeas de Autobuses, S.A. (br) | 43 | Tranvías Metropolitanas de Granada, S.A.U. (ck) | 100 |
| Los Abades de la Gineta, S.L.U. (z) | 100 | Tury Express, S.A. (ak) | 100 |
| Mai Tours, S.L.U. (bs) | 100 | Ute Catamaranes Bahía Cadiz (cl) | 23 |
| Manuel Vázquez, S.L. (bt) | 60 | Ute Ea Cordoba (cm) | 50 |
| Moveia Tecnologías, S.L. (bu) | 78 | Ute Extremadura (z) | 100 |
| Mundaka Consultoría, S.L.U. (ak) | 100 | Ute Guadalajara (ab) | 100 |
| NEX Continental Holdings, S.L.U. (ab) | 100 | Ute Mundiplan (cn) | 17 |
| NX Middle East, S.L.U. (bv) | 100 | Ute Murcia City Tour (al) | 50 |
| Proyectos Unificados, S.A.U. (ab) | 100 | Ute Ea Alicante (co) | 50 |
| Representaciones Mecánica, S.A.U. (ak) | 100 | Viajes Por Carretera, S.A.U. (ak) | 100 |
| Rutas a Cataluña, S.A. (bw) | 28 | Voramar el Gaucho S.L.U. (cp) | 100 |
| Rutas del Cantábrico, S.L. (ak) | 95 | | |
| Semarvi (ab) | 34 | Switzerland | |
| Serviareas 2000, S.L.U. (ab) | 100 | AlpyBus S.a.r.l. (cq) | 100 |
| Servicios Auxiliares del Transporte C.B. (bx) | 100 | Eggmann Frey (cr) | 100 |
| Servicios El Temple, S.L. (am) | 100 | GVA Transfers.com SARL (cs) | 100 |
| Servicios Empresariales Especiales, S.L.U. (ak) | 100 | Linien Abfertigung GmbH (cr) | 80 |
| Servicios Generales de Automoción, S.A.U. (ak) | 100 | Odier Excursions, S.A. (ct) | 100 |
| Servicios VTC Tibus, S.L.U. (z) | 100 | | |
| Setra Ventas y Servicios, S.A.U. (bn) | 100 | US | |
| Sociedad Anónima Unipersonal Alsina Graells de A.T. (by) | 100 | The Provider Enterprises, Inc. (cu) | 100 |
| Técnicas en Vehículos Automóviles, S.L.U. (z) | 100 | A1A Transportation, Inc. (cv) | 100 |
| Tecnologías Formativas en Simuladores, S.L. (bz) | 50 | Aristocrat Limousine and Bus, Inc. (cw) | 100 |
| Terminal de Autobuses de Garellano, S.L. (ca) | 41 | A&S Transportation Incorporated (cv) | 100 |
| Tibus, S.A. (by) | 60 | Atlantic & Southern Transportation (cx) | 100 |
| Tibus Berlín de Luxe, S.L.U. (by) | 100 | Atlantic & Southern Transportation (cy) | 100 |
| Tibus Business Cars, S.L.U. (by) | 100 | Atlantic & Southern Transportation (cz) | 100 |

40 Subsidiary undertakings and other significant holdings continued

| Name and country of Incorporation | % equity interest | Name and country of Incorporation | % equity interest |
|--|-------------------|---|-------------------|
| Beck Bus Transportation Corp. (da) | 100 | Queen City Transportation, LLC (dh) | 100 |
| Beck Bus Transportation III, LLC (da) | 100 | Rainbow Management Service, Inc. (dk) | 100 |
| Beck Bus Transportation IV, LLC (da) | 100 | Safeway Training and Transportation Services, Inc. (cu) | 100 |
| Beck Bus Transportation, LLC (da) | 100 | Septran, Inc. (cz) | 100 |
| Bus Co., Inc. (da) | 100 | Smith Bus Service, Inc. (dm) | 100 |
| Caravan Leasing Vehicles LLC (db) | 100 | Suburban Paratransit Services, Inc. (dk) | 100 |
| Carrier Management Corporation (dc) | 100 | Total Transit Enterprises, LLC (dn) | 100 |
| Chicagoland Coach Lines LLC (dd) | 100 | Trans Express, Inc. (dk) | 100 |
| Community Transportation, Inc. (dc) | 100 | Transit Express, Inc. (dj) | 100 |
| Cook-DuPage Transportation Company, Inc. (da) | 100 | Transit Express Services, Inc. (dj) | 100 |
| Diamond Transportation Services, Inc. (de) | 100 | Trinity, Inc. (di) | 100 |
| Discount Enterprises, Inc. (df) | 100 | Trinity Cars, Inc. (di) | 100 |
| Durham D&M LLC (dd) | 100 | Trinity Coach LLC (di) | 100 |
| Durham Holding I, LLC (dd) | 100 | Trinity Management Services Co. LLC (do) | 100 |
| Durham Holding II, LLC (dd) | 100 | Trinity Student Delivery LLC (di) | 100 |
| Durham School Services, L.P. (dd) | 100 | TWB Transport, LLC (da) | 100 |
| Fox Bus Lines Inc. (dg) | 100 | WeDriveU America LLC (cz) | 100 |
| Greensburg Yellow Cab Co. (dc) | 100 | WeDriveU Inc. (dp) | 60 |
| Haid Acquisitions LLC (dh) | 100 | WeDriveU Canada Inc. (dp) | 60 |
| JNC Leasing, Inc. (di) | 100 | WeDriveU Holdings, Inc. (dp) | 60 |
| Kiessling Transit, Inc. (dg) | 100 | WeDriveU Leasing Inc. (dp) | 60 |
| Meda-Care Vans of Waukesha, Inc. (dj) | 100 | White Plains Bus Co., Inc. (dk) | 100 |
| MF Petermann Investment Corporation (dd) | 100 | Whitetail Bid Co., LLC (dd) | 100 |
| Monroe School Transportation, Inc. (dk) | 100 | Wise Coaches, Inc. (dq) | 100 |
| MV Student Transportation, Inc. (dl) | 100 | | |
| National Express Acquisition Corporation (dd) | 100 | Canada | |
| National Express Durham Holding Corporation (dd) | 100 | National Express Canada (Holdings) Limited (dr) | 100 |
| National Express LLC (dd) | 100 | National Express Canada Transit Ltd (dr) | 100 |
| National Express Leasing Company LLC (dd) | 100 | Stock Transportation Ltd (dr) | 100 |
| National Express Transit Corporation (dd) | 100 | | |
| National Express Transit Services Corporation (dd) | 100 | * These subsidiaries are exempt from the requirements of the UK companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Outstanding liabilities of the exempt companies at the Balance Sheet date are guaranteed pursuant to Sections 479A-C of the Act. | |
| New Dawn Transit LLC (dk) | 100 | | |
| NU Express LLC (dd) | 100 | | |
| Petermann Acquisition Co., LLC (dd) | 100 | ** NE Finance LP is exempt from preparing accounts in accordance with Part 2, Regulation 7 of The Partnerships (Accounts) Regulations 2008, as it is included within the Group consolidated financial statements for the year ending 31 December 2020. | |
| Petermann Acquisition Corporation (dd) | 100 | | |
| Petermann Holding Co., LLC (dd) | 100 | | |
| Petermann Ltd. (dh) | 100 | | |
| Petermann Northeast, LLC (dh) | 100 | | |
| Petermann Northwest, LLC (dd) | 100 | | |
| Petermann Partners, Inc. (dd) | 100 | | |
| Petermann Southwest, LLC (dd) | 100 | | |
| Petermann STS, LLC (dd) | 100 | | |
| Petermann STSA, LLC (dd) | 100 | | |
| PM2 Co. LLC (dd) | 100 | | |
| Quality Bus Service, LLC (dk) | 100 | | |

