national express

Annual Report 2021

Driving mobility solutions

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Our purpose

Who we are:

National Express Group is a leading international transport provider, diversified internationally and by business area

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What we want to do and why:

Our vision is to be the world's premier shared mobility operator

Our purpose is to lead the modal shift from cars to mass transit

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How we will do this:

We will deliver our vision and purpose by focusing on five distinct customer propositions which provide mobility solutions

Financial highlights

Revenue

£2,170m

2020: £1,956m

Underlying Operating Profit/(Loss)

£87.0m

2020: £(50.8)m

Underlying Profit/(Loss) before tax

£39.7m

2020: £(106.1)m

EBITDA

£300.0m

2020: £186.6m

Statutory operating loss for the year

£(36.2)m

2020: £(381.4)m

Statutory loss for the year

£(77.9)m

2020: £(326.7)m

Free cash flow

£123.4m

2020: £(196.0)m

Covenant net debt

£867m

2020: £782m

Summary financials

	IFRS basis		Underlying basis	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Revenue	**2,170.3**	1,955.9	**2,170.3**	1,955.9
Operating Profit/(Loss)	**(36.2)**	(381.4)	**87.0**	(50.8)
Profit/(Loss) before tax	**(84.9)**	(444.7)	**39.7**	(106.1)
Profit/(Loss) for the year	**(77.9)**	(326.7)	**26.9**	(76.8)
Basic earnings/(loss) per share (pence)	**(16.8)**	(57.9)	**0.1**	(14.6)
Net cash flow from operating activities	**(170.9)**	(114.0)		
EBITDA			**300.0**	186.6
Free cash flow			**123.4**	(196.0)
Covenant net debt			**866.6**	782.0

To supplement IFRS reporting, we present our results on an Underlying basis which shows the performance of the business before separately disclosed items, which principally comprise amortisation of intangibles for acquired businesses, certain costs arising as a direct consequence of the pandemic and restructuring costs. 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 pages 148 to 149 in note 5 to the Financial Statements. All definitions of alternative performance measures used throughout the Annual Report are included on pages 226 to 228.

National Express at a glance

The group at-a-glance

44,500
employees

11*
countries
* We will begin operations in Portugal in 2022

50
cities

792m
annual passenger journeys

1/2bn
car journeys avoided

27,000
vehicles operated

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.

Internationally diversified and geographically well-balanced revenues

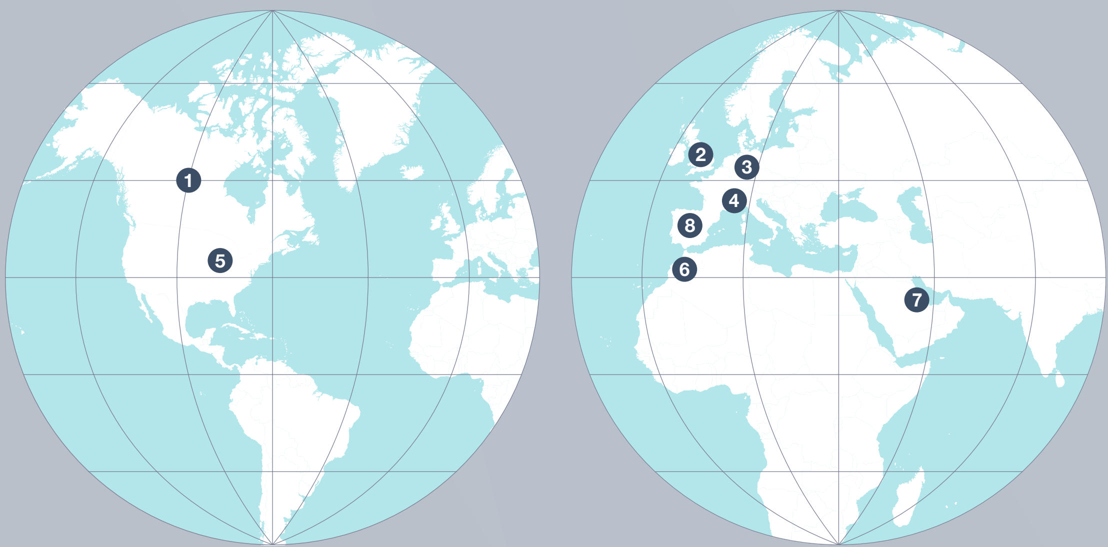
Revenue breakdown by territory

1 Canada
£56m
2020: £62m
Student transportation
Transit and paratransit
Charter and other

2 United Kingdom and Ireland
£398m
2020: £388m
Regional/long haul coach
Urban bus
Charter and other

3 Germany
£182m
2020: £139m
Rail

4 Switzerland and France
£12m
2020: £13m
Charter and other
Urban bus



5 USA
£816m
2020: £807m
Student transportation
Transit and paratransit
Charter and other

6 Morocco
£115m
2020: £87m
Urban bus

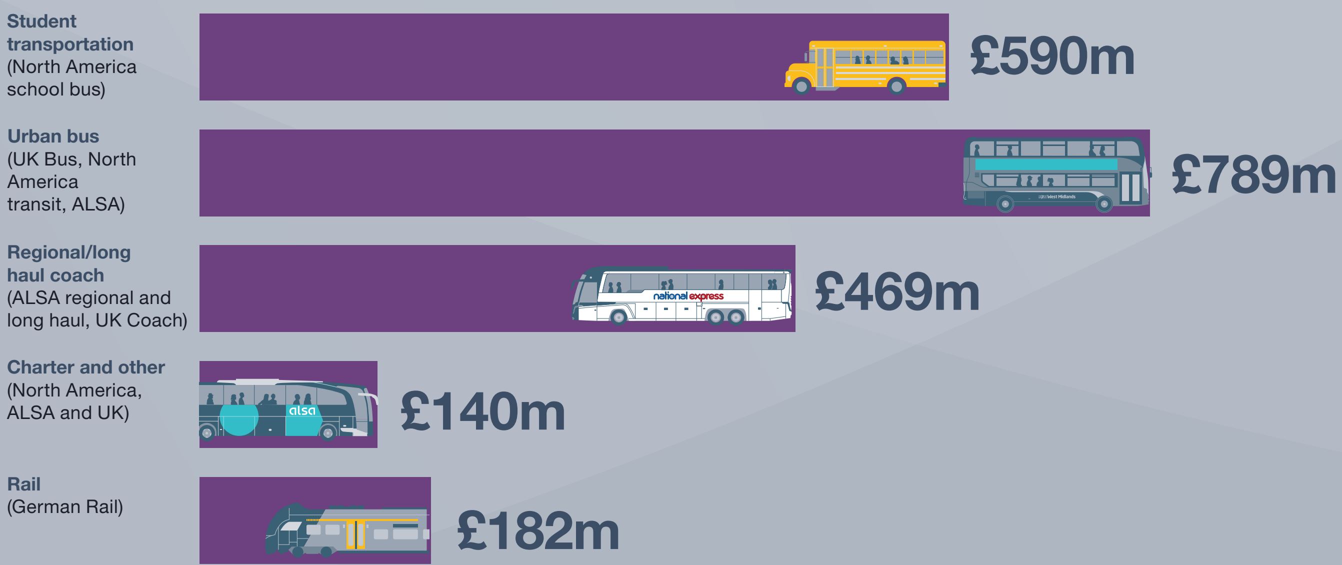
7 Bahrain*
Urban bus

* Joint venture business reported through associates

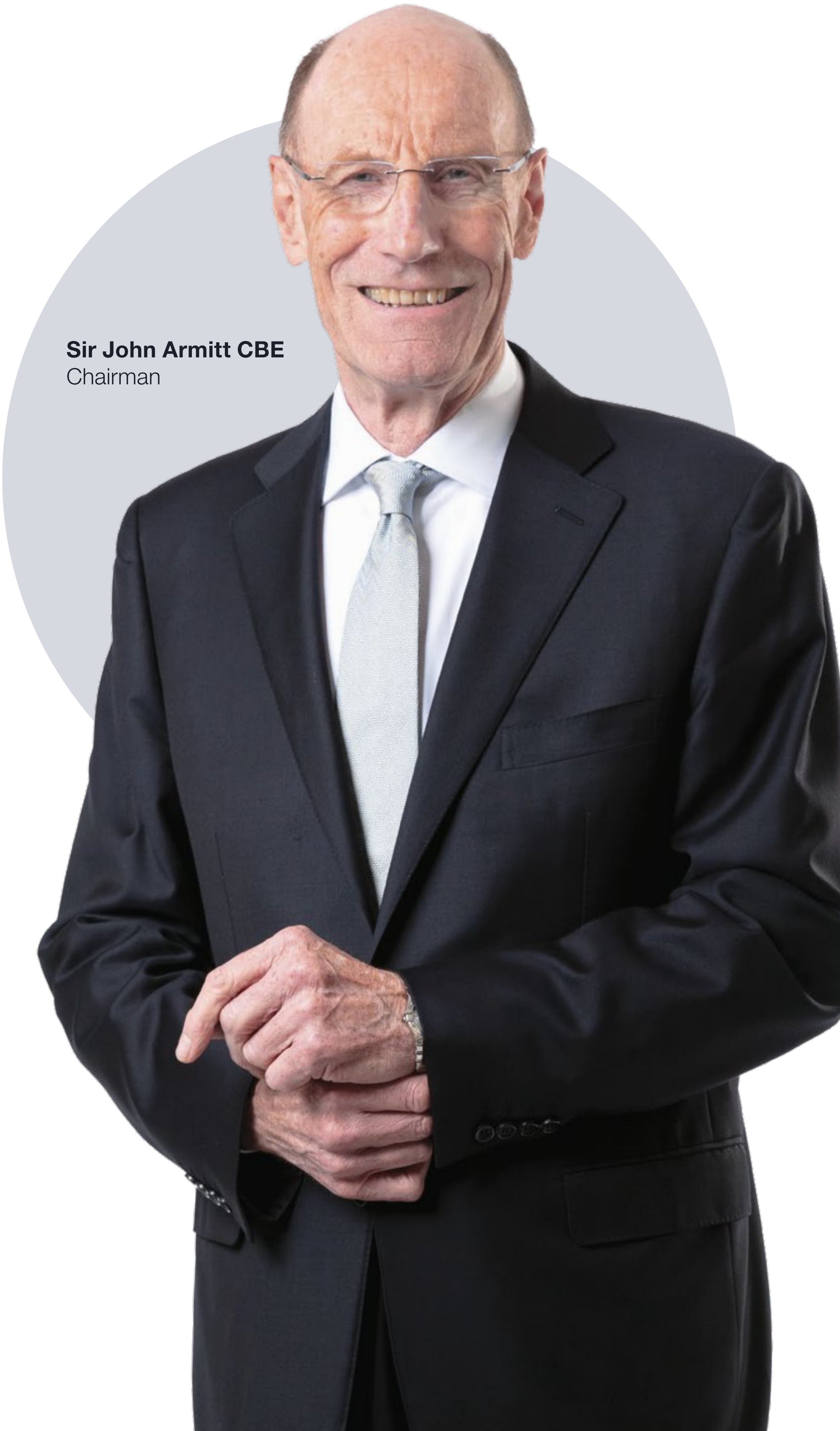
8 Spain
£592m
2020: £459m
Regional/long haul coach
Urban bus
Charter and other

Multi-modal

Revenue breakdown by business line



A clear strategy for growth



Sir John Armitt CBE
Chairman

Dear fellow shareholder

We have a clear vision and purpose

2021 has been the year of transition we had anticipated, with our services beginning to return to pre-Covid levels across all the territories in which we operate.

Before I go any further, I would like to take this opportunity to extend my sincere thanks to every one of our colleagues across the Group who have driven the results outlined in this report.

Public transport is an increasingly dynamic sector and there are many exciting opportunities resulting from demographic changes. Governments around the world are realising the role public transport can and must play in creating cleaner, greener, more liveable and sustainable places and the critical role it can play in driving social mobility.