Strategic Report

Corporate Governance

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Additional Information

40 Subsidiary undertakings and other significant holdings continued

| Key | Address | Key | Address |
|------|--|------|---|
| (a) | National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD | (az) | Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011) |
| (b) | 4th Floor, 7/8 Wilton Terrace, Dublin 2, Ireland | (ba) | C/ Ramón y Cajal, Pola de Siero |
| (c) | 51 Bordesley Green, Birmingham, B9 4BZ | (bb) | Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia) |
| (d) | Unit 8 - Pendeford Place, Pendeford Business Park, Wobaston Road, Wolverhampton, WV9 5HD | (bc) | Pº de la Castellana, 216, Madrid |
| (e) | Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain | (bd) | Avda Valladolid, Aranda de Duero (Burgos) |
| (f) | Trakehner Strasse 7-9, 60487 Frankfurt am Main, Germany | (be) | Avda Las Murallas, nº 52, Astorga-León (24700) |
| (g) | Vogelsanger Weg 38, 40470 Düsseldorf, Germany | (bf) | C/ Los Telares (Estación de Autobuses) Aviles (33400) |
| (h) | Maximinenstrasse 6, 50668 Cologne, Germany | (bg) | Avda Primo de Rivera, Benavente |
| (i) | Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic | (bh) | C/ Tornavacas, 2, Plasencia |
| (j) | Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands | (bi) | Avda Rosalía de Castro, Ribadeo |
| (k) | Carrer de la Cúria, s/n, Andorra la Vella | (bj) | C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria) |
| (l) | Av. de Tarragona, 42, AD500 Andorra la Vella | (bk) | Plaza de las Estaciones, Santander (Cantabria) |
| (m) | 41 Boulevard Poniatowski, 75012, Paris | (bl) | Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009) |
| (n) | 498 Avenue des Alpagnes, 74310 Les Houches | (bm) | Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo |
| (o) | twin center ang bd zerktoni et al massira etg 5 et 6, Casablanca | (bn) | Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid) |
| (p) | Rue De Teheran, Q.I Agadir | (bo) | C/ Puerto Used, 20, Madrid |
| (q) | Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech | (bp) | Avda Sancho El Sabio, 31, Donostia |
| (r) | No 22 Rue Meknes Hay Haboub, Khouribga | (bq) | C/ Comunicaciones, 10 (P. de Babel), Alicante (03008) |
| (s) | 37 Rue Omar Ibn Khattab, Immeuble Maspalomas 2, Tanger | (br) | C/Guillem de Castro, 77, Valencia |
| (t) | Rue cadi Srayri et Cadi Ben Hammadi, Quartier de la Pinede - Rabat | (bs) | Avenida de la Hispanidad O- Parking P12, Barajas, Madrid |
| (u) | Avenida das Forças Armadas, N 125, 12 Lisboa | (bt) | C/ Jacques Cousteau, 2 - Arteijo (A Coruña) |
| (v) | Rua de Pedro Nunes, 39, Lisboa | (bu) | C/ Santa Leonor, 65 -Avalón Parque Empresarial, Edificio A, Madrid |
| (w) | Estrada de Algeruz, Cruz de Peixe - 2901-279-Setúbal | (bv) | C/ Inglaterra, 20-22, Palencia (34004) |
| (x) | Tehelná 23 83103, Bratislava - Nové Mesto | (bw) | C/ Musico Gustavo Freire, 1 -1º Dcha, Lugo (27001) |
| (y) | Avda. Manuel Rodríguez Ayuso, 110 - Zaragoza | (bx) | C/ Mendez Álvaro (Estación de Autobuses), Madrid |
| (z) | C/ Alcalá, 478, Madrid (28027) | (by) | C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013) |
| (aa) | Avda Juan Pablo II, 33, Granada | (bz) | Newton, 6, Edificio 6, Nave, 6.P, Leganés, Madrid (28914) |
| (ab) | C/ Miguel Fleta, 4, Madrid (28037) | (ca) | Alameda de Mazarredo, 21, Bilbao |
| (ac) | Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002) | (cb) | Gran Vía de D. Ingacio de Haro, 81, Bilbao |
| (ad) | Urbanización Plaza de Roma, F-1, Zaragoza | (cc) | C/Pepe Cosmen, (Estación de Autobuses), Oviedo (33001) |
| (ae) | C/ Real 116 - Arganda del Rey (Madrid) | (cd) | Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén |
| (af) | Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10 | (ce) | Avda Candina, 35-37, Santander (39011) |
| (ag) | C/ Jorge Juan, 19 - 2º Izquierda, Madrid (28001) | (cf) | C/ Investigación. Nº 2 - Getafe (Madrid) |
| (ah) | C/ Tellaetxebidea 3, Bilbao | (cg) | Pol. Ind. Espiritu Santo, Oviedo (33010) |
| (ai) | Pol. Ind. Vilecha Oeste, León (24192) | (ch) | Paraje de la Asomada, Cartagena (Murcia) |
| (aj) | Estación de Autobuses, Avda Ingeniero Saenz de Miera, León (24009) | (ci) | Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga) |
| (ak) | Alameda de Urquijo, no 85, 1º - Dcha., Bilbao- Vizaya (48013) | (cj) | Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180) |
| (al) | Magnus Blikstad 2, Gijón (33207) | (ck) | Avenida de Cádiz, número 70, 1º-B, Granada |
| (am) | Ctra. El Burgo-Los Pelamios s/n Culleredo - A Coruña | (cl) | Avda José León de Carranza, nº20, Cádiz |
| (an) | Cedofeita, c/ Requiande, 1 - Ribadeo-Lugo | (cm) | Glorieta de las Tres Culturas, Córdoba |
| (ao) | Avenida de Candina, nº 35, Santander (39011) | (cn) | C/ Ruiz Perelló, 15, Madrid |
| (ap) | C/ Campaneros, 4, 1º Dcha, Palencia (34003) | (co) | Muelle de Poniente, Alicante |
| (aq) | Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013) | (cp) | S' Hort den Serral (San Agustín) Sant Josep de sa Talaia, Illes Balears |
| (ar) | Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510) | (cq) | 8 Chemin de Morglas, 1214, Genève |
| (as) | Paseo de Moret, 7, Madrid | (cr) | Rue du Mont Blanc 14, 1201, Genève |
| (at) | Avda Conde de Guadalhorce 123, Aviles (33400) | (cs) | Chemin de Morglas, 8 - Vernier |
| (au) | C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona | (ct) | Chemin Des Aulx 9 - Plan Les Ouates - Switzerland |
| (av) | Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña) | (cu) | 9 Capitol Street, Concord, NH 03301 |
| (aw) | Avda de España, 1, Logroño- La Rioja | (cv) | 1200 Pine Island Road, Plantation, FL 33324 |
| (ax) | Avda Trovero Marín. Nº 3,(Estación Autobuses), Cartagena (30202) | (cw) | 820 Bear Tavern Road, West Trenton, NJ 08628 |
| (ay) | Ctra de Asturias, Ponferrada | (cx) | 289 Culver Street, Lawrenceville, GA 30046 |

40 Subsidiary undertakings and other significant holdings continued

| Key | Address |
|------|--|
| (cy) | 3867 Plaza Tower Drive, Baton Rouge, LA 70816 |
| (cz) | 334 North Senate Avenue, Indianapolis, IN 46204 |
| (da) | 208 S. LaSalle Street, Chicago, County of Cook, IL 60604 |
| (db) | 8020 Excelsior Drive, Suite 200, Madison, WI 53717 |
| (dc) | 600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071 |
| (dd) | 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120 |
| (de) | 4701 Cox Road, Glen Allen, County of Henrico, VA 23060 |
| (df) | 3800 North Central Avenue, Ste. 460 Phoenix, AZ 85012 |
| (dg) | 155 Federal Street, Suite 700, Boston, MA 02110 |
| (dh) | 4400 Easton Commons Way, Suite 125, Columbus, County of Franklin, OH 43219 |
| (di) | 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675 |
| (dj) | 301 S. Bedford St., Suite 1, Madison, WI 53703 |
| (dk) | 28 Liberty Street, New York, NY 10005 |
| (dl) | 40 West Lawrence, Suite A, Helena, Montana 59601 |
| (dm) | 2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264 |
| (dn) | 3800 North Central Avenue, Suite 460, Phoenix, AZ 85012 |
| (do) | 4624 13th St., Wyandotte, MI 48192 |
| (dp) | 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833 |
| (dq) | 300 Montvue Road, Knoxville, TN 37919 |
| (dr) | 40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada |

Financial Statements
Company Balance Sheet
At 31 December 2020

| | Note | 2020 £m | 2019 ¹ £m |
|---|------|------------------|-------------------------|
| Non-current assets | | | |
| Intangible assets | 4 | 0.6 | – |
| Property, plant and equipment | 5 | – | 0.1 |
| Investments in subsidiaries | 6 | 1,991.1 | 1,978.5 |
| Debtors: amounts falling due after more than one year | 9 | 701.2 | 483.7 |
| Derivative financial instruments | 7 | 1.1 | 10.1 |
| Deferred tax assets | 14 | 21.1 | 14.5 |
| Defined benefit pension asset | 18 | 12.3 | 14.2 |
| Total non-current assets | | 2,727.4 | 2,501.1 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 8 | 52.8 | 77.6 |
| Derivative financial instruments | 7 | 44.5 | 38.4 |
| Cash at bank and in hand | 10 | 389.9 | 357.5 |
| Total current assets | | 487.2 | 473.5 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 11 | (238.0) | (903.3) |
| Derivative financial instruments | 7 | (6.0) | (35.5) |
| Provisions for liabilities and charges | 13 | (0.9) | (2.0) |
| Total current liabilities | | (244.9) | (940.8) |
| Net current assets/(liabilities) | | 242.3 | (467.3) |
| Total assets less current liabilities | | 2,969.7 | 2,033.8 |
| Non-current liabilities | | | |
| Creditors: amounts falling due after more than one year | 12 | (1,052.9) | (788.5) |
| Derivative financial instruments | 7 | (6.7) | (6.5) |
| Provisions for liabilities and charges | 13 | (1.9) | (1.2) |
| Deferred tax liability | 14 | (2.3) | (2.4) |
| Total non-current liabilities | | (1,063.8) | (798.6) |
| Net assets | | 1,905.9 | 1,235.2 |
| Shareholders' equity | | | |
| Called-up share capital | 16 | 30.7 | 25.6 |
| Share premium account | | 533.6 | 532.7 |
| Own shares | | (3.5) | (6.0) |
| Hybrid reserve | | 497.6 | – |
| Other reserves | 17 | 224.4 | (5.6) |
| Retained earnings | | 623.1 | 688.5 |
| Shareholders' equity | | 1,905.9 | 1,235.2 |

¹ Within amounts owned by subsidiaries £483.7m have been reclassified from current to non current as these were not expected to be settled within the company's normal operating cycle

The Company reported a loss for the financial year ended 31 December 2020 of £56.2m (2019: profit of £546.8m).