This year, we launched our new Evolve strategy to ensure we can capitalise on these opportunities. In it we outline a clear vision, to be the world's premier shared mobility operator and purpose, to lead modal shift from cars to mass transit. I believe it's a vision and purpose that is both motivating and engaging and has more relevance today than ever before.

As shareholders will be aware, on 14 December 2021 the Company announced that it had made an offer to effect the combination of the Company with Stagecoach. However, on 9 March 2022, the date this Report was approved, Stagecoach announced that it had received a competing offer which its board of directors intends to recommend. Accordingly and as at 9 March 2022, the Company's Board is considering its options. However, as I explain above the Company's Evolve strategy gives us a clear framework and direction for capitalising on opportunities for growth and this strategy is not dependent on the combination.

> There has never been a more exciting time for our sector which has a crucial role to play in tackling climate change and creating sustainable cities"

Reinvigorating our leadership team

Under the leadership of Ignacio Garat, we are reinvigorated and well positioned to unlock the opportunities before us. Delivering on the six outcomes we outline in Evolve, which we introduced to the capital markets in October, provides us with both clarity and direction and will further distinguish us as a true leader in our industry. We have begun a comprehensive cascade of the strategy internally to ensure that every one of our colleagues understands not only our vision and purpose but the role they can play in delivery. I am pleased to say that we are already seeing the strategy gain momentum and I am confident that it will ensure we are well positioned for future growth.

Leading on decarbonisation

We believe that the biggest positive impact we can have on the environment is to tempt people out of their cars and onto our vehicles. But we understand that we must go further than this to truly take environmental leadership and this year we announced new targets for the decarbonisation of our entire fleet, building on the targets previously announced for our fleet in the UK. We announced a Group net zero target for Scope 1 and 2 emissions, by 2040. We have incorporated the Task Force on Climate Related Disclosures (TCFD) fully into reporting this year and the Board was excited to see that the extensive analysis has confirmed our view of the considerable opportunities arising from modal shift.

In the UK, the Prime Minister launched the new UK Bus Strategy from one of our depots in the West Midlands. Working closely with governments and customers will be key to the transition to zero emission vehicles (ZEVs) and I am very pleased to see us leading the way here. But it isn't just about decarbonising and driving down greenhouse gas (GHG) emissions. As noted above, we recognise that modal shift has many societal benefits and, by investing in state-of-the-art ZEVs, we have the opportunity to engage with a wider range of customers and passengers who traditionally would not have considered public transport. Clean, reliable, accessible and affordable mobility solutions will have a crucial role to play in sustainable cities; in driving social mobility and creating places that people want to live in. Increasingly, public authorities are turning to us as a trusted partner to work with them on rethinking the cities and towns of the future.

Employer of choice

As well as our determination to take a leading role on the environment and putting sustainability goals at the heart of our business, we are taking decisive action to ensure we become the employer of choice. Building on strong foundations, such as our long-standing commitment to paying at least the real Living Wage, we have focused during the year on inclusivity and diversity, driving action plans through our global and regional diversity councils. We have more initiatives planned in the coming year that will deliver our people strategy. As a people-led business it is essential that we are seen as the employer of choice, particularly at a time when competition for talent has never been greater. Only by creating an environment where people want to join and crucially want to stay with us will we be able to deliver for our customers and achieve our vision and purpose.

2021 performance

As I said at the outset of this statement, the last year has been one of transition and this has been reflected in our financial performance. I am pleased to say that the Group has delivered Underlying Profit at the top end of our expectations along with significant cash generation and an improving Balance Sheet. Revenue has grown in every division accompanied by a significant improvement in profit performance. We have seen a strong recovery in demand for our services, carrying nearly 800 million passengers in the year, a testament to the key role that our business plays in the lives of the people in the towns and cities we serve. We continue to be grateful for the ongoing support of our customers, governments and public authorities during 2021.

We have continued with our growth strategy, winning new business while also successfully mobilising new contracts, most notably, Casablanca our largest contract in Morocco.

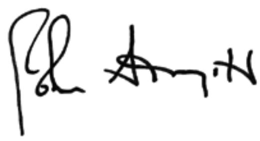
At the same time, we have maintained a tight grip on cost control, with the benefit of cost actions taken in 2020 flowing through to the improved financial performance in the year. The significantly improved financial performance provides a strong foundation for further growth in the coming year.

As a Board, we are mindful of how important dividends are to many of our shareholders, and as I said in my Chairman's statement last year, we are committed to reinstating dividend payments when performance recovers. With this in mind, it is the Board's intention to reinstate the dividend alongside our full year results in 2022.

The year ahead

The year ahead is an exciting one for the Group, but there will be challenges for our people to overcome as we build back services in line with the removal of mobility restrictions and challenges geopolitically given the recent events in Ukraine.

We have seen that customer demand for our services rebounds strongly when pandemic restrictions are lifted, and we know that the macro trends are in our favour. Under Ignacio's leadership, and with our purpose and vision guiding the way, I expect to see the current trajectory of improving performance continue as we execute Evolve.



Sir John Armitt CBE
Chairman
9 March 2022

An attractive investment case

We have long-term, structural growth opportunities from modal shift to public transport

Modal shift is the single most important driver of reduced emissions and congestion and Government policy around the world is increasingly committed to public transport – promoting modal shift away from cars onto buses, driving passenger growth for years to come.

+ Read more about the rapidly changing market on pages 8-9

We have five compelling customer propositions to leverage the growth opportunity from modal shift

1. **Reinvigorate public transport:** grow use of public transport in cities suffering congestion by building partnerships with stakeholders who want sustainable solutions.
2. **Multi-modal expansion:** build more modal capability and city hubs from existing locations where we already have a physical footprint.
3. **Operational transformation:** application of our processes and know-how to drive efficiency, operational improvement and lower costs.
4. **Fill the transit gap:** encouraging modal shift away from private cars in areas that are not well served by public mass transit.
5. **Consolidate & compound:** consolidate fragmented markets and create 'at scale' operations to drive operating efficiencies and better customer solutions.

+ Read more about our Evolve strategy on pages 10-11

We are the best-in-class operator

With a focus on continuous improvement in everything we do, we will be:

- The most reliable: leading the industry in reliability by striving for ever increasing levels of punctuality, and driving down cancelled services and lost miles
- The safest: continually driving down accidents
- The environmental leader: leading the transition to zero emission vehicles
- The highest rated by our customers
- The employer of choice: a high performance culture that attracts and retains the best people

All underpinned by sophisticated technology and passionate and committed teams.

+ Read more about our KPIs on pages 28-29

We are diversified and balanced

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

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.

+ Read more on pages 2-3

We are taking environmental leadership

Our ambition is to be the world's greenest mass transit operator. To deliver our ambition we target:

- Industry leadership on the shift to solely zero emission vehicles
  - UK Bus by 2030
  - UK Coach and ALSA bus by 2035
  - ALSA coach, Morocco and North America by 2040
- We have committed to never buy another diesel bus in the UK
- Emissions targets are built into senior management incentives

+ Read more about our environment work on pages 30-39

We are pleased that our work has been recognised:

Sustainalytics: Rated in 2nd percentile of all transport companies (out of 349) and in 5th percentile of over 14,000 companies in Sustainalytics global universe

MSCI*: November 2021, MSCI rated AA, the second possible highest rating, with an industry-adjusted score of 8.5 out of 10

National Express is a constituent of the FTSE4Good Index Series

+ For more information please see page 30

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We have a strong track record of delivering strong financial outcomes

In the 10 years prior to the pandemic, National Express delivered a revenue and profit compound annual growth rate of 6% and 7% respectively.

Growing revenue...

Strong organic growth potential through modal shift opportunity as well as attractive pipeline of new contract and M&A opportunities

converting it to cash...

Industry-leading margins driven by a focus on operational excellence. 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...

The Group delivered an average of over £150 million of free cash flow each year prior to the pandemic and is targeting £1.25 billion of free cash flow from 2022 to 2027 inclusive

to fund returns and investment

We invest cash back into the operations to grow, having invested over £800 million* both organically and inorganically since 2015. In addition, over the five years prior to 2020, the Group returned £327 million* through dividends

Delivering for our stakeholders

Through this approach, we deliver for all our stakeholder groups.

+ Read more about how we engage with our stakeholders on pages 40-41

* Five years to 2019 – prior to Covid-19

Modal shift is essential

Modern diesel cars each produce more nitrogen dioxide than a modern diesel bus full of passengers

The case for modal shift

During the pandemic, we saw a shift in mobility back to the private car. If this were to continue as we come back to normal, we would see over 400 billion passenger kilometres per year in North America and the UK alone.

Demand for transport is expected to increase by 30% by 2030, putting more pressure on roads and increasing congestion and air pollution. At the same time, the world needs to cut carbon emissions to achieve our shared goals. Private car transport is the primary driver of carbon emissions. Pre-pandemic, cars generated 70% of surface transport emissions in the EU.

The fundamental issues of congestion and population growth will simply not go away. Crowded, congested, polluted streets are not places where anyone wants to live.

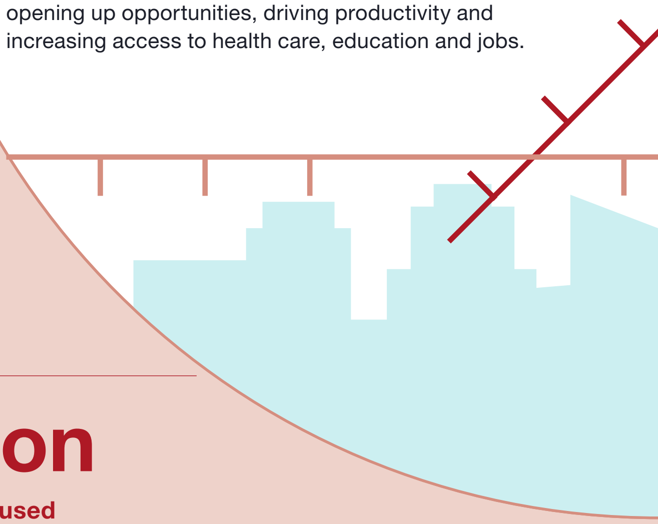
As we transition to a zero emission vehicle future, a passenger taking a journey on an electric bus, rather than an electric car, can save well over 10 times their total lifetime carbon emissions, and that bus can take 70 cars off the road, significantly reducing congestion and freeing up liveable spaces.

Public transport is the solution

Public transport is the lifeblood of a successful economy. It provides an essential service for access to work, education and health care.

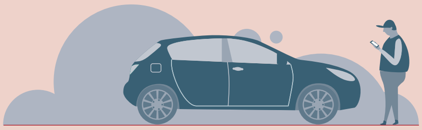
Modal shift from private cars to public transport remains the single most important driver of reduced emissions and congestion. Governments around the world are increasingly aware of this and are driving policy around greater use of public transport and funding ZEVs to meet their decarbonisation and clean air targets. Progressive partnerships between cities, businesses and passengers can deliver connected, reliable, safe, clean transport networks that are the backbone of liveable cities.

The cost of buses is 25% of that of car ownership. Affordable, clean, safe and accessible transport provides connectivity and mobility to everyone, opening up opportunities, driving productivity and increasing access to health care, education and jobs.



7 million

deaths annually caused by air pollution
World Health Organization



70%

of EU surface transport emissions generated by cars, pre-pandemic

44%

of bus trips are for work or education compared with 27% of solo car journeys

26 million

students in the USA rely on the school bus, saving 17million cars from joining the daily commute

25 billion

kilograms of carbon emissions avoided

70x

students 70x more likely to arrive safely by bus than travel by private car

10x

Per mile, bus travel is 10x safer than driving a car

180-240%

increase in bus passenger journeys by 2030

Supportive Government policy

Government support for public transport is better than ever with policies and investment to encourage modal shift out of private cars.

In the UK: the recently unveiled National Bus Strategy will provide £3 billion of investment, including support for at least 4,000 more zero emission buses.

In the US: there is a $1.2 trillion infrastructure package including $39 billion of new investment to modernise transport and improve accessibility for the elderly and for people with disabilities.

In Spain: €13 billion of investment is planned by the Government to boost the transition to electric vehicles.

Pre-pandemic, cars generated 70% of EU surface transport emissions. Modal shift is key to decarbonisation and this is going to be a hugely positive factor for public transport in the coming years.

And it's not just governments that will be looking to tackle climate change. Environmentally-conscious employers will also be looking to zero emission corporate shuttle services to reduce the emissions from the employees commuting into work.

Modal shift will drive growth

DfT's 'Passenger transport by mode' study shows a modal shift of 1% from car to bus would result in an increase of 23% bus passenger mileage.

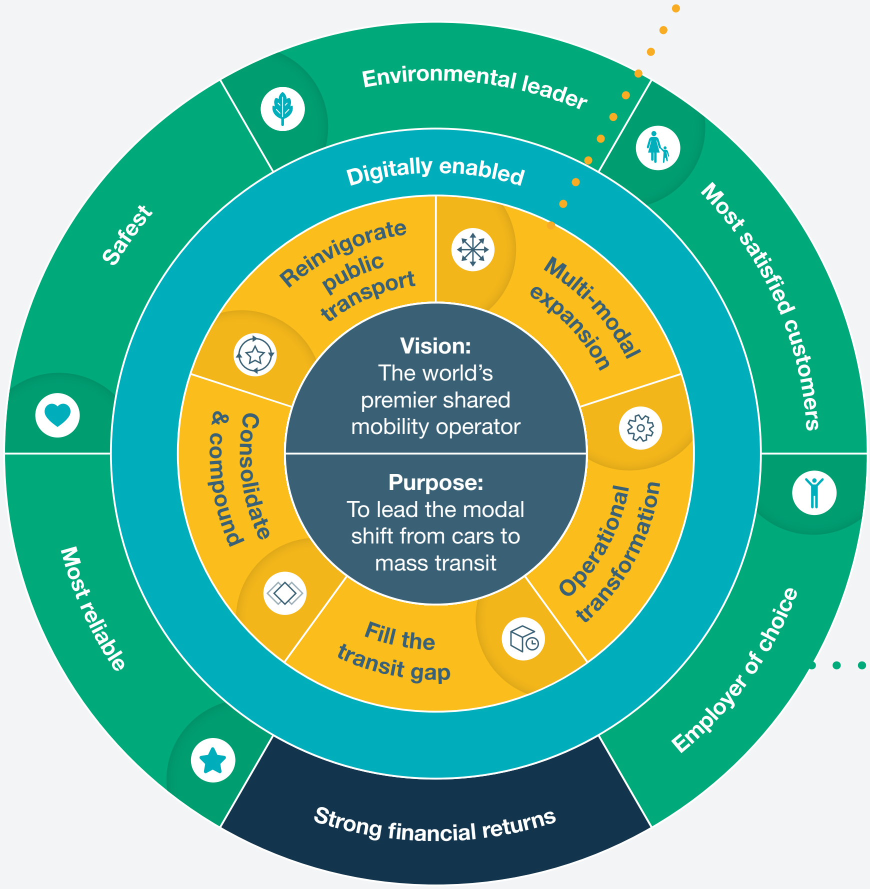
The UK Climate Change Committee predicts that 9-12% of car journeys could be switched to bus by 2030, with 17-24% being switched by 2050.

A 20% increase in bus journeys per 1% modal shift would drive an increase in bus passenger journeys of 180-240% by 2030.

Evolve – our strategy for growth

evolve in summary

We have a clear vision and purpose, which drives everything we do: to be the world's premier shared mobility operator; and to lead the modal shift from cars to mass transit.



We deliver this through five customer propositions

Digitally enabled

We will succeed in our customer propositions by focusing on five consistent outcomes

Strong financial returns

Reinvigorate public transport	Grow the use of public transport in cities suffering congestion by building partnerships with stakeholders who want sustainable solutions.
Multi-modal expansion	Build more modal capability and city hubs from existing locations where we already have a physical footprint.
Operational transformation	Application of our processes and know-how to drive efficiency, operational improvement and lower costs.
Fill the transit gap	Encouraging modal shift away from private cars in areas that are not well served by public mass transit.
Consolidate & compound	Consolidate fragmented markets and create ‘at scale’ operations to drive operating efficiencies and better customer solutions.

These propositions are underpinned by our focused application of technology.

Most reliable	We will lead the industry in reliability by striving for ever increasing levels of punctuality, and driving down cancelled services and lost miles.
Safest	We will lead the industry in safety by continually driving down accidents.
Environmental leader	We will lead the transition to zero emission vehicles.
Most satisfied customers	Our customers will rate us the highest in the industry.
Employer of choice	We will embed high performance culture that attracts and retains the best people.

By delivering these outcomes, we will achieve profitable and sustainable growth.

Maintaining momentum

Ignacio Garat
Group Chief
Executive Officer

I am delighted to report our full year results for 2021 which demonstrated continued sequential improvement, and delivered financial results at the top end of expectations. Indeed, we have delivered a steadily improving performance in revenue, EBITDA, operating profit and cash over the year, with the result that:

- revenue rose by 15.5% in constant currency to £2.17 billion;
- EBITDA rose by 60.8% to £300.0 million, an improvement of £113.4 million over 2020;
- Underlying Operating Profit improved by £137.8 million to £87.0 million;
- Underlying PBT improved by £145.8 million to £39.7 million;
- statutory loss before tax improved by £359.8 million to £84.9 million; and
- we delivered £123.4 million of free cash flow in the year, an improvement of nearly £320 million year on year, fuelling the rapid reduction in Gearing from 6.6 times at the end of 2020 to 3.6 times.

This performance has been driven by a number of factors. We have seen strong recovery in demand for our services as economies emerged from lockdown restrictions, with vaccination programmes allowing economies to reopen further and mobility increasing. We have benefitted from the management actions taken in 2020, with around £100 million of annualised structural costs permanently removed across the business. The ongoing support of customers and authorities has also contributed towards the improved performance in the year.

I am extremely proud of our colleagues across the Group who have continued to navigate through what has been another complex stop-start year, always ready to adjust to the varying restrictions in place in each of the territories in which we operate. I am also proud of the strong relationships with our customers across every division and how we have worked together to provide service as far as possible, allowing for the restrictions in place.

Evolve strategy

During the pandemic we saw a short-term shift in transport use back to the private car. If this were to continue as growth normalises, we would see over 400 billion more passenger kilometres per year in North America and the UK alone. Over and above this, demand for transport is expected to increase by up to 30% by 2030, putting more pressure on roads, and increasing congestion and air pollution. At the same time, the world needs to cut carbon emissions to achieve our shared climate goals. Private cars are the primary driver of carbon emissions: pre-pandemic, cars generated 70% of surface transport emissions in the EU. Modern diesel cars each produce more nitrogen dioxide than a modern diesel bus full of passengers. More importantly, as we transition to a Zero Emission Vehicle future, a passenger taking a journey on an electric bus rather than in an electric car can save well over 10 times total lifetime carbon emissions, and that bus can take 70 cars off the road, significantly reducing congestion and freeing up liveable spaces.

Modal shift from private cars to public transport therefore remains the single most important driver of reduced emissions and congestion. Governments around the world are increasingly aware of this and are adjusting policy towards greater use of public transport to meet their decarbonisation and clean air targets.

In 2021 we launched our Evolve strategy, rooted in our vision to be the world's premier shared mobility operator with leading levels of safety, reliability and environmental standards that customers trust and value. This, in turn, is embedded in our purpose, to lead the modal shift from cars to shared mobility. A 1% modal shift from cars to buses would increase bus passenger journeys by 23% and Evolve provides clarity in terms of both the significant potential growth ahead and the path towards it. At our Capital Markets Day in October we set ambitious targets for the years ahead:

- A further £1 billion of revenue growth by 2027 compared with 2022.
- Operating profit margin averaging around 9% over the coming years, with more than £100 million of additional profit in 2027 compared with 2022.

- Cash conversion averaging over 80% a year, with a target to generate at least £1.25 billion of free cash between 2022 and 2027 inclusive.

Core to Evolve are five compelling customer propositions, each enabled by our focused application of technology, delivering superior outcomes for all our stakeholders. We have already made progress in 2021 in each of the five customer propositions as the examples below demonstrate.

Reinvigorating public transport: Rebuilding confidence in the public transport system by offering high quality operations that passengers want to use.

In ALSA, we have substantially completed the mobilisation of Casablanca, our largest contract in Morocco, with the delivery of new fleet, transforming quality and the safety of our customers, as well as significantly improving opportunities for social mobility in the city. At the same time, we have been able to cascade fleet to other cities to support growth in services, which in some cities, such as Tangier, are now running ahead of pre-pandemic levels. We have also started the mobilisation of our contracts in Portugal, where we expect services to commence in Lisbon in the second quarter of this year. In the UK, our partnership model with Travel for West Midlands is widely recognised at both central and local government levels for delivering for all stakeholders. In 2021, our UK Bus operations have delivered the lowest fares in England, with innovative and flexible ticketing options such as contactless capping, helping to boost growth in passenger demand and revenue.

Multi-modal expansion: Expanding the breadth of our product offering, based on global know-how and local relationships.

In the UK, we expanded our transport solutions business, launching services in the West Midlands, leveraging the existing infrastructure, thereby extending our offer to private hire, contract coach work and a full range of transport solutions in the region. In Spain, we have connected passengers in Leon to last-mile services, with the introduction of bike rental services.

Operational transformation: Driving growth by delivering more efficient transport solutions.

> A 1% modal shift from cars to buses would increase bus passenger journeys by 23% and Evolve provides clarity in terms of both the significant potential growth ahead and the path towards it."

In 2021, we rolled out the first phase of our quality management process through the 'Driving Excellence' programme in our North America School Bus business, standardising and improving a number of operational processes and locking them in with a new technology platform ensuring automated flow-through to billing. By focusing on small and detailed improvements, we are not only delivering improved performance for the customer, but are also eliminating waste and reducing costs. Once fully implemented, we expect our 'Driving Excellence' programme to deliver annualised benefits of $40 million. In the UK, we have commenced the roll-out of an engineering transformation programme, which has already delivered a 12% reduction in breakdowns versus 2019 and permanent cost savings of over £1 million a year, through measures such as more efficient use of parts and data to identify and address repeat defects.

Fill the transit gap: Helping businesses and cities transition from the private car in places that are not well served by existing mass public transit.

We continued to win new contracts in our North American Shuttle business in the year, worth around $20 million of annualised revenue. We successfully mobilised operations for two new customers and also extended a large existing account, which is now providing the opportunity for us to grow with one of our largest customers in other cities and regions across the USA. In the UK, our Transport Solutions business has won new shuttle contracts including with NEXT and the Ministry of Defence, as well as providing team transport for the inaugural Cricket Hundred tournament.

Consolidate and compound fragmented markets to bring the benefits of scale and consistent service.

In 2021, ALSA acquired an urban bus business in Granada, building on our existing urban business in Almeria and regional services, consolidating our leadership position in Andalusia. We have also consolidated our existing business; for example, the business review in our North American Transit business driving the exit from, or significant price increases on, low margin and loss making contracts and delivering a significant improvement in profitability in the year.

All of this has driven significant progress across each of the Evolve outcomes in 2021.