I Garat

Group Chief Executive
18 March 2021

C Davies

Group Chief Financial Officer

Company Number 02590560

Financial Statements
Company Statement of Changes in Equity
For the year ended 31 December 2020

| | Share capital £m | Share premium account £m | Own shares (note 16) £m | Hybrid reserve £m | Other reserves (note 17) £m | Retained earnings £m | Total £m |
|--|---------------------|-----------------------------|----------------------------|----------------------|--------------------------------|-------------------------|----------------|
| At 1 January 2020 | 25.6 | 532.7 | (6.0) | – | (5.6) | 688.5 | 1,235.2 |
| Loss for the year | – | – | – | – | – | (56.2) | (56.2) |
| Actuarial loss, net of tax | – | – | – | – | – | (0.8) | (0.8) |
| Revaluation through Other Comprehensive Income | – | – | – | – | (0.3) | – | (0.3) |
| Transfers to the Income Statement on cash flow hedges | – | – | – | – | 6.2 | – | 6.2 |
| Total comprehensive expense | – | – | – | – | 5.9 | (57.0) | (51.1) |
| Shares issued during the year (net of transaction costs) | 5.1 | 0.9 | – | – | 224.1 | – | 230.1 |
| Shares purchased | – | – | (3.9) | – | – | – | (3.9) |
| Own shares released to satisfy employee share schemes | – | – | 6.4 | – | – | (6.4) | – |
| Share-based payments | – | – | – | – | – | (0.3) | (0.3) |
| Issuance of hybrid instrument (net of transaction costs) | – | – | – | 495.5 | – | – | 495.5 |
| Accrued payments on hybrid instrument | – | – | – | 2.1 | – | (2.1) | – |
| Deferred tax on hybrid bond payments | – | – | – | – | – | 0.4 | 0.4 |
| At 31 December 2020 | 30.7 | 533.6 | (3.5) | 497.6 | 224.4 | 623.1 | 1,905.9 |

In May 2020, the Company issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1m and as the share issue qualified for merger relief under section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve, within other reserves, rather than the share premium account (see note 17). At the same time, the Company directly issued 428,782 ordinary shares of 230p each to members of the Board and executive management team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares has been recorded in share premium.

In November 2020, the Company issued a Sterling denominated hybrid instrument of £500m, with an annual coupon rate of 4.25%. The contractual terms of the instruments allow the Company to defer coupon payments and the repayment of the principal indefinitely. However any deferred payments must be made in the event of a dividend distribution. The terms also allow for the instrument to be redeemed at the option of the Company at 5 years after issue (first call date) and 10 years (second call date), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or change of control). As the Company has the unconditional right to avoid transferring cash or another financial asset in relation to this instrument, it is classified in Equity. The annual coupon rate is fixed for the first five years, and thereafter reset according to the specific terms of the issuance. The net proceeds were £495.5m.

The Company's retained earnings includes £380.9m (2019: £219.0m) that is available for distribution. Cumulative gains on the Company's defined benefit pension scheme, which is currently in a net surplus position, are deemed to be not distributable. In addition, own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. Share premium, the capital redemption reserve and the hybrid reserve are also not distributable. Within other reserves, the merger reserve is fully distributable, and the capital redemption, hedging and cost of hedging reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 12 to the Group Consolidated Financial Statements.

| | Share capital £m | Share premium £m | Own shares (note 16) £m | Other reserves (note 17) £m | Retained earnings £m | Total £m |
|---|---------------------|---------------------|----------------------------|--------------------------------|-------------------------|----------------|
| At 1 January 2019 | 25.6 | 532.7 | (7.0) | 0.2 | 223.9 | 775.6 |
| Change in accounting policies ¹ | – | – | – | – | 0.2 | 0.2 |
| At 1 January 2019 (restated) | 25.6 | 532.7 | (7.0) | 0.2 | 224.1 | 775.6 |
| Profit for the year | – | – | – | – | 546.8 | 546.8 |
| Actuarial loss, net of tax | – | – | – | – | (0.9) | (0.9) |
| Revaluation through Other Comprehensive Income | – | – | – | (7.7) | – | (7.7) |
| Transfers to the Income Statement on cash flow hedges | – | – | – | 1.9 | – | 1.9 |
| Total comprehensive income for the year | – | – | – | (5.8) | 545.9 | 540.1 |
| Shares purchased | – | – | (6.2) | – | – | (6.2) |
| Own shares released to satisfy employee share schemes | – | – | 7.2 | – | (7.2) | – |
| Share-based payments | – | – | – | – | 4.0 | 4.0 |
| Dividends | – | – | – | – | (78.3) | (78.3) |
| At 31 December 2019 | 25.6 | 532.7 | (6.0) | (5.6) | 688.5 | 1,235.2 |

¹ Opening balances were restated for the adoption of IFRS 16 'Leases'

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on a going concern basis and under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these Financial Statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, IFRS 16 'Leases', standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the Consolidated Accounts.

No Income Statement is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit or loss attributable to the Company is disclosed in the footnote to the Company's Balance Sheet.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No key sources of estimation uncertainty have been identified in the year.

Critical accounting judgement – Going concern

The accounts of the Company have been prepared on a going concern basis consistent with the assessment for the Group as a whole. In concluding that this basis was appropriate, the Directors have made a number of significant judgements as detailed on pages 149 to 151.

Intangible assets

Acquired and internally developed software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged on a straight-line basis over the expected useful lives of the assets as follows:

| | |
|----------|-----------------|
| Software | – 3 to 10 years |
|----------|-----------------|

The useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are reviewed for impairment when events or changes in circumstances indicates that the carrying value may not be recoverable.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment. They are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---------------------|----------------|
| Land and buildings | – 10 years |
| Plant and equipment | – 3 to 5 years |

The carrying value is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

1 Accounting policies continued

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Retirement benefits

Defined contribution schemes

Payments to defined contribution schemes are charged to the Income Statement as they fall due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Defined benefit schemes

Plan assets, including qualifying insurance policies, are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the Group Balance Sheet as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

Current service costs are recognised within operating costs in the Income Statement. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately the plan amendment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs.

Re-measurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in Other Comprehensive Income and are not reclassified to profit or loss in subsequent periods.

Full actuarial valuations are carried out triennially and are updated for material transactions and other material changes in circumstances up to the end of the reporting period.

Share-based payments

The Company awards equity-settled share-based payments to certain employees, under which the Company receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Company over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Foreign currencies

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences arising are recorded in the Income Statement.

1 Accounting policies continued

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

Equity instruments

Hybrid instrument

Hybrid instruments issued by the Company are classified on initial recognition according to the substance of the arrangement. Hybrid instruments are recorded within equity where the contractual terms of the instruments allow the Company to defer coupon payments and the repayment of the principal amount indefinitely. These features give the Company the unconditional right to avoid the payment of cash or another financial asset for the principal or coupon and consequently are classified as equity instruments. These equity instruments are not re-measured from period to period. Coupon payments made are treated the same as an equity dividend distribution and where not made, are accrued within the hybrid reserve, with a corresponding reduction in retained earnings.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate derivatives, foreign currency forward exchange contracts and cross currency swaps to hedge its risks associated with interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivatives are calculated by reference to market exchange rates and interest rates at the period end.

For fair value hedges designated as interest rate derivatives, the gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

For cross currency swaps designated as cash flow hedges, the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

Foreign currency derivatives and cross currency swaps are used to hedge the Group's net investment in foreign currency denominated operations. For the Company, gains and losses are recognised immediately in the Income Statement. For the Group, to the extent that the derivatives are designated and effective as net investment hedges, they are transferred to equity on consolidation to match against foreign exchange exposure in the related assets and liabilities.