The safest
Safety remains a top priority across the business. In Casablanca, we have delivered a 48% reduction in at-fault road accidents versus 2019, the year in which we first started operating services in the city. Across ALSA, driver behaviour and the risk score, as measured by Lytx through deployment of DriveCam technology, have improved by 50% versus 2019, and by 24% versus 2020. Similarly, in North America, we have seen a 42% improvement in driver behaviour/risk score versus 2019 and a 12% improvement in preventable accidents over the same period. In the UK, both our Bus and Coach businesses have been re-awarded a five-star British Safety Council audit.

The most reliable
By being the most reliable, we give ourselves a competitive edge, driving customer retention and powering growth. A prime example of this is the largest emergency award ever in the German Rail market, where two rail contracts were awarded to our German rail operations after the incumbent operator handed back the services to the Passenger Transport Authorities (PTAs). This award is a direct result of the reputation as a trusted partner and reliable operator we have built up over the last few years with the PTAs.

The environmental leader
Following our previously announced zero emission fleet targets for our UK Bus and Coach businesses (2030 and 2035 respectively), we announced ambitious targets for a completely zero emission fleet across the Group: Spain bus by 2035; Spain coach, Morocco and North America by 2040. The plans supporting these targets underpin the firm commitment that Group as a whole will achieve a net zero target for Scope 1 and 2 emissions by 2040.

We have made good progress in 2021, most notably in our UK Bus operations, where we have started operating 20 hydrogen buses, in partnership with Birmingham City Council, with the ambition to scale up to over 200 buses next year. As lead operator in the UK's first all-electric city, Coventry, we have placed orders for the first tranche of 176 electric vehicles, with services starting in early 2023. In addition, we have signed our first 'availability' contract in the UK with Zenobe. This effectively provides the Group with 'ZEVs as a service' providing buses and charging infrastructure without the requirement for upfront capital expenditure and with the availability provider accepting risk transfer for issues such as battery performance and charging technology. This will enable us to transition our fleet faster than we could otherwise do and we are aiming to replicate similar structures in North America and ALSA.

The most satisfied customers
Satisfied customers are less likely to put contracts out to tender. In 2021, our North American business recorded its highest ever customer satisfaction score, with 66% of customers rating our services as five-star (highly satisfied), a significant increase from 55% in 2019. This record rating is a direct result of the improvements our teams have delivered through the 'Driving Excellence' programme. Our best in class rating in Morocco was key to us winning the contract in Casablanca.

The employer of choice
We remain committed to paying the real Living Wage or 10% above the national minimum wage, but our ambition goes beyond this, to becoming the employer of choice across all our markets. Building on strong foundations, our refreshed people strategy will focus on sector-leading employee engagement; and creating a diverse and inclusive workplace. In 2022 we will undertake our first consistent global employee engagement survey that will allow us to track our improvement across all of our markets. In 2021 we have focused on our diversity, inclusion and wellbeing agenda, through our D&I Council that was established in 2019. Initiatives include unconscious bias training to promote an inclusive workforce, for example, in the UK we launched our Stronger Together Campaign.

Strong financial returns
National Express has always been focused on cash generation and return on investment. I am pleased to see the return to strong free cash generation in 2021 and, as we said at our recent Capital Markets Day, we expect free cash flow conversion averaging over 80% a year over the coming years. Over time, our business will become more asset-light, and we have made an important move towards that in 2021 through signing the first of potentially many 'availability arrangements' which reduce the capital burden on the Group's balance sheet as well as removing the residual value and technology change risk. Our capital allocation discipline remains unchanged: we will utilise the Group's strong free cash flow generation to invest for growth, targeting investments that deliver 15% returns; to pay a dividend, with targeted cover of at least 2 times; and to maintain Gearing in a range of 1.5 to 2 times. Gearing improved significantly in the year to 3.6 times, towards our range of 1.5 to 2 times which we expect to reach within the next two years. The Board intends to reinstate payment of a dividend in respect of full year 2022, based on our current expectations for the year.

Outlook

National Express had a track record of delivering strong and sustainable financial outcomes in the years before the pandemic and we expect to continue to deliver strongly over the coming years. We have seen consistently that as restrictions are lifted, demand recovers. The majority of our businesses rapidly returned to 80% or more of pre-pandemic patronage at peak last year. We will inevitably see some unevenness over the year ahead, but we now have six quarters of increasingly positive demand trajectory to build from. Whilst the impact on the Group is expected to be limited, we note the tragic events unfolding in Ukraine and our sympathies go to those affected. Fuel prices have risen significantly in recent days, but we had already fully hedged our fuel requirements for 2022 and the increased cost of operating a private car has the potential to drive modal shift into public transport.

We expect to continue to rebuild our revenue base during 2022 as we position the business for accelerated growth going forwards, and anticipate delivering revenue close to 2019 levels in 2022.

As set out at the launch of Evolve at our Capital Markets Day, we expect an average profit margin of 9% in the period 2022 to 2027, and to have fully recovered to pre-pandemic margin levels of around 10% in the later stages of that period. However, in the short term we expect the recovery in profitability to lag our revenue recovery, and hence for margins initially to be below our target 2022 to 2027 average, due to the additional investment required to rebuild patronage; the current shortage of drivers we are experiencing in our North America School Bus operations; and an elevated level of cost inflation that has partially offset the structural cost reductions we have made.

We remain focused on return on investment and cash generation, and anticipate free cash flow conversion in 2022 at around the pre-pandemic average of at least 60%, with ongoing actions to minimise maintenance capex and utilise availability arrangements to source vehicles. Over the medium term we are targeting an average free cash flow conversion of at least 80% for 2022 to 2027, as set out at our Capital Markets Day.

Ignacio Garat

Ignacio Garat
Group CEO
9 March 2022

Group Chief Financial Officer's review

Chris Davies
Group Chief Financial Officer

Summary Income Statement

	Underlying result[1] 2021 £m	Separately disclosed items[1] 2021 £m	Total 2021 £m	Underlying result[1] 2020 £m	Separately disclosed items[1] 2020 £m	Total 2020 £m
Revenue	**2,170.3**	**–**	**2,170.3**	1,955.9	–	1,955.9
Operating costs	**(2,083.3)**	**(123.2)**	**(2,206.5)**	(2,006.7)	(330.6)	(2,337.3)
Operating profit/(loss)	**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)
Share of results from associates	**(1.0)**	**–**	**(1.0)**	(2.1)	–	(2.1)
Net finance costs	**(46.3)**	**(1.4)**	**(47.7)**	(53.2)	(8.0)	(61.2)
Profit/(loss) before tax	**39.7**	**(124.6)**	**(84.9)**	(106.1)	(338.6)	(444.7)
Tax	**(12.8)**	**19.8**	**7.0**	29.3	88.7	118.0
Profit/(loss) for the year	**26.9**	**(104.8)**	**(77.9)**	(76.8)	(249.9)	(326.7)

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, principally comprising amortisation of intangibles for acquired businesses, certain costs arising as a direct consequence of the pandemic, restructuring costs and the re-measurement of the Rhine-Ruhr Express (RRX) onerous contract provision. 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 226 to 228.

2021 began with further mobility restrictions imposed by governments around the world. However, as these were lifted the recovery in revenue was encouraging; revenue for the first half of the year increased to 77% of 2019 levels (on a constant currency basis) compared with the second half of 2020, being 66%. This improved further to 87% of 2019 in the second half of 2021. This resulted in full year Group revenue of £2,170.3 million (2020: £1,955.9m), an increase of 11.0% (15.5% on a constant currency basis) year-on-year.

Public transport, by its nature, relies on a combination of commercial and concessionary revenue and during the year, the Group received £162.9 million in Covid-related revenue support (2020: £115.5m) representing 7.5% of total Group revenue. In the UK, the Group recognised £80.6 million (2020: £83.2m) from the Covid-19 Bus Service Support Grant (CBSSG) in return for maintaining bus services at around 100% of pre-pandemic levels with social distancing provisions in place. This scheme ended in August 2021 and was replaced by the Bus Recovery Grant (BRG) for which the Group recognised £12.2 million revenue in the year. In addition, the Group recognised £54.2 million (2020: £15.3m) and £15.9 million (2020: £15.6m) 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 service in order to further reduce costs. There was no revenue support provided by the Government for UK Coach operations.

The Group recorded an Underlying Operating Profit for the year of £87.0 million (2020: £50.8m loss). The year-on-year improvement of £137.8 million reflected the increase in revenue, combined with continued cost control and support from customers, governments and transport authorities. Despite variable cost increases as service levels increased to support the 11.0% revenue growth and the impact of inflation, the increase in Underlying operating costs was contained at 3.8%; this reflected the cost saving programmes implemented in late 2020 and early 2021 to remove around £100 million of cost from the Group, as well as increasing occupancy.

After £123.2 million (2020: £330.6m) of separately disclosed items, the statutory operating loss was £36.2 million (2020: £381.4m loss).

At the start of the year a significant number of employees were temporarily laid off or furloughed utilising government income protection schemes, but the vast majority returned to work during the year with only minimal numbers remaining on such schemes by the end of the year. In total, the cost support received in respect of job retention or wage subsidy schemes was £18.3 million (2020: £45.6m), comprising £8.9 million in the UK and £9.4 million in North America. In addition, £45.7 million of cost support was recognised in respect of the Coronavirus Economic Relief for Transportation Services (CERTS) grant in North America.

Underlying net finance costs decreased by £6.9 million to £46.3 million (2020: £53.2m) reflecting the impact in the prior year of the partial double-carry of Sterling bonds, as well as the impact of lower average Net Debt.

After finance costs and a loss of £1.0 million from the share of results from associates (2020: £2.1m loss), the Group recorded an Underlying Profit Before Tax of £39.7 million (2020: £106.1m loss).

The Underlying tax charge was £12.8 million (2020: £29.3m credit) representing an Underlying effective tax rate of 32.2% (2020: 27.6%) broadly in line with the weighted average tax rates in the countries in which the Group operates, the increase being driven by generating profits in higher taxation jurisdictions and a loss in the UK. The statutory tax credit was £7.0 million (2020: £118.0m credit). 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 £77.9 million (2020: £326.7m loss).

Separately disclosed items

£124.6 million (2020: £338.6m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £44.4 million (2020: £126.9m) represented cash outflows in the year.

Separately disclosed items	**Income Statement 2021 £m**	Income Statement 2020 £m	**Cash 2021 £m**	Cash 2020 £m
Intangible amortisation for acquired businesses	**(38.8)**	(52.6)	**–**	–
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(41.0)**	(245.7)	**(31.5)**	(109.6)
Restructuring costs	**(12.3)**	(14.0)	**(9.4)**	(10.8)
Re-measurement of the Rhine-Ruhr Express onerous contract provision	**(27.9)**	(16.8)	**(1.5)**	–
Other separately disclosed items	**(3.2)**	(1.5)	**(0.9)**	–
Separately disclosed operating items	**(123.2)**	(330.6)	**(43.3)**	(120.4)
Interest charges directly resulting from the Covid-19 pandemic	**(1.4)**	(8.0)	**(1.1)**	(6.5)
Total (before tax)	**(124.6)**	(338.6)	**(44.4)**	(126.9)

Consistent with previous periods, the Group classifies the £38.8 million (2020: £52.6m) amortisation for acquired intangibles as a separately disclosed item.

£41.0 million (2020: £245.7m) of directly attributable gains and losses due to Covid-19 were incurred in the year. These principally comprised: £10.3 million (2020: £116.6m) in respect of onerous contracts; £17.0 million (2020: £99.3m) impairments of customer contracts and property, plant and equipment; and £11.5 million expense (2020: £33.9m gain) in respect of the re-measurement of the WeDriveU put liability. Going forward, we do not expect further Covid-related charges in separately disclosed items other than re-measurements of items previously recorded.

Costs of £12.3 million (2020: £14.0m) were incurred in respect of Group-wide restructuring and long-term cost saving initiatives, as part of the Group's mitigations against the adverse impact of the pandemic on profit and cash.

A £27.9 million (2020: £16.8m) expense was incurred following the re-assessment of the RRX onerous contract in Germany. Whilst the outlook for the German Rail business overall is positive, with good profitability anticipated over the remaining life of the contracts in aggregate, the original RRX contract in isolation is anticipated to be onerous, driven by cost inflation for personnel and energy costs.

Further detail is set out in note 5 to the Financial Statements.

Segmental performance

	Underlying Operating Profit/(Loss) 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m	Underlying Operating (Loss)/Profit 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m
ALSA	**56.6**	**(26.4)**	**30.2**	6.7	(100.2)	(93.5)
North America	**74.4**	**(27.9)**	**46.5**	12.4	(188.4)	(176.0)
UK	**(22.6)**	**(23.8)**	**(46.4)**	(49.0)	(50.4)	(99.4)
German Rail	**5.0**	**(29.1)**	**(24.1)**	(4.9)	(19.1)	(24.0)
Central functions	**(26.4)**	**(16.0)**	**(42.4)**	(16.0)	27.5	11.5
Operating profit/(loss)	**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)

ALSA revenue increased by 33%, resulting in a €58 million increase in Underlying Operating Profit to €66 million. The Urban bus businesses in Spain as well as in Casablanca are largely revenue-protected, which has provided a stable underpin to performance whilst patronage is rebuilt. Discretionary and tourist businesses have continued to be severely impacted by the pandemic but Long Haul has recovered well, with revenues in the second half of the year improving to within 20% of pre-pandemic levels despite ongoing restrictions. Morocco revenues grew by 36% to €134 million, principally driven by Rabat and Casablanca but with other cities also recovering strongly.

North America revenue increased by 7%, resulting in an increase in Underlying Operating Profit of $86 million to $102 million. School Bus service levels built back throughout the first half of the year with 96% of schools back by the end of the school year in June. The second half of the year for School Bus has been impacted by driver shortages which have driven a large number of lost routes, although the financial impact of this has been partially mitigated by CERTS grant funding. Transit continues to benefit from the 2020 portfolio review as well as some key contract extensions, with revenue peaking at nearly 80% of 2019 levels. Shuttle customers mostly continued to pay in full such that WeDriveU continues to deliver close to pre-pandemic levels of profit.

UK revenue increased by 3%, resulting in an increase in profit of £26 million although still producing an Underlying Operating Loss of £23 million. Within this, the Bus and Coach businesses fared very differently. UK Bus revenue for the year was 1% up on pre-pandemic levels, with patronage growing sequentially and peaking at over 80% of pre-pandemic levels before dropping again as restrictions were reapplied. Coach revenue finished the year 48% down on 2019 having peaked at 36% down. The continued mobility restrictions coupled with building occupancy, bringing back service ahead of passenger demand, drove an operating loss.

Cash management

Funds flow	**2021 £m**	2020 Restated* £m
Underlying Operating Profit/(Loss)	**87.0**	(50.8)
Depreciation and other non-cash items	**213.0**	237.4
EBITDA	**300.0**	186.6
Net maintenance capital expenditure**	**(142.1)**	(215.9)
Working capital movement	**33.0**	(95.6)
Pension contributions above normal charge	**(7.2)**	(7.4)
Operating cash flow	**183.7**	(132.3)
Net interest paid	**(41.1)**	(56.0)
Tax paid	**(19.2)**	(7.7)
Free cash flow	**123.4**	(196.0)
Growth capital expenditure**	**(134.4)**	(35.3)
Acquisitions and disposals (net of cash acquired/disposed)	**(54.3)**	(48.0)
Separately disclosed items	**(44.4)**	(126.9)
Proceeds from equity instruments	**–**	725.6
Payment on hybrid instrument	**(5.3)**	–
Other, including foreign exchange	**65.1**	(57.2)
Net funds flow	**(49.9)**	262.2
Net Debt	**(1,069.8)**	(1,019.9)

* 2020 Net Debt is restated for the reclassification from payables to Net Debt of £78.3m amounts due under advance factoring arrangements. See below for further explanation.
** Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on pages 226 to 228.

The Group generated EBITDA of £300.0 million in the year (2020: £186.6m).

The net maintenance capital expenditure of £142.1 million (2020: £215.9m) represented a significant reduction on recent years, reflecting actions taken to reduce capital expenditure in response to the pandemic. The majority of spend in the year was in respect of fleet replacement in ALSA and North America. At the year end there was £104.3 million (2020: £289.6m) owing to vehicle suppliers in respect of either maintenance or growth capex, with the year-on-year decrease reflecting the payment of growth capex in the year, combined with tight control of capital additions.

The Group recorded a working capital inflow of £33.0 million for the year (2020: £95.6m outflow), reflecting a partial unwind of the outflow observed in the previous year, as receivables and payables both increased as a result of the continued recovery in activity levels.

Consistent with previous periods, the Group makes use of non-recourse factoring arrangements. These take two forms: a) typical factoring of receivables existing at the balance sheet date (principally utilised for School Bus in North America), and b) advance payments for factoring of divisional subsidies. The latter occurs principally in Germany where the cash flow profile of the RME contract is such that it creates a working capital requirement over the first half of the 15-year contract, and we factor certain of the subsidies due in order to ensure that the contract has a cash neutral impact on the Group. During the year the Group amended its accounting policy in respect of this form of factoring such that any amounts drawn down are now classified as borrowings rather than as a working capital item – see note 2 to the Financial Statements for further information. At 31 December 2021 there was £77.9 million (2020: £78.3m) drawn down on these arrangements, which is now classified as borrowings rather than payables in both 2021 and 2020. The prior year comparatives in the table above have been restated accordingly. In addition to the advance subsidy factoring, at 31 December 2021 there was £48.5 million (2020: £33.3m) drawn down on receivables factoring. This increase reflected the growth in revenues; however, the amounts drawn down on such factoring remained below pre-pandemic levels.

Net interest paid decreased by £14.9 million to £41.1 million (2020: £56.0m). There are two components to this reduction. Firstly, 2020 was a 'double carry' year whereby the final interest payment on the 2020 bond maturing in June 2020 (payable annually in arrears) was made whilst at the same time making interest payments on new borrowings. Secondly, average Net Debt has decreased, resulting in lower interest charges. Given the double carry impact in the prior year, 2019 is a more comparable year. Net interest paid in that year was £45.4 million, compared with £41.1 million in 2021; the reduction being broadly in line with the decrease in Net Debt.

The net impact of the factors outlined above was a free cash inflow of £123.4 million in the year (2020: £196.0m outflow), comprising an inflow of £40.6 million in the first half and an inflow of £82.8 million in the second half.

Growth capital expenditure of £134.4 million (2020: £35.3m) principally comprised vehicles to service new contracts in ALSA and North America. The year-on-year increase reflected payments in respect of the Rabat and Casablanca fleets, which had been delivered in the prior year. A £54.3 million outflow for acquisitions and disposals includes £22.8 million for the acquisition of Transportes Rober in Spain in June and £17.7 million for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor), with the remainder being deferred consideration in respect of acquisitions in previous years. The amounts outstanding in respect of deferred consideration at the end of the year had reduced to £13.4 million (2020: £28.8m; 2019: £49.0m).

A cash outflow of £44.4 million was recorded in respect of the items excluded from Underlying results as explained above.

In the previous year the Group received £725.6 million from a combination of the share placing in May 2020, delivering £230.1 million, and the hybrid instrument issue in November 2020, which raised £495.5 million net of costs. The hybrid instrument is accounted for as 100% equity under IFRS and is subject to a 4.25% coupon, paid annually in February, which is effectively treated as an equity dividend. £5.3 million of coupon payments on the hybrid instrument were made in the year, in respect of the first part-year.

Other movements of £65.1 million (reduction to Net Debt) principally reflect the movement in exchange rates and settlement of foreign exchange derivatives. The strengthening in the value of the pound decreased the value of debt denominated in foreign currency.

Net funds outflow for the period of £49.9 million (2020 restated: £262.2m inflow) resulted in Net Debt of £1,069.8 million (2020 restated: £1,019.9m).

Please see page 227 for a reconciliation to the statutory cash flow statement.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns, reducing gearing to within our revised target range of 1.5x to 2.0x 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 2021. Looking ahead, reflecting the improving financial performance of the Group and the outlook for profit and cash for the year ahead, the Board intends to reinstate a dividend in respect of the full year 2022, at least 2 times covered. We anticipate paying the entire dividend in respect of full year 2022 based on, and following delivery of, the full year results; reverting to a customary split between interim and final dividends for subsequent years.

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 reaffirmed their investment grade ratings during the year, with Fitch revising outlook upwards.

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 at 31 December 2022, after which it reverts to the pre-amended level of 3.5x. The interest cover covenant had been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively, and returns to its pre-amended level of 3.5x for 30 June 2022 onwards. 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 amendment 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 2021, Gearing was 3.6x (31 December 2020: 6.6x); almost back within the pre-amended level. Interest cover at the end of the year was 6.3x (31 December 2020: 2.7x); this compares with an amended covenant of 2.5x. All covenants are on a pre-IFRS 16 basis.

At 31 December 2021, the Group had £1.9 billion (31 December 2020: £2.8bn) of debt capital and committed facilities, with an average maturity of 4.7 years. The decrease from 2020 reflects the planned maturity of the short-term financing facilities secured following the emergence of Covid-19, including the £0.6 billion available under the Bank of England Covid Corporate Financing Facility. At 31 December 2021, the Group's revolving credit facilities (RCFs) were undrawn and the Group had available a total of £0.9 billion (31 December 2020: £1.9bn) in net cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 31 December 2021 £m	Headroom at 31 December 2021 £m	Maturity year
Core RCFs	495	–	495	2024-2025
2023 bond	400	400	–	2023
2028 bond	241	241	–	2028
Private placement	394	394	–	2027-2032
Divisional bank loans	112	112	–	various
Leases	219	219	––	various
Funding facilities excluding cash	1,861	1,366	495	
Net cash and cash equivalents		(376)	376	
Total		**990**	**871**	

To ensure sufficient availability of liquidity, the Group maintains 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 2021, 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 2021, the proportion of Group debt at floating rates was 18% (2020: 7%).

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 2021 was £95.4 million (2020: £135.1m), with the decrease being principally driven by an increase 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 on the West Midlands Bus plan will be around £7 million per annum, rising with inflation, until 2026.

On 23 September 2021, a full buy-out of the UK Group scheme was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets and matching defined benefit liabilities were derecognised from the Group's Balance Sheet. The buy-out transaction also triggered the return of surplus assets to the Company totalling £7.5 million, with the remaining £3.8 million assets retained in the scheme to cover final expenses in completing its wind up.

The IAS 19 valuation for the West Midlands Bus scheme at 31 December 2021 was a £96.1 million deficit (2020: £141.6m deficit).

Fuel costs

Fuel costs represent approximately 7% of revenue. Whilst it remains complex to forecast volume at the current time, based on current projections and as of February 2022, the Group is fully hedged for 2022 at an average price of 34.0p per litre; around 65% hedged for 2023 at an average price of 34.4p; and around 25% hedged for 2024 at an average price of 38.5p. This compares with an average hedged price in 2020 and 2021 of 37.2p and 37.8p respectively.

TCFD reporting

The Group had previously provided disclosures consistent with many of the recommendations of the TCFD and has now fully adopted the recommendations for the 2021 Annual Report. This is the culmination of a project undertaken during the year by an internal working group, with selected input from external experts. The most significant new activity was the completion of a detailed climate risk assessment. Our overall conclusion from this work is that neither an extreme physical scenario risk nor an extreme transition scenario would be likely to have a material adverse impact on the Group's profitability, cash flow, gearing or liquidity. On the contrary, we forecast that any downside impact would be dwarfed by the opportunities from modal shift likely to unfold in either scenario.

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 4% 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 1 to the Financial Statements.

Chris Davies
Group Chief Financial Officer
9 March 2022

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 2022, 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.