The Company also uses foreign currency forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

Adoption of new standards

Inter-Bank Offered Rate ("IBOR") Reform – Phase 1 (amendments to IFRS 9, IAS 39 and IFRS 7)

This reform was issued in September 2019 and was applied for the first time with effect from 1 January 2020. The Company does not hold any derivative financial instruments linked to IBOR rates such as LIBOR and EURIBOR that expire beyond 31 December 2021, therefore no existing hedge relationships have been affected as a result of adopting this amendment.

2 Exchange rates

The most significant exchange rates to UK Sterling for the Company are as follows:

| | 2020 | | 2019 | |
|-----------------|--------------|--------------|--------------|--------------|
| | Closing rate | Average rate | Closing rate | Average rate |
| US Dollar | 1.37 | 1.28 | 1.33 | 1.28 |
| Canadian Dollar | 1.74 | 1.72 | 1.72 | 1.69 |
| Euro | 1.12 | 1.13 | 1.18 | 1.14 |

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible assets

| | Software £m |
|----------------------------|----------------|
| Cost: | |
| At 1 January 2020 | - |
| Additions | 0.6 |
| At 31 December 2020 | 0.6 |
| Amortisation: | |
| At 1 January 2020 | - |
| Amortisation charge | - |
| At 31 December 2020 | - |
| Net book value: | |
| At 31 December 2020 | 0.6 |
| At 1 January 2020 | - |

Intangible asset additions in the year related to an item of software that has not yet been brought into use, so amortisation charges have not yet commenced. Completion is expected in 2021.

5 Property, plant and equipment

| | Land and buildings £m |
|----------------------------|-----------------------------|
| Cost: | |
| At 1 January 2020 | 1.4 |
| Disposals | (1.4) |
| At 31 December 2020 | - |
| Depreciation: | |
| At 1 January 2020 | 1.3 |
| Depreciation charge | 0.1 |
| Disposals | (1.4) |
| At 31 December 2020 | - |
| Net book value: | |
| At 31 December 2020 | - |
| At 1 January 2020 | 0.1 |

Land and buildings related to a lease under IFRS 16 for an item of property, which was fully disposed of in the year. Depreciation for the year included £0.1m relating to depreciation of this asset prior to its disposal.

Not included within property, plant and equipment are leases that fall under the short-term exemption under IFRS 16. Rental costs expensed during the current year relating to these leases amounted to £0.4m.

6 Investments in subsidiaries

| | £m |
|-----------------------------|----------------|
| Cost or valuation: | |
| At 1 January 2020 | 2,510.4 |
| Additions | 22.0 |
| At 31 December 2020 | 2,532.4 |
| Provisions: | |
| At 1 January 2020 | 531.9 |
| Provided in the year | 9.4 |
| At 31 December 2020 | 541.3 |
| Net carrying amount: | |
| At 31 December 2020 | 1,991.1 |
| At 1 January 2020 | 1,978.5 |

The addition in the year represents an additional investment in National Express Intermediate Holdings Limited.

The Company assesses its investments in subsidiaries annually for indicators of impairment. The Company has performed a detailed assessment in the current year given that the Group's market capitalisation value fell below the net carrying amount of investments in subsidiaries during the year, which is seen as an indicator of potential impairment; as well as the impact of the Covid-19 pandemic on the wider Group's future cash flow projections.

This assessment showed that the value in use significantly exceeds the net carrying value of the investment in subsidiaries, and as a result no impairment was required. The recoverable amount has been determined with reference to the value in use of each of the underlying trading companies, calculated on the same basis as detailed in note 14 to the Consolidated Accounts.

During the year an impairment charge was recorded in relation to the investment held in National Express Financing LP, a US Dollar denominated investment in a head office financing company. The Sterling-translated recoverable amount has fallen below the investment value due to exchange rate movements and an impairment charge of £9.4m was recorded.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 40 to the Consolidated Accounts. The principal country of operation in respect of the companies below is the country in which they are incorporated and all holdings are 100% held directly by the Company:

Incorporated in England and Wales

| | |
|--|---|
| National Express Intermediate Holdings Limited | Holding company for the majority of the Group's operating companies |
| National Express Finance Company Limited | Finance company for Group fuel derivative arrangements |
| National Express Financing LP | UK incorporated limited partnership |

7 Derivative financial instruments

| | 2020 £m | 2019 £m |
|--|--------------|---------------|
| Interest rate derivatives | – | 2.1 |
| Cross currency swaps | 1.1 | 8.0 |
| Derivative financial assets due over one year | 1.1 | 10.1 |
| Interest rate derivatives | 1.5 | 7.9 |
| Cross currency swaps | 2.2 | 3.5 |
| Foreign exchange forward contracts | 40.8 | 27.0 |
| Derivative financial assets due under one year | 44.5 | 38.4 |
| Cross currency swaps | (6.7) | (6.5) |
| Derivative financial liabilities due over one year | (6.7) | (6.5) |
| Interest rate derivatives | – | (3.7) |
| Foreign exchange forward contracts | (6.0) | (31.8) |
| Derivative financial liabilities due under one year | (6.0) | (35.5) |

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the Consolidated Accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

8 Debtors: amounts falling due within one year

| | 2020 £m | 2019 ¹ £m |
|---|-------------|-------------------------|
| Amounts owed by subsidiary undertakings | 49.2 | 62.6 |
| Corporation tax recoverable | – | 11.2 |
| Other debtors | 1.2 | 0.8 |
| Prepayments | 2.4 | 3.0 |
| | 52.8 | 77.6 |

¹ Within amounts owed by subsidiaries £483.7m have been reclassified from current to non current as these were not expected to be settled within the company's normal operating cycle

Expected credit losses in respect of amounts owed by subsidiary undertakings due within one year were £1.4m (2019: £nil) at the reporting date.

9 Debtors: amounts falling due after more than one year

| | 2020 £m | 2019 ¹ £m |
|---|--------------|-------------------------|
| Amounts owed by subsidiary undertakings | 701.2 | 483.7 |
| | 701.2 | 483.7 |

¹ Within amounts owed by subsidiaries £483.7m have been reclassified from current to non current as these were not expected to be settled within the company's normal operating cycle

Expected credit losses in respect of amounts owed by subsidiary undertakings due after more than one year were £nil (2019: £nil) at the reporting date.

10 Cash at bank and in hand

| | 2020 £m | 2019 £m |
|---------------------|--------------|--------------|
| Cash at bank | 60.9 | 0.1 |
| Short-term deposits | 329.0 | 357.4 |
| | 389.9 | 357.5 |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

11 Creditors: amounts falling due within one year

| | 2020 £m | 2019 £m |
|---|--------------|--------------|
| Trade creditors | 3.7 | 12.1 |
| Amounts owed to subsidiary undertakings | 91.3 | 150.0 |
| Accruals and deferred income | 65.5 | 111.8 |
| Accrued interest on borrowings | 4.1 | 12.8 |
| Private placements | 70.9 | – |
| Corporation tax payable | 2.5 | – |
| Bank overdraft | – | 79.3 |
| Bank loans | – | 100.0 |
| Bonds | – | 437.1 |
| Lease liability | – | 0.2 |
| | 238.0 | 903.3 |

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

12 Creditors: amounts falling due after more than one year

| | 2020 £m | 2019 £m |
|--------------------|----------------|--------------|
| Bonds | 647.0 | 644.8 |
| Private placements | 405.9 | 68.3 |
| Bank loans | – | 75.4 |
| | 1,052.9 | 788.5 |

13 Provisions for liabilities and charges

| | Total £m |
|-------------------------------------|-------------|
| At 1 January 2020 | 3.2 |
| Utilised in the year | (0.1) |
| Released in the year | (0.3) |
| At 31 December 2020 | 2.8 |
| Current 31 December 2020 | 0.9 |
| Non-current 31 December 2020 | 1.9 |
| | 2.8 |
| Current 31 December 2019 | 2.0 |
| Non-current 31 December 2019 | 1.2 |
| | 3.2 |

Provisions for liabilities and charges relates to restructuring activities and is expected to be utilised within the next five years.