Overview

ALSA has delivered strong growth in revenue, Underlying Operating Profit and cash in the year, driven by an improving trajectory in trading throughout the year, coupled with the benefit of actions taken in 2020 to reduce structural costs. ALSA continues to reap the benefits from the ongoing diversification strategy, with nearly 50% of its contracts being revenue protected, providing both balance and a stable base to support the growth areas of the business. Revenue grew by 32.8% to €835.8 million, with strong recovery in demand in our Long Haul and Regional services in Spain, and in Morocco, driven by both new and existing contracts. Underlying Operating Profit of €65.9 million represents a €58.4 million improvement versus last year, with Underlying Operating Margin recovering to 7.9%. After separately disclosed items, the statutory operating profit was €35.2 million (2020: €105.2m loss); an improvement of €140.4 million.

We have seen sequential improvement across all business lines. In Urban bus, by the year end passenger numbers recovered back to nearly 90% of pre-pandemic levels. Long Haul passenger demand increased steadily over the summer and into the autumn, peaking at 70% of pre-pandemic levels (despite increased rail competition), before the arrival of the Omicron variant – with passenger demand bouncing back strongly in recent weeks to around 70%. Morocco traded ahead of pre-pandemic levels, with nearly 290 million passengers carried in 2021, an increase of 50% versus 2019, in part driven by the new contracts in Casablanca and Rabat,

ALSA

Revenue
£718.4m
2020: £559.3m

Revenue
€835.8m
2020: €629.3m

Underlying Operating Profit
£56.6m
2020: £6.7m

Underlying Operating Profit
€65.9m
2020: €7.5m

Statutory Operating Profit/(Loss)
£30.2m
2020: £(93.5)m

Statutory Operating Profit/(Loss)
€35.2m
2020: €(105.2)m

Underlying Operating Margin
7.9%
2020: 1.2%

but also through growth in existing contracts with, for example, the addition of new routes in Tangier.

Progressing Evolve

ALSA has developed a reputation for reinvigorating public transport. A prime example of this is Casablanca, where we are transforming the lives of the people who live there. Nearly 600 new buses are now operating in this city, transforming the quality and safety of services, significantly improving social mobility and further strengthening our strong customer relationships with the local authorities. At the same time, we have been able to cascade fleet to other cities to support growth in services, where, for example, Tangier is now seeing passenger journeys ahead of pre-pandemic levels. This is resulting in tangible improvements in safety, with Casablanca seeing a 48% reduction in at-fault road accidents year on year. It is not just the new contracts where we are seeing such improvements; we have also driven a significant improvement in safety standards in other cities, finishing the year with a 17% reduction in at-fault road accidents in our existing contracts versus 2019.

We continued to consolidate our position in the Regional and Urban bus market in Spain, with the acquisition of Rober, an Urban bus business in Granada. This acquisition builds on ALSA's existing Urban bus business in Almeria and in Regional services, consolidating our leadership position in the region. Having subsequently won a small Urban bus contract in Jaen, we have since integrated this into our Rober business, further consolidating our leadership position in Andalusia.

ALSA is an established multi-modal operator and, in 2021, we have continued to add to our diverse offering of mobility services. In Leon, we added further services to our multi-modal offering, with the launch of bike rental services. This adds to our existing services in the city, where we also provide Urban, Regional and Long Haul, as well as dedicated school bus services.

A key aspect of the ALSA transformational plan is the increasing digitalisation of the business both operationally and commercially. A number of projects are underway including the launch of Mobi4U, a Mobility as a service (MaaS) app. This single app can be used for travel on all types of mobility services in the local area, making it more convenient for our customers to plan their journeys, with real-time information on services, journey times and intermodal connections. Making public transport convenient and easier for our customers will help drive modal shift away from cars and help our cities to achieve their environmental targets, whilst also building our relationships with the local authorities. Already the app has been launched in five areas, four in Spain and one in Morocco – and we will look to roll it out further in more towns and cities in 2022.

We have also developed other digital applications for operational projects, including the optimisation of driver scheduling in our Madrid Consortium Urban bus contracts, covering 1,500 drivers, and are looking to extend this to further contracts across Spain in 2022.

It's pleasing to see that our customers appreciate our efforts, with customer satisfaction scores back very close to the all-time record set in 2019 despite ongoing mobility restrictions this year. Indeed, our customers love our services and the innovations we introduce, with a clear case in point being our Long Haul services, where the introduction of night services and new pick-up and destination stops is helping to offset the impact of new lower cost high speed rail competition.

We continue to make progress with our decarbonisation agenda, launching the following targets in the year for transitioning to fully zero emission fleets: Urban bus in Spain by 2035; Long Haul & Regional Coach in Spain by 2040; and Morocco by 2040. Significantly, we are the first public transport operator in Spain to launch regular services using hydrogen buses, where, working alongside the Madrid Consortium, we are now operating hydrogen buses in Madrid, building on our commitment to sustainable mobility.

Our reputation as a trusted partner and for delivering superior outcomes helps to win and retain contracts. We have successfully extended our contract in Khouribga, Morocco, for a further five years, and in Spain we retained a number of Regional contracts and won new contracts, including the government holiday scheme for elderly people, in partnership with IMSERSO.

Looking ahead

We are excited by the many opportunities that lie ahead of us, starting with our entry into an entirely new market, with the first of our two Urban bus contracts in Portugal mobilising and operating services in 2022. Together these contracts are worth €43 million of revenue on an annualised basis and open up further opportunities in the country.

In addition, we have an attractive pipeline of both organic and inorganic opportunities in the next 12 months, worth nearly €200 million in revenue. We see opportunities both in our existing markets, particularly in the Urban and Regional segments, as well as in adjacent markets such as France and Italy, and we are actively working on bids.

The Long Haul concession renewal process remains on hold as the authorities continue to absorb the impact of the pandemic on transport and the need to finalise the network remapping, with no stated intention to restart the process in the near term. As a result, industry expectations are for no impact from the Long Haul concession renewal process until late in 2023 at the earliest.

Gary Waits
Chief Executive,
North America

North America

Our business in North America has three areas of activity: student transportation, Transit and Shuttle services. We operate in 34 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.

Overview

North America has delivered growth in revenue, Underlying Operating Profit and cash in the year, with an improving trajectory in trading throughout the year. Revenue grew by 7.0% to $1,199.7 million, led by a strong return to school for the 2021/22 year. Underlying Operating Profit of $102.3 million represents an $86.0 million improvement versus last year, with a significant improvement in the Underlying Operating Margin, to 8.5%. After separately disclosed items, the statutory operating profit was $63.8 million (2020: $226.1m loss); an improvement of $289.9 million.

Our School Bus operations saw an improving trajectory throughout the year, with the first half impacted by school closures and a mix of full in-school learning and a 'hybrid' of in-school and at-home learning. Encouragingly, the start of the new school year saw all schools returning to full in-school learning, although a few have closed sporadically in response to Omicron. As schools opened back up, this was accompanied by driver shortages, which are likely to persist for the rest of the 2021/22 school year. These driver shortages have inevitably impacted wage demands, with wage

Revenue
£872.0m
2020: £869.2m

Revenue
$1,199.7m
2020: $1,121.5m*

Underlying Operating Profit
£74.4m
2020: £12.4m

Underlying Operating Profit
$102.3m
2020: $16.3m*

Statutory Operating Profit/(Loss)
£46.5m
2020: £(176.0)m

Statutory Operating Profit/(Loss)
$63.8m
2020: $(226.1)m

Underlying Operating Margin
8.5%
2020: 1.5%

* Revenue and Underlying Operating Profit at constant currency in respect of the Canadian Dollar to US Dollar foreign exchange rate movement in the year

inflation rising to 5.4% in the current school year. School Bus operators are supported by grant funding through the CERTS programme, which has offset the increase in driver wages and the other costs associated with a more complex start-up to the new school year. We have taken decisive action to mitigate the impact of driver shortages including implementing new standardised recruitment procedures, supported by an enlarged centralised driver recruitment team. At the same time we introduced various incentives such as referral and retention bonus schemes, while also engaging more regularly with employees throughout the year, with a particular focus on wellbeing.

In our Transit business, service volumes recovered to 76% of pre-pandemic levels. We have benefitted from our review of the portfolio of Transit contracts conducted in the previous year, where we exited loss making contracts and achieved significant price increases on a number of other contracts which were previously earmarked as potential exits. In addition, the implementation of 'Driving Excellence' measures and tight cost control has delivered improved profitability for some previously poor performing contracts.

Our Shuttle business has also seen an improving trajectory throughout the year, with increased demand for services to restart. Earlier in the year only a quarter of services were operating; however, the second saw a strong recovery, with the majority of our customers returning to their workplaces. Encouragingly, 87% of services were operating by the year end, with more customers indicating their intention to return more employees to the office in the first half of this year.

Progressing Evolve

We have made significant progress in the year in operational transformation, spearheaded by our 'Driving Excellence' programme. The first phase of our quality management processes has been rolled out in our School Bus depots, both standardising and improving operational processes and locking them in with the roll-out of enabling technology to automate the flow-through to billing. This relentless focus on small improvements is delivering improved performance for the customer, while at the same time eliminating waste and reducing costs. One example is a 27% improvement in yard departure performance, resulting in improved on-time performance for our customers, and an 18% reduction in service penalties year on year.

Once fully implemented, we expect our 'Driving Excellence' programme to deliver annualised benefits of $40 million.

One of the five customer propositions set out in Evolve is 'filling the transit gap' and this is best exemplified by our Shuttle business, where we have won multiple new contracts in the year, worth around $20 million of annualised revenue, and also retained a number of key contracts, worth around $30 million of annualised revenue. Whilst we expect the pandemic will bring some long-term changes in working arrangements, our customers view face-to-face collaboration as critical for innovation and long-term success and continue to buy up commercial real estate. In addition, with employees likely to adopt a hybrid way of working, there will be growth opportunities for operating more hours of service or more vehicles to accommodate the flexibility the companies are offering. Reflecting new business wins and confidence in the recovery of the existing business, we have raised our expectations for growth in WeDriveU over the next couple of years.

A relentless focus on driving safety improvements has helped to deliver a 64% improvement in our overall safety performance, as measured by FWI. Particularly pleasing is the improvement in our driver behaviour/risk score, which has resulted in a 42% improvement in performance over that recorded in 2019. This in turn has resulted in a 12% improvement in preventable accidents and a 42% improvement in speeding performance over the same period. We had no at-fault major injuries in North America in 2021, an accomplishment we believe is unparalleled in a transport company of our scale.

It is gratifying to see that our School Bus operations recorded their highest ever customer satisfaction score in 2021: 66% of customers gave the highest possible score, a significant increase from the score of 55% in 2019. This record rating is a direct result of the improvements our teams have delivered through the 'Driving Excellence' programme, particularly in terms of on-time performance and accurate invoicing, together with regular Covid-related communications and updates with each of our customers.

This year we set a formal target for a net zero emission fleet by 2040 and have made further progress with our decarbonisation agenda. We are already running a number of electric School Bus pilots and are developing proposals to scale these to hundreds of buses, building on the 'availability contract' pioneered in the UK. Pleasingly, we are seeing increased demand from a number of Shuttle customers for ZEVs, where we currently operate nearly 100 ZEVs.

Looking ahead

We remain confident about the prospects for each of our businesses and anticipate further sequential improvements in performance in the coming year.

With the additional operational complexities presented by the current driver shortages being felt across all of the US School Bus market, we expect the current year to be one of consolidation, with a focus on retention of contracts rather than seeking to gain market share. Encouragingly, customers are recognising the challenges we face, and while very early in the bid season, we are seeing above-average price increases on contract renewals.