14 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

| | 2020 £m | 2019 £m |
|-------------------------------|-------------|-------------|
| Deferred tax assets | 21.1 | 14.5 |
| Deferred tax liability | (2.3) | (2.4) |
| Net deferred tax asset | 18.8 | 12.1 |

The major components of the provision for deferred taxation are as follows:

| | 2020 £m | 2019 £m |
|--------------------------------|-------------|-------------|
| Accelerated capital allowances | 0.1 | 0.1 |
| Other timing differences | 0.1 | 0.1 |
| Losses carried forward | 20.9 | 14.3 |
| Defined benefit pension | (2.3) | (2.4) |
| Net deferred tax asset | 18.8 | 12.1 |

A reconciliation of the deferred tax balances is as follows:

| | Deferred tax assets £m | Deferred tax liability £m |
|---|------------------------------|---------------------------------|
| Deferred tax at 1 January 2020 | 14.5 | (2.4) |
| Tax credit to Income Statement | 6.2 | 0.3 |
| Tax credit/(charge) to Other Comprehensive Income | 0.4 | (0.2) |
| Deferred tax at 31 December 2020 | 21.1 | (2.3) |

Timing differences associated with Group investments

No deferred tax (2019: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable and no binding agreement to distribute the past earnings in the future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £nil (2019: £nil).

15 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

| | 2020 £m | Maturity | Effective interest rate | 2019 £m | Maturity | Effective interest rate |
|----------------------------------|----------------|---------------|----------------------------|--------------|---------------|----------------------------|
| Current | | | | | | |
| Euro private placement | 70.9 | August 2021 | 4.55% | – | – | – |
| Bank loans | – | – | – | 100.0 | 2020 | Various |
| Bank overdraft | – | – | – | 79.3 | – | – |
| 10-year Sterling bond | – | – | – | 225.8 | June 2020 | 6.85% |
| 2.5-year Euro floating rate note | – | – | – | 211.3 | May 2020 | EURIBOR + 0.4% |
| Lease liability | – | – | – | 0.2 | October 2020 | 2.63% |
| Accrued interest on borrowings | 4.1 | – | – | 12.8 | – | – |
| Total current | 75.0 | | | 629.4 | | |
| Non-current | | | | | | |
| 7-year Sterling bond | 400.1 | November 2023 | 2.54% | 400.2 | November 2023 | 2.54% |
| 9-year Sterling bond | 246.9 | November 2028 | 2.38% | 244.6 | November 2028 | 2.38% |
| US private placement | 405.9 | 2027-2032 | 1.92% | – | – | – |
| Euro private placement | – | – | – | 68.3 | August 2021 | 4.55% |
| Bank loans | – | – | – | 75.4 | 2021 | Various |
| Total non-current | 1,052.9 | | | 788.5 | | |

The Group currently has £782.0m of unsecured committed revolving credit facilities, of which £287.0m matures in 2021, £15.0m matures in 2024 and £480.0m matures in 2025. At 31 December 2020, there was £nil (2019: £nil) drawn down on the facilities, with £2.4m of capitalised deal fees remaining, which are classified within prepayments.

The cash flow on the lease liability in 2020 was £0.2m (2019: £0.2m), with an interest charge in the year of less than £0.1m (2019: less than £0.1m).

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the Consolidated Accounts.

16 Called-up share capital

| Issued called-up and fully paid: | No. of shares | £m |
|--|---------------|------|
| At 1 January 2019 and 31 December 2019 | 511,738,648 | 25.6 |
| Issued during the year | 102,347,729 | 5.1 |
| At 31 December 2020 | 614,086,377 | 30.7 |

In May 2020, the Company issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1m and as the share issue qualified for merger relief under Section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve rather than the share premium account (see note 17). At the same time, the Company directly issued 428,782 ordinary shares of 230p each to members of the Board and executive management team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares has been recorded in share premium.

The total number of share options exercised in the year by employees of the Company was 1,552,919 (2019: 1,825,123) of which all (2019: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 877,337 (2019: 1,404,751) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 1,025,505 (2019: 1,471,214) shares and 1,552,919 (2019: 1,825,123) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2019: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2020 was £2.1m (2019: £6.6m). No dividends were payable on these shares in 2020. In 2019 dividends payable on 972,605 shares held by the Trust were waived.

17 Other reserves

| | Capital redemption reserve £m | Cash flow hedge reserve £m | Cost of hedging reserve £m | Merger reserve £m | Total £m |
|--|----------------------------------|-------------------------------|-------------------------------|----------------------|--------------|
| At 1 January 2020 | 0.2 | (5.8) | – | – | (5.6) |
| Revaluation through Other Comprehensive Income | – | 0.2 | (0.5) | – | (0.3) |
| Transfers to the Income Statement on cash flow hedges | – | 6.3 | (0.1) | – | 6.2 |
| Shares issued during the year (net of transaction costs) | – | – | – | 224.1 | 224.1 |
| At 31 December 2020 | 0.2 | 0.7 | (0.6) | 224.1 | 224.4 |

| | Capital redemption reserve £m | Cash flow hedge reserve £m | Cost of hedging reserve £m | Merger reserve £m | Total £m |
|---|----------------------------------|-------------------------------|-------------------------------|----------------------|--------------|
| At 1 January 2019 | 0.2 | – | – | – | 0.2 |
| Revaluation through Other Comprehensive Income | – | (7.7) | – | – | (7.7) |
| Transfers to the Income Statement on cash flow hedges | – | 1.9 | – | – | 1.9 |
| At 31 December 2019 | 0.2 | (5.8) | – | – | (5.6) |

The nature and purpose of the other reserves are as follows:

- The cash flow hedging reserve records the movements on designated hedging instruments.
- The cost of hedging reserve records the movements in the currency basis, which are excluded from the hedging instrument on the designated hedging instruments in the cash flow hedge reserves.

The merger reserve included the premium on the share issue during the year as described in note 16.

18 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

Defined benefit scheme

The defined benefit scheme is now closed to all future accrual. Having completed a buy-in transaction in 2018, the defined benefit obligations are fully insured. Consequently, the Company has no obligation to make any further payments into the scheme.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2020 is based on the results of the 5 April 2016 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Details of the latest actuarial valuation are included in note 34 to the Consolidated Accounts.

The relevant assumptions used are as follows:

| | 2020 £m | 2019 £m |
|-------------------------------------|------------|------------|
| Rate of increase of pensions | 2.9% | 2.9% |
| Discount rate | 1.4% | 2.1% |
| Inflation assumption (RPI) | 2.9% | 2.9% |
| Inflation assumption (CPI) | 2.3% | 2.0% |
| Post-retirement mortality in years: | | |
| Current pensioners at 65 – male | 22.4 | 22.3 |
| Future pensioners at 65 – male | 23.7 | 23.6 |
| Current pensioners at 65 – female | 25.1 | 24.9 |
| Future pensioners at 65 – female | 26.6 | 26.4 |

Sensitivities regarding key assumptions are disclosed in note 34 to the Consolidated Accounts.

The amounts charged to the Income Statement and comprehensive income for the years ended 31 December 2020 and 2019 are set out in the following tables:

| | 2020 £m | 2019 £m |
|--|--------------|------------|
| Income Statement | | |
| Past service cost | (0.8) | – |
| Net interest income | 0.3 | 0.4 |
| Total (charge)/credit to the Income Statement | (0.5) | 0.4 |

During the year £0.8m (2019: £0.4m) of administrative expenses were incurred.

The past service cost in the Company relates to Guaranteed Minimum Pension (GMP) equalisation. In October 2018 the High Court ruled that GMP should be equalised between men and women. Whilst in 2018 the Group equalised benefits for existing members, a further High Court ruling in November 2020 provided further detail and this resulted in a further charge with respect to members who have transferred out of the scheme in prior years.

| | 2020 £m | 2019 £m |
|---|--------------|--------------|
| Comprehensive income | | |
| Actuarial loss during the period from obligations | (17.0) | (11.5) |
| Expected return on plan assets greater than discount rate | 16.4 | 10.8 |
| Net actuarial loss | (0.6) | (0.7) |

In addition to the above actuarial movements, the Statement of Changes in Equity included £nil (2019: £0.3m loss) for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.