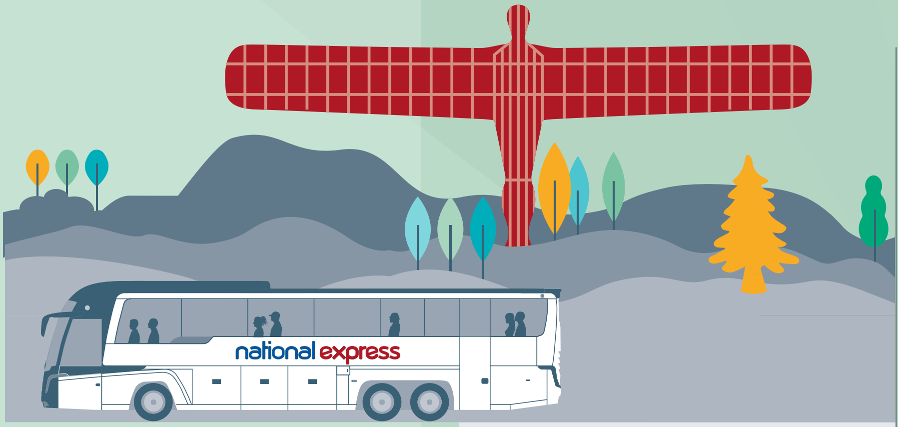
In Transit, we will continue to focus our bidding activity in paratransit opportunities, which are typically both asset light and higher margin: we are actively exploring a number of tenders that will come up for bid in the next 12-18 months, worth around $200 million of revenue.

As noted above, we believe the growth prospects are very strong for our Shuttle operations. Indeed, we have a strong pipeline of bidding opportunities in 2022, approaching $150 million of annualised revenue, both in the corporate and university Shuttle markets, with potential to further expand our geographical footprint across the USA.

Tom Stables
Chief Executive,
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.

It is our ambition to have zero carbon emissions in our Bus fleet by 2030 and in our Coach fleet by 2035.



UK

Revenue

£397.8m

2020: £388.2m

Underlying Operating Loss

£(22.6)m

2020: £(49.0)m

Statutory Operating Loss

£(46.4)m

2020: £(99.4)m

Underlying Operating Margin

(5.7)%

2020: (12.6)%

Overview

While the UK had a tough year, with mixed fortunes in our Bus and Coach operations, the performance trajectory continued to improve in terms of revenue and operating profit, particularly so in the second half of the year. Revenue grew by 2.5% to £397.8 million (and up nearly 14% in the second half). The Underlying Operating Loss of £22.6 million represents a £26.4 million improvement versus last year, with all of the loss associated with our Coach business. Despite these challenges, the UK delivered a significantly reduced loss in the year. After separately disclosed items, the statutory operating loss was £46.4 million (2020: £99.4m); an improvement of £53.0 million.

Over the year, Bus has seen a sequential improvement in passenger demand, recovering to around 80% of pre-pandemic levels in November, before the arrival of the Omicron variant, where the imposition of ‘Plan B’ restrictions contributed to a short-term reduction in demand for our services. However, we observed a rapid bounce back in passenger demand in the weeks following the lifting of all restrictions in England in late January, with passenger demand now back to 80% and rising. Our Bus operations continued to receive government support throughout the year, initially through the CBSSG, and then latterly through the BRG, which runs through to the end of March 2022. With passenger demand still recovering, we welcome the recent announcement of a new bus funding package, worth over £150 million, from April through to October 2022.

Meanwhile, Coach had a tough start to the year, with operations temporarily mothballed in the first quarter as re-imposed lockdown restrictions were in place in the UK. The second quarter saw significantly reduced service levels relative to pre-pandemic levels, with restrictions on long distance travel and social distancing in place for much of that period. The second half saw a significant recovery in passenger demand, peaking at 55% of pre-pandemic levels in November with an occupancy rate of 66%. With the arrival of Omicron, there was a temporary slowing, but we have already seen passenger demand and revenue bouncing back in the last few weeks to nearly 60% of pre-pandemic levels. The recovery has been driven by higher demand on our core intercity routes, while our airport routes have inevitably seen extremely low passenger volumes, in line with reduced levels of international travel. As we rebuild occupancy, bringing service back ahead of full patronage, this is impacting profit recovery in the short term – however, we believe this is the right strategy to drive higher medium-term returns. We expect to return to profit in our Coach business in 2022.

Our Transport Solutions business has also had a difficult year, with private hire and holidays particularly affected by the changing messaging around travel restrictions. Notwithstanding these challenges, Transport Solutions recovered to 60% of 2019 revenue, with some significant contract wins in the year.

Progressing Evolve

Our UK Bus operations have a great reputation for reinvigorating public transport, with our partnership model with Transport for West Midlands (TfWM) widely recognised at both central and local government levels for delivering for all stakeholders. Working in partnership with TfWM, we have submitted the West Midlands region's bid for Bus Service Improvement Plan (BSIP) funding, with key features including bus priority measures, sustaining low fares and ticketing innovations such as contactless capping, together with additional ZEVs – all aimed at driving modal shift from cars onto our buses. We already have the lowest fares in England, which has helped to drive the strong recovery in passenger demand to around 80% of pre-pandemic levels; we have also developed our industry-leading 'tap and go, never overpay' contactless capping ticketing further, with the launch of three-day and seven-day options, which are both attractive and convenient for customers.

We have continued to invest and improve our businesses through the roll-out of new technology and processes in the year. One such example is CitySwift, a timetable optimisation platform which uses AI and machine learning to predict journey times. This has enabled our bus operations to match service provision to prevailing traffic conditions, driving both efficiency improvements and enhanced customer service.

Filling the transit gap is best exemplified by our Transport Solutions business, which has won a number of new Shuttle contracts, including the provision of employee Shuttle services for NEXT and the Ministry of Defence, as well as providing team bussing for the inaugural Cricket Hundred tournament. And significantly, Transport Solutions won its first ZEV Shuttle contract, providing Shuttle services to the Harry Potter World studio tour.

Our relentless focus on safety has been recognised with both our Bus and Coach operations re-awarded a five-star British Safety Council audit.

Our customers are recognising our efforts, with the Net Promoter Score for our core coach brand standing at 42.3 versus a score of 38 in 2019, while our Trustpilot rating is 'Excellent', with a score of 4.4.

We have the most ambitious net zero emission fleet targets for a large public transport operator in the UK. We have made further progress towards those targets in the year, where, in partnership with Birmingham City Council, we are now operating 20 hydrogen buses around Birmingham, the first city in England to do so outside of London, with the ambition to scale up to over 200 buses from 2023. In addition, as lead operator in the UK's first all-electric city, Coventry, we have also placed orders for 130 electric vehicles, to enter operation in early 2023, through our first 'availability' contract in the UK with Zenobe. This effectively provides the Group with 'ZEVs as a service'; providing buses and charging infrastructure without the requirement for upfront capital expenditure and with the availability provider accepting risk transfer for issues such as battery performance and charging technology.

Looking ahead

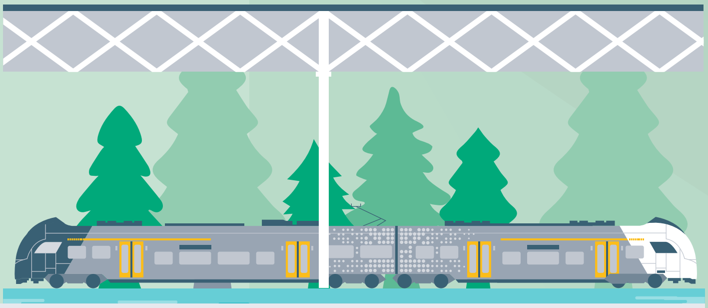
Looking ahead, we expect to see a continuing recovery in demand for our bus and coach services, with the combination of low fares against a backdrop of rising costs for car owners, coupled with the arrival of the Commonwealth Games in Birmingham this summer, all helping to drive further growth in passenger demand. We anticipate passenger journeys approaching 2019 levels by the end of 2022.

With countries around the world lifting travel restrictions for tourists, we anticipate significant pent-up demand for overseas holidays this year, which, in turn, should drive a strong recovery in our services to airports this summer. Crucially, we have the contracts with the airports to access this demand, providing a significant competitive advantage over other operators.

Germany

Overview

Revenue was up 35.2% to €211.8 million, reflecting a full year of operations following the start-up of our third service for the RRX services in December 2020. The Underlying Operating Profit of €5.8 million in the year represents an improvement of €11.3 million over the prior year, reflecting good operational control plus receipt of additional subsidies from the local PTAs to compensate for the reduced levels of patronage compared with pre-pandemic levels. The prior year also included contract accounting adjustments that reduced the in-year profit, without which the business would have generated a small Underlying Operating Profit in 2020. After separately disclosed items, the statutory operating loss was €28.0 million (2020: €27.0m).



Revenue

£182.1m

2020 £139.2m

Revenue

€211.8m

2020 €156.6m

Underlying Operating Profit/(Loss)

£5.0m

2020 £(4.9)m

Underlying Operating Profit/(Loss)

€5.8m

2020 €(5.5)m

Statutory Operating Loss

£(24.1)m

2020: £(24.0)m

Statutory Operating Loss

€(28.0)m

2020: €(27.0)m

Underlying Operating Margin

2.7%

2020 (3.5)%

In 2020 and subsequently also in 2021, we conducted a review of the profitability of the RRX contract, which has been impacted not only by the pandemic but also by rising costs, particularly rising energy prices and personnel costs. This has resulted in an increased onerous contract provision being recognised in the year, the cost of which has been recorded as a separately disclosed item; full details can be found in note 5 to the Financial Statements.

With another successful mobilisation of services, National Express is increasingly seen by the local PTAs as an operator with a reputation for high performance and reliability. It is this reputation that has enabled us to not only adjust terms on some existing contracts, thereby improving their lifetime profitability, but also to pick up new contracts through the largest ever emergency award in the rail industry, with the incumbent operator handing back services to the PTA. This new contract award will see us running further services for RRX for the next two years, and with a good margin.

The net impact of all of these developments is clear line of sight to sustained profitability and cash flow from German Rail going forward.

Progressing Evolve

The new emergency contract award demonstrates the importance and value of building a reputation as a trusted and reliable partner with customers, be they fare paying passengers or local PTAs. Our success and capability in mobilising new contracts is a key differentiator, and with a much shorter mobilisation period than is normal, we have the opportunity to deepen our customer relationships yet further. One of the major determinants for success in rail contract mobilisation is the recruitment and training of train drivers, something which some of our competitors have struggled with. Our approach to this key area has not only resulted in successful start-up to services, but also ensured that we retain our drivers as we build our reputation as the employer of choice.

Looking ahead

As we look ahead, we see revenue significantly higher than the level seen in 2019, reflecting the new services mobilised in 2021 and the emergency contract award. We also see further growth opportunities through selective bidding for rail franchises which allow us to consolidate and, coupled with a smoother profile of profit delivery, compound our existing contracts.

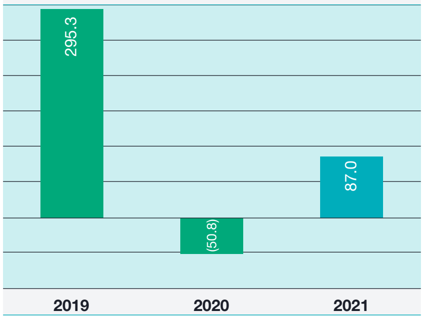
Measuring our progress

Financial

Underlying Operating Profit (£m)

£87.0m

2020: £(50.80)m



KPI definition

Group Underlying Operating Profit from operations.

Relevance to strategy

A key measure of the overall performance of the business.

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.

Performance

- Significantly improved profit performance reflecting: strong recovery in demand for our services, with revenue growth of 11.0%; the benefit of cost actions taken in 2020; and ongoing support of customers and authorities.
- £138 million improvement year-on-year.
- Improved profit performance in every division, with Group operating margin of 4%.