18 Retirement benefits continued

The amounts recognised in the Balance Sheet at 31 December are as follows:

| | 2020 £m | 2019 £m |
|--|-------------|-------------|
| Insurance policy | 109.0 | 95.1 |
| Other | 13.8 | 14.2 |
| Fair value of scheme assets | 122.8 | 109.3 |
| Present value of scheme liabilities and defined benefit obligation | (110.5) | (95.1) |
| Defined benefit pension surplus | 12.3 | 14.2 |

The movement in the present value of the defined benefit obligation in the year is as stated below:

| | 2020 £m | 2019 £m |
|--|----------------|---------------|
| Defined benefit obligation at 1 January | (95.1) | (83.7) |
| Past service cost | (0.8) | – |
| Benefits paid | 4.3 | 2.5 |
| Finance charge | (1.9) | (2.4) |
| Actuarial loss arising from changes in financial assumptions | (17.8) | (13.8) |
| Actuarial (loss)/gain arising from changes in demographics | (0.2) | 2.0 |
| Actuarial gain arising from experience adjustments | 1.0 | 0.3 |
| Defined benefit obligation at 31 December | (110.5) | (95.1) |

The movement in the fair value of scheme assets is as follows:

| | 2020 £m | 2019 £m |
|--|--------------|--------------|
| Fair value of scheme assets at 1 January | 109.3 | 98.6 |
| Expected return on plan assets | 2.2 | 2.8 |
| Expected return on plan assets greater/(less) than discount rate | 16.4 | 10.8 |
| Administrative expenses | (0.8) | (0.4) |
| Benefits paid | (4.3) | (2.5) |
| Fair value of scheme assets at 31 December | 122.8 | 109.3 |

| | 2020 £m | 2019 £m | 2018 £m | 2017 £m | 2016 £m |
|--|------------|------------|------------|------------|------------|
| History of experience gains and losses: | | | | | |
| Fair value of scheme assets | 122.8 | 109.3 | 98.6 | 134.0 | 134.2 |
| Present value of defined benefit obligation | (110.5) | (95.1) | (83.7) | (90.8) | (89.7) |
| Surplus in the scheme | 12.3 | 14.2 | 14.9 | 43.2 | 44.5 |
| Experience adjustments arising on liabilities | 1.0 | 0.3 | (2.3) | – | (0.3) |
| Experience adjustments arising on assets | 16.4 | 10.8 | (35.6) | (0.4) | 28.1 |

19 Share-based payment

During the year ended 31 December 2020, the Company had a number of share-based payment arrangements, which are described in note 8(b) to the Consolidated Accounts.

The options have a weighted average contractual life of one year (2019: one year). Options were exercised throughout the year and the weighted average share price at exercise was 210p (2019: 417p).

20 Commitments and contingencies

Contingent liabilities

Guarantees

The Company has guaranteed credit facilities totalling £7.3m (2019: £13.4m) of certain joint ventures. The Company has also guaranteed certain liabilities of a number of its subsidiaries under Section 479C of the Companies Act 2006. These subsidiaries are highlighted in the full subsidiaries listing in note 40 to the Consolidated Accounts.

Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. As at 31 December 2020, the Company had performance bonds in respect of businesses in the USA of £165.3m (2019: £157.9m), in Spain of £106.7m (2019: £83.6m), in Germany of £32.0m (2019: £26.0m), and in the Middle East of £6.0m (2019: £6.2m). Letters of credit have been issued to support insurance retentions of £117.2m (2019: £112.4m).

Additional Information

Five Year Summary

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|---------|-----------|---------|---------|---------|
| Group underlying | | | | | |
| Revenue | 1,955.9 | 2,744.4 | 2,450.7 | 2,321.2 | 2,093.7 |
| Underlying operating (loss)/profit | (50.8) | 295.3 | 257.7 | 241.5 | 217.5 |
| Return on capital | (2.1)% | 12.4% | 12.4% | 11.9% | 11.9% |
| Basic EPS | (14.6) | 34.5 | 32.9 | 29.1 | 26.3 |
| IFRS | | | | | |
| Revenue | 1,955.9 | 2,744.4 | 2,450.7 | 2,321.2 | 2,093.7 |
| Operating (loss)/profit | (381.4) | 242.3 | 215.4 | 197.9 | 183.7 |
| PBT | (447.7) | 187.0 | 177.7 | 156.4 | 134.8 |
| Basic EPS | (57.9) | 27.6 | 26.6 | 25.7 | 23.0 |
| Dividends per share | Nil | 16.4 | 14.9 | 13.5 | 12.3 |
| Net (debt)/funds | | | | | |
| Cash | 520.5 | 478.3 | 117.7 | 314.3 | 324.4 |
| Other debt receivable | 1.2 | 2.4 | 2.1 | 0.7 | 0.5 |
| Bonds | (647.0) | (1,081.9) | (852.4) | (851.9) | (983.2) |
| Bank loans ¹ | (23.5) | (184.5) | (9.0) | (115.6) | (13.3) |
| Fair value of derivatives included in financing activities | (4.7) | 15.0 | 6.4 | 11.3 | 25.5 |
| Lease liabilities ² | (311.3) | (385.0) | (142.6) | (173.1) | (159.5) |
| Private placements | (476.8) | (68.3) | (73.7) | (73.6) | (72.4) |
| Net debt | (941.6) | (1,241.5) | (951.5) | (887.9) | (878.0) |
| Gearing ratio | 5.10 | 2.40 | 2.30 | 2.30 | 2.50 |

¹ Net of arrangement fees totalling £2.4m on bank and other loans

² Lease liabilities are reported net of finance lease receivables that are reported separately from borrowings on the face of the Group's balance sheet.

Group environmental performance

In 2019, we introduced a new approach to measuring and assessing our environmental performance, using the SDA (Sectoral Decarbonisation Approach) methodology to set ourselves a number of new environmental targets or key performance indicators, alongside some more traditional environmental targets or key performance indicators (together, the 'KPIs').

The SDA methodology is the only approach with transport sector-specific metrics, using climate science to enable organisations to set targets relevant to their industry. We set new SDA KPIs on traction energy usage, traction carbon emissions and total (scope 1 & 2) carbon emissions which meet the 2018 Intergovernmental Panel on Climate Change (IPCC) goal of controlling the increase in global warming to below 2° Celsius (2DS). We aim to achieve these SDA KPIs over an initial seven year performance period – 2019 to 2025 – from a 2018 baseline. This science-driven approach creates absolute KPIs, and places more importance on achieving the them by the end of the performance period rather than year-on-year progress. The intention is for the SDA KPIs to be reviewed regularly as climate science, technology and forecasting methods improve. We are already considering our level of ambition and will be reviewing a move to 1.5° Celsius (1.5DS) targets in advance of the end of the current seven year performance period. We also set more traditional KPIs on site (scope 1 & 2) emissions, landfilled waste disposal and water usage, which we also aim to achieve over the same seven year performance period and represent a stretch from our 2018 baseline performance.

The global pandemic in 2020 had a significant impact on all aspects of our business, including our carbon emissions and trajectory towards the new Group environmental KPIs, as well as the environmental performance measures included in the 2020 LTIP awards:

- the significant reduction in mobility across the world means that our absolute emissions declined, reducing by 33% in 2020 (see table by division); but
- materially decreased load factors (intensity table shows passenger km reduced by 47%) has driven increases in intensity metrics with tCO₂e/mpkm increasing 16% since last year.

Given the long-term nature of the environmental targets (2025 for the Group KPIs and 2023 for the 2020 LTIP awards) there is ample time for a correction as the business profile returns to pre-Covid pandemic levels, and our continued investment in low carbon fleet should drive an improvement on pre-Covid levels.

Group KPI performance

Although the pathway to the absolute targets is not linear, we will continue to report our data on a year on year basis, to track progress. Whilst the performance against KPI intensity targets for 2020 is negative due to the significant reduction in passenger numbers, the underlying trend is positive due to planned fleet changes. A return to something closer to normal operation will highlight the impacts of those investments, although possibly over a longer time period.

| Reduction Target Description (metric) | Base year (2018) | 2025 Target | Required % reduction from 2018 | 2020 | % change from base year | %change YOY (2019-2020) | Required % reduction to meet target |
|--|------------------|-------------|--------------------------------|---------|-------------------------|-------------------------|-------------------------------------|
| Traction Energy: (vehicle fuel and electricity) MWh/mpk | 66.92 | 58.72 | (12.25)% | 71.40 | 6.7% | 9.9% | (17.75)% |
| Traction Carbon Emissions (Scope 1 & 2) tCO₂e/mpkm | 17.67 | 15.45 | (12.53)% | 22.28 | 26.1% | 33.5% | (30.64)% |
| Total Scope 1 & 2 Emissions tCO₂e/mpkm | 19.26 | 16.45 | (14.59)% | 23.60 | 22.5% | 25.0% | (30.30)% |
| Site Scope 1 & 2 Emissions (building use only) tCO₂e | 41,656 | 38,199 | (8.30)% | 36,549 | (12.3)% | (10.2)% | 4.52% |
| Landfilled Waste Disposal – tonnes | 7,711 | 5,783 | (25.00)% | 5,773 | (25.1)% | (24.2)% | 0.18% |
| Water Consumption -m³ | 478,956 | 439,209 | (8.30)% | 397,731 | (17.0)% | (19.0)% | 10.43% |

Intensity metrics

As described above, significantly reduced load factors through the pandemic has driven the key intensity metric of tCO₂e / million passenger km to increase by 25.5% between 2019 and 2020. This can be seen in the 47% reduction in passenger kms travelled vs 2019.

| Intensity metrics | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | % change YOY (2019-2020) |
|--|--------|--------|--------|--------|--------|--------|--------------------------|
| (tonnes CO ₂ e/£million revenue) | 428 | 430 | 373 | 353 | 321 | 299 | (6.9)% |
| Group Totals (million pass.km) | 37,540 | 41,107 | 42,485 | 44,488 | 46,258 | 24,656 | (46.7)% |
| Traction Carbon Emissions (Scope 1 & 2) (tCO₂e/mpkm) | 14.15 | 18.70 | 17.78 | 17.67 | 16.69 | 22.28 | 33.5% |
| Total tCO ₂ e per million pass.km (Scope 1, 2 & 3) | 22.55 | 22.01 | 20.43 | 19.46 | 19.06 | 23.93 | 25.5% |

Absolute Greenhouse Gas (GHG) Emissions by scope

Scope 1 emissions (from combustion of fuels) have reduced by 38% in 2020, driven by the significant reductions in vehicle movements during the pandemic. Scope 2 emissions (from electricity usage) have increased by 36%; this is a result of the expansion in the operations of the German Rail business which mobilised an additional contract in the year. This has more than offset the reduction in scope 2 emissions from buildings. This change will continue to accelerate through the other divisions as investment in plug-in hybrid and electric vehicles accelerates and a challenge for 2021 is to ensure that the full scope of emissions from the use of electricity in traction are recorded and reported in the appropriate way. Scope 3 relates to National Express Coach third party operators – which are outside of National Express Group's direct operational control for emissions reporting.

| tCO ₂ e emissions by scope | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | % change YOY (2019-2020) |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------------------|
| 1 | 771,922 | 815,788 | 801,061 | 808,650 | 823,582 | 514,106 | (38)% |
| 2 | 66,317 | 95,107 | 60,682 | 48,583 | 49,938 | 67,879 | 36% |
| 3 | 8,257 | 9,620 | 6,127 | 7,627 | 8,221 | 8,641 | 5% |
| Total | 846,496 | 920,516 | 867,870 | 864,859 | 881,741 | 590,626 | (33)% |

Absolute Greenhouse Gas (GHG) Emissions by division

Our total Group emissions decreased significantly year-on-year from 881,741 tCO₂e in 2019 to 589,976 tCO₂e in 2020. As discussed above passenger kilometers fell further than emissions and this resulted in a decrease in carbon efficiency for the business as a whole. The increase in emissions from the German Rail business is driven by the increase of some 8.6million km per annum over 2019 and 2020.

| Divisional tCO ₂ e | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | % change YOY (2019-2020) |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------------------|
| ALSA | 311,985 | 319,397 | 313,608 | 317,812 | 324,007 | 234,477 | (27.63)% |
| Bahrain | 12,862 | 21,698 | 20,506 | 20,433 | 22,833 | 20,214 | (11.47)% |
| Germany | – | 26,395 | 28,704 | 25,367 | 29,269 | 52,347 | 78.85% |
| National Express Limited* | 106,203 | 110,799 | 105,333 | 101,566 | 101,914 | 63,582 | (37.61)% |
| UK Bus | 138,822 | 138,449 | 132,586 | 128,787 | 125,466 | 79,187 | (36.89)% |
| UK Trains | 43,408 | 44,341 | 4,038 | – | – | – | – |
| US and Canada | 232,577 | 258,183 | 261,913 | 269,916 | 276,693 | 140,168 | (49.34)% |
| Business Travel & Leased Vehicles | 641 | 1,254 | 1,183 | 978 | 1,559 | 569 | (63.48)% |
| Group Total | 846,496 | 920,516 | 867,870 | 864,859 | 881,741 | 590,545 | (33.03)% |

Methodology

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change.

We have used a materiality threshold of 5% and have accounted for all material sources of GHG emissions and have reported emissions for the period 1st January 2020 to 31st December 2020 in line with our financial statement.

We are committed to ensuring that our GHG accounting system, results and accompanying reports remain robust, continue to enhance our Group-level emission performance year on year and are in compliance with the mandatory requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (which Regulations implement the government's policy on Streamlined Energy and Carbon Reporting (SECR)).

During 2020 we reviewed our business model against the GHG Protocol, with particular reference to the control approach taken when reporting our GHG emissions. The outcome of this review is that emissions from part of our UK Coach fleet are now being reported under Scope 3. This is a change to previous emissions reports where the emissions from the full UK Coach fleet were reported under Scope 1.

Streamlined Energy and Carbon Reporting (SECR)

Another new requirement for 2020 environmental reporting to comply with the Streamlined Energy and Carbon Reporting (SECR) regulations is the reporting (in MWh rather than tCO₂ in line with existing standards) of the aggregate of:

- the annual quantity of energy consumed from activities for which the company is responsible, including the combustion of fuel and the operation of any facility; and
- the annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling by the company for its own use.

| MWh by Division | 2019 | 2020 |
|--|------------------|------------------|
| ALSA | 1,201,357 | 840,100 |
| US and Canada | 1,027,600 | 529,482 |
| UK Bus | 482,724 | 311,800 |
| National Express Limited | 383,914 | 55,127 |
| Germany | 65,700 | 121,000 |
| Bahrain | 66,037 | 53,314 |
| Total | 3,227,332 | 1,910,823 |
| Energy consumed from activities for which the company is responsible, including the combustion of fuel and the operation of any facility | | |
| | 3,103,562 | 1,739,101 |
| Energy consumed resulting from the purchase of electricity, heat, steam or cooling | | |
| | 123,770 | 171,721 |

| Proportion of that figure relates to energy consumed in the UK and offshore area | 2019 | 2020 |
|--|-----------|-----------|
| UK | 866,638 | 366,927 |
| Offshore | 2,360,694 | 1,543,896 |
| UK proportion | 37% | 24% |

This is another way of stating existing disclosures (as it is simply stating the same information in different measurement units) so the drivers of movement in tCO₂ and kWh for the Group should be broadly the same. The fact that, measured by MWh, emissions are down 40% year-on-year whereas measured by tCO₂ they are down 33% will be driven by a combination of definitions, measurement standards and changes in energy 'mix' that we will now have to divert more resources to better understand.

Finally, waste disposed to landfill; water consumption; and building emissions have all shown a reduction between 2019 and 2020 but this trend will be skewed by lower occupancy of buildings and less washing of vehicles not in service during the pandemic.

Ordinary shares

The Company's ordinary shares, each of nominal value 5 pence, are traded on the main market for listed securities on the London Stock Exchange (LON:NEX).

Company website: www.nationalexpressgroup.com

The Company website contains information about the Company's Group and its operations. Copies of the Company's annual reports, results announcements, general meeting notices and other corporate communications, together with information about the Company share price and dividends, can be found there.

e-Communication

We encourage shareholders to receive communications from the Company electronically as this will enable you to receive them more quickly and securely. It also allows the Company to communicate in a more environmentally friendly and cost effective manner.

To register for this service, you should go to www.shareview.co.uk.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register (UAR) programme which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information call 0333 000 0182, or visit: uarenquiries@uk.experian.com

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate their shares to ShareGift which will sell them and donate the proceeds to a wide range of charities. Further information about ShareGift may be obtained on 020 7930 3737 or for more information visit: www.sharegift.org

Registrar: Equiniti

For assistance and enquiries relating to the administration of shareholdings in National Express Group PLC, such as lost share certificates, dividend payments or a change of address, please contact the Company's Registrar:

Equiniti Limited
Aspect House, Spencer Road
Lancing, West Sussex
BN99 6DA

Telephone from UK:
0371 384 2152*

Telephone from overseas:
+44 (0) 121 415 0804*

Textel (for the hard of hearing):
0371 384 2255*

* Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays. Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

If you are registered for online shareholder communications, you can contact the Registrar and access details of your shareholdings electronically via: www.shareview.co.uk

Share dealing service

Equiniti provides existing and prospective UK shareholders with an easy to access and simple to use share dealing facility for buying and selling shares in the Company by telephone, post or online. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037*

* Lines are open from 8.00am to 4.30pm, Monday to Friday, excluding public holidays. Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

For online dealing, log on to www.shareview.co.uk/dealing.

For postal dealing, call 0371 384 2248 for full details and a dealing instruction form.

Existing shareholders will need to provide the account/shareholder reference number shown on their share certificate.

Other brokers, banks and building societies offer similar share dealing facilities.

Dividends

Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account, further information is available from Equiniti (address and telephone number to the left). You will still receive an annual dividend confirmation detailing each dividend you receive.

Shareholder security

Share fraud includes scams where shareholders receive unsolicited calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'.

You should always check that any firm contacting you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website at www.fca.org.uk/consumers, or by calling the FCA's consumer helpline on 0800 111 6768 (overseas callers dial +44 20 7066 1000). If you have already paid money to share fraudsters contact Action Fraud immediately on 0300 123 2040, whose website is: www.actionfraud.police.uk

Personal data

The Company processes personal data about its shareholders in compliance with applicable laws. A copy of the Shareholder Privacy Notice explaining how the Company processes your personal data and your rights in respect of that processing can be found at: www.nationalexpressgroup.com/investors/shareholder-centre/shareholder-privacy-notice

Glossary

Definitions and Supporting Information

| | |
|--|---|
| AFV | Alternative fuel vehicle |
| AGM | Annual General Meeting |
| AI | Artificial intelligence |
| Board | The Board of Directors of the Company |
| Bps | Basis points |
| BRT | Bus Rapid Transit |
| BSOG | Bus Service Operators Grant |
| CSC | Customer Service Center – the name used for depots in North America |
| CDP | Carbon Disclosure Project |
| Code | The UK Corporate Governance Code published by the FRC in 2018 |
| Company | National Express Group PLC |
| Consolidated Financial Statements | The Financial Statements for the Group for the year ended 31 December 2020 |
| Constant Currency | Compares current period's results with the prior period's results translated at the current period's exchange rates |
| CPI | Consumer Price Index |
| CRM | Customer relationship management |
| CTV | Consolidated tax voucher |
| Directors | The Directors of the Company |
| Dividend | Dividend amount payable per ordinary share |
| DTRs | Disclosure, Guidance and Transparency Rules |
| EDBP | Executive Deferred Bonus Plan |
| EFQM | European Foundation for Quality Management |
| ESOS | Energy Savings Opportunity Scheme |
| EURIBOR | Euro Interbank Offered Rate |
| Executive Directors | The Executive Directors of the Company |
| EV | Electric vehicle |
| FCA | The Financial Conduct Authority |
| FCEV | Fuel cell electric vehicles |
| FRC | The Financial Reporting Council |
| FWI | Fatalities and Weighted Injuries Index |
| GDP | Gross Domestic Product – used to determine the economic performance of a whole country or region |
| GHG | Greenhouse gas emissions |
| Group | The Company and its subsidiaries and associates |
| HMRC | Her Majesty's Revenue and Customs |

| | |
|-------------------------------------|---|
| IAS | International Accounting Standards |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| KPIs | Key performance indicators |
| LIBOR | London Interbank Offered Rate |
| Listing Rules | The Listing Rules of the FCA |
| LTIP | Long-Term Incentive Plan |
| MAA | Moving annual average |
| Maas | Mobility as a service |
| Net interest expense | Finance costs less finance income |
| Non-Executive Directors | The Non-Executive Directors of the Company |
| NPV | Net present value |
| OEMs | Original equipment manufacturers |
| Operating margin or 'margin' | Ratio of underlying operating profit to revenue |
| Ordinary shares | Ordinary shares of nominal value 5 pence each in the Company |
| PBT | Profit before tax |
| RCF | Revolving credit facility |
| RIA | Recruitment Incentive Awards granted under the LTIP |
| RME | Rhine-Münster Express |
| RMS | Revenue Management System |
| RPI | Retail Prices Index |
| RRX | Rhine-Ruhr Express |
| Senior Management | In those sections of the Corporate Governance Report where used, members of the Group Executive Committee, being the most senior managers below the Board |
| SDA | Sectoral Decarbonisation Approach |
| SPAD | Signal passed at danger |
| TfL | Transport for London |
| TfWM | Transport for West Midlands |
| TSR | Total shareholder return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares |
| ULSD | Ultra low sulphur diesel |
| Underlying Operating Margin | Underlying Operating Margin is a measure used to assess and compare profitability. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested shareholders |
| WMT LSOS | West Midlands Transport Long-Term Share Option Scheme |

Alternative performance measures

In the reporting of financial information, the Group has adopted various Alternative Performance Measures (“APMs”). APMs should be considered in addition to IFRS measurements. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group’s performance. The key APMs that the Group focuses on are as follows:

| Measure | Closest IFRS measure | Definition and reconciliation | Purpose |
|--|--|---|--|
| EBITDA | Operating profit ¹ | Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking underlying operating profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. This is illustrated in the summary income statement presented in the Group CFO’s Report on page 25. | EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group’s gearing ratio. |
| Gearing ratio | No direct equivalent | The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates. For covenant purposes the calculation excludes the impact of IFRS 16 as well as some other, smaller adjustments. | The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position. |
| Free cash flow | Net cash generated from operating activities | The cash flow equivalent of underlying profit after tax. A reconciliation of net cash flow from operating activities to free cash flow is set out in the supporting tables below. | Free cash flow allows us and external parties to evaluate the cash generated by the Group’s operations and is also a key performance measure for the Executive Directors’ annual bonus structure and management remuneration. |
| Net maintenance capital expenditure | No direct equivalent | Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations. It includes the capitalisation of leases inceptioned in the year in respect of existing business. A reconciliation of capital expenditure in the statutory cash flow statement to net maintenance capital expenditure (as presented in the Group CFO’s Report) is set out in the supporting tables below. | Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group’s profit. |
| Growth capital expenditure | No direct equivalent | Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth. It includes the capitalisation of leases inceptioned in the year in respect of new business. | Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth. |
| Net debt | Borrowings less cash and related hedges | Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest). The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 39. | Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness. |
| Underlying earnings | Profit after tax | Is the underlying profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column. | Underlying earnings is a key measure used in the calculation of underlying earnings per share. |
| Underlying earnings per share | Basic earnings per share | Is underlying earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled. A reconciliation of statutory profit to underlying profit for the purpose of this calculation is provided within note 13 of the financial statements. | Underlying earnings per share is widely used by external stakeholders, particularly in the investment community. |
| Underlying operating profit | Operating profit ¹ | Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column. | Underlying operating profit is a key performance measure for the Executive Directors’ annual bonus structure and management remuneration. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders. |
| Return on capital employed (ROCE) | Operating profit ¹ and net assets | Underlying operating profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates. The calculation of ROCE is set out in the reconciliation tables below. | ROCE gives an indication of the Group’s capital efficiency and is a key performance measure for the Executive Directors’ remuneration. |

¹ Operating profit is presented on the Group income statement. It is not defined per IFRS, however is a generally accepted profit measure.

Supporting reconciliations

| | 2020 £m | 2019 £m |
|--|----------------|--------------|
| Reconciliation of net cash flow from operating activities to free cash flow | | |
| Net cash flow from operating activities | (96.7) | 356.2 |
| Remove: Operating cash flows from discontinued operations | – | 1.2 |
| Remove: Cash expenditure in respect of separately disclosed items | 126.9 | 7.2 |
| Add: Net maintenance capital expenditure | (215.9) | (211.4) |
| Add: Other non-cash movements | (4.0) | 11.6 |
| Profit on disposal of fixed assets | 11.0 | 13.9 |
| Free cash flow | (178.7) | 178.7 |

| | 2020 £m | 2019 £m |
|---|----------------|----------------|
| Reconciliation of capital expenditure in statutory cash flow to funds flow | | |
| Purchase of property, plant and equipment | (215.3) | (116.5) |
| Proceeds from disposal of property, plant and equipment | 17.7 | 9.7 |
| Payments to acquire intangible assets | (22.7) | (28.0) |
| Proceeds from disposal of intangible assets | 2.3 | 1.5 |
| Net capital expenditure in statutory cash flow statement | (218.0) | (133.3) |
| Add: capitalisation of leases inception in the year, less disposals | (33.2) | (102.8) |
| Net capital expenditure in the funds flow (presented in the Group Finance Director's Report) | (251.2) | (236.1) |
| Split as: | | |
| Net maintenance capital expenditure | (215.9) | (211.4) |
| Growth capital expenditure | (35.3) | (24.7) |

| | 2020 £m | 2019 £m |
|--|------------|------------|
| Reconciliation of ROCE | | |
| Group statutory operating profit | (381.4) | 242.3 |
| Add back: separately disclosed operating items | 330.6 | 53.0 |
| Return – Underlying Group operating (loss)/profit | (50.8) | 295.3 |
| Average net assets | 1,294.3 | 1,148.6 |
| Remove: Average net debt | 1,082.8 | 1,203.4 |
| Remove: Average derivatives, excluding amounts within net debt | 5.1 | (12.0) |
| Foreign exchange adjustment | 72.7 | 35.8 |
| Average capital employed | 2,454.9 | 2,375.8 |
| Return on capital employed | (2.1)% | 12.4% |

Cautionary statement

Certain statements included in this Annual Report are forward-looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Additional Information

Key contacts and advisers

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Financial Calendar 2021

2021 AGM

12
MAY

Annual General Meeting¹

2021 reporting timetable²

12
MAY

Trading update

29
JULY

Half year results³

21
OCT

Trading update³

2022

24
FEB

Full year results³

¹ The Annual General Meeting will be held at, and broadcast from, Ashurst LLP, London Fruit & Wool Exchange, 1 Duval Square, London E1 6PW at 2.00pm on Wednesday, 12 May 2021. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report. These documents can also be found on the Company's website at:
www.nationalexpressgroup.com

² Other trading updates may be released throughout the year

³ Provisional dates



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