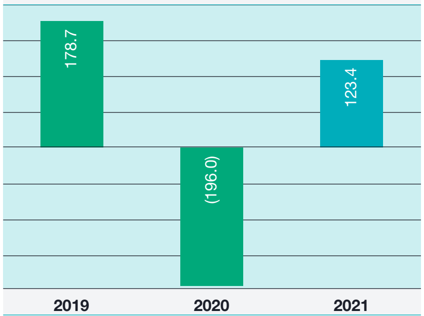
Remuneration linkage

Group Underlying Profit before tax is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.

Free cash flow (£m)

£123.4m

2020: £(196.0)m



KPI definition

Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 227.

Relevance to strategy

Strong cash generation provides the funding to invest in initiatives to drive our strategy.

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.

Performance

- Operating cash inflow of £184 million reflects the significant improvement in Underlying Operating Profit to £87 million.
- Free cash of £123 million after investing £142 million in capital expenditure to maintain our fleet, together with a working capital inflow of £33 million, reflecting strong cash collection and a partial reversal in revenue streams back into cash-upfront passenger revenue from payments in subsidy income with a longer payment cycle.
- £319 million improvement in free cash generation.

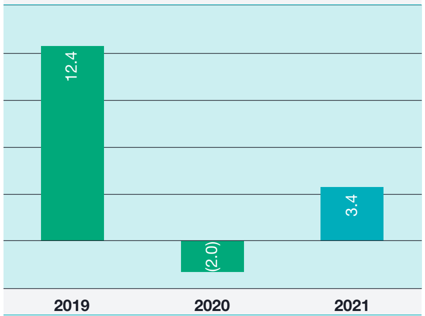
Remuneration linkage

Free cash flow is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.

Return on capital employed (%)

3.4%

2020: (2.0%)



KPI definition

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 228.

Relevance to strategy

Demonstrates how efficiently the Group is deploying its capital resources to generate operating profit.

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.

Performance

- ROCE is still depressed as we rebuild post the pandemic.
- ROCE of 3.4% – reflects the return to Underlying Operating Profit in the year, versus an operating loss in 2020.
- Invested £142 million of net maintenance capital, predominantly in replacing our fleet in our existing operations.
- Invested £134 million in growth capital expenditure including vehicles to service new contracts in ALSA and North America.

Remuneration linkage

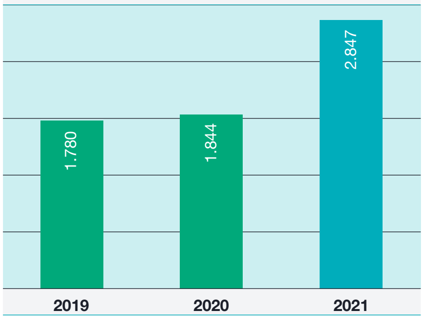
ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.

Non-financial

Safety – Fatalities and Weighted injuries

2.847

2020: 1.844



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 exclude 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 being the 'safest' is one of the five Evolve outcomes.

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 2021 we saw an increase in the score to 2.847.
- This score compares with the best ever score recorded in 2019 and remains significantly better than historical scores as the third lowest score.
- Our UK Bus, Spanish and North American operations all delivered improvements in their scores vs. 2020, with North America delivering its lowest ever score for the third year running, with a 64% improvement year on year.
- On a per million miles basis, the score of 0.005 represents a 90% improvement since we first introduced our Driving Out Harm programme in 2011.

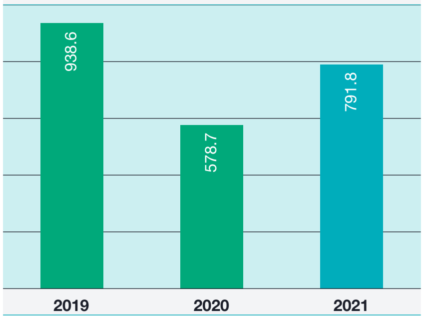
Remuneration linkage

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

Passenger journeys

791.8m

2020: 578.7m



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 recovered strongly to 792 million, rising by 37% in 2021 as lockdown restrictions eased across each of our divisions.
- Record number of passengers in Morocco with nearly 290 million passenger journeys, an increase of 50% versus 2019, reflecting new contracts in Rabat and Casablanca, and growth in existing contracts such as Tangier.
- Strong rebound in North America, with schools returning to full in-school learning in the new school year.

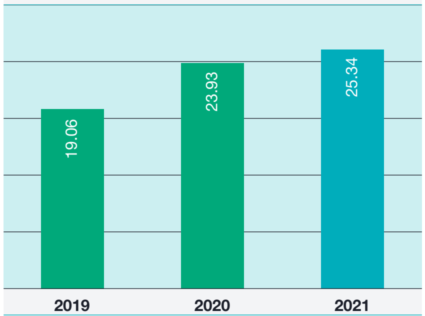
Remuneration linkage

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

GHG emissions*

25.34

2020: 23.93



KPI definition

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

* Measured as tCO_2e/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 increased by 25% due to the recovery in demand for our services, with a corresponding higher level of services operated year on year.
- 6% increase in tCO_2e/million km to 25.34 due to lower load factors, particularly where social distancing restrictions applied in the first half of the year; with an improving trend in the second half of the year as restrictions lifted.
- We expect to make progress against our targets in 2022, with a continued recovery in passenger demand.
- Launched net zero emission fleet targets across ALSA and North America, following on from previously announced targets for the UK.
- Launched a Group-wide net zero emission target for Scope 1 and 2 emissions, by 2040.

Remuneration linkage

25% of the Executive Directors' and senior managers' Long-Term Incentive Plan is linked to reducing GHG emissions and transitioning to ZEVs. See Remuneration Report commencing on page 89.

Environmental, social and governance

Becoming the environmental leader

As a high quality shared mobility operator, sustainability is integrated into our business and reflected in our strategy, our purpose, our values and our culture.

Our purpose, driving the modal shift from private cars to public transport, is critical to reducing air pollution and congestion and, through the accessibility and availability of public transport increasing social mobility. But we can have a unique opportunity to create a multiplier effect by both providing an alternative to private cars and decarbonising our fleet at the same time.

Vehicle emissions account for around 95% of the Group's Scope 1 & 2 emissions. In terms of reducing the impact of transport on the environment, we have an opportunity to provide an alternative to private cars but we have a further opportunity to act on climate change by decarbonising our fleet.

Transitioning to cleaner, greener, vehicles is key to meeting both our environmental and social goals and in doing so delivering on our Evolve strategy.

This year we announced new targets for the decarbonisation of our entire fleet and a Group net zero emissions target for Scope 1 and 2 by 2040.

Reporting

We have benchmarked our strategy to both the Sustainability Accounting Standards Board's (SASB's) Materiality Map® and the United Nations Sustainable Development Goals (SDGs), in order to ensure we are focused on the areas where we can make the biggest impact for our stakeholders.

This year, we have incorporated the TCFD recommendations into our reporting: outlining our approach to climate related governance, the management and integration of climate-related risk and opportunities, our transition plans, scenario modelling, metrics and targets (see pages 35 to 39).

We are pleased that our work has been recognised:

Sustainalytics: Rated in 2nd percentile of all transport companies (out of 349) and in 5th percentile of over 14,000 companies in Sustainalytics global universe

MSCI*: November 2021, MSCI rated AA, the second possible highest rating, with an industry- adjusted score of 8.5 out of 10

National Express is a constituent of the FTSE4Good Index Series

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Focus areas

Be the most reliable

SDG

SASB
Access & Affordability

Selected targets
Sustainable Cities and Communities SDG 11
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.

Key metrics
- Passenger numbers
- On-time performance
- Breakdowns

Be the safest

SDG

SASB
Quality & Safety/ Employee H&S/ Critical Incident Risk Management

Selected targets
Good Health and Wellbeing SDG 3
3.6 By 2020 halve the number of global deaths and injuries from road traffic accidents.

Decent Work and Economic Growth SDG 8
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.

Sustainable Cities and Communities SDG 11
11.2 – *as Most reliable*

Key metrics
- Zero responsible fatalities
- FWI/million miles
- Leading safety credential in each market
- Passenger numbers

Be the environmental leader

SDG

SASB
Air Quality/ GHG Emissions

Selected targets
Sustainable Cities and Communities SDG 11
11.2 – *as Most reliable*

11.6 By 2030, reduce the adverse per capita environmental impact of cities, included by paying special attention to air quality and municipal and other waste management.

Responsible Production and Consumption SDG 12
12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Climate Action SDG 13:
13.2 Integrate climate change measures into national policies, strategies and planning.

Key metrics
- Passenger numbers
- Absolute CO_2 emissions (tCO_2e)
- CO_2/million passenger km

Have the most satisfied customers

SDG

SASB
Access & Affordability/ Quality & Safety

Selected targets
Sustainable Cities and Communities SDG 11
11.2 – *as Most reliable*

Key metrics
- Passenger numbers
- Customer satisfaction score (CSATS)
- Net Promoter Score (NPS)

Be the employer of choice

SDG

SASB
Labour Practices/ Employee H&S

Selected targets
Decent Work and Economic Growth SDG 8
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.

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.

Key metrics
- Commitment to real Living Wage (or 10% above national minimum wage where Living Wage does not exist)
- FWI/million miles

Deliver strong financial returns

Environment

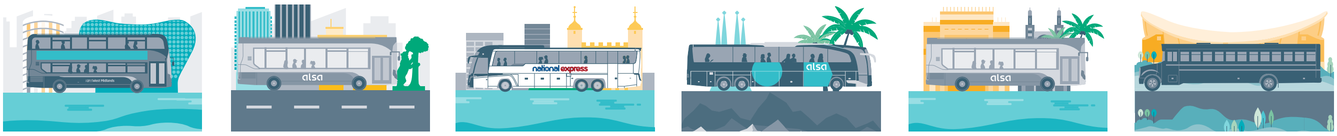
Be the environmental leader

This year we announced new targets for the decarbonisation of our entire fleet, building on the targets previously announced for the UK. We also announced a Group net zero target for Scope 1 and 2 emissions by 2040.

Our targets for fleet transition to zero emission vehicles can be seen below:

Zero emission fleet targets

2030	New 2035	2035	New 2040	New 2040	New 2040
UK Bus	Spain Bus	UK Coach	Spain Coach	Morocco	North America



Our Group target is net zero by 2040 (Scope 1 & 2 emissions)

In 2021, our environmental performance metrics have been impacted by Covid-19, with absolute environmental measures down (with services closed), but intensity measures up, due to lower occupancy (resulting from ongoing Covid-19 restrictions and corresponding falls in passenger numbers). See pages 221 to 223 for details, data and more information on our performance.

In the UK Bus operations, we launched 20 hydrogen buses, in partnership with Birmingham City Council, which are the first in regular service in England, outside of London. We are pleased to be the lead operator in Coventry, which is the UK's first all-electric city. The West Midlands has 49 ZEVs operating now, with 130 more on order which will begin service in 2023. We also have the ambition to scale up to over 200 Hydrogen buses from 2023.

In ALSA we introduced our first hydrogen bus in the year and now operate a total of 21 ZEVs across ALSA. In North America we operate a total of 102 ZEVs, predominantly in our Shuttle operations.

First of a kind

In 2021, we signed the first 'availability' contract in the UK with Zenobe, providing the Group with 'ZEVs as a service', without the requirement for upfront capital expenditure, with the availability provider accepting the risk transfer for issues such as battery performance and charging technology. This will enable us to transition our fleet faster than we could otherwise do and we are aiming to have similar contractual structures in North America and ALSA.

In North America, we are running a number of electric school bus pilots and now operate around 100 ZEVs in WeDriveU.

We also are the first public transport operator to run regular services using hydrogen buses in Madrid, Spain.

Scope 3 emissions are more complex to ascertain, but we have commenced a project, working closely with our core suppliers, to quantify the Group's Scope 3 footprint.

Social capital

Be the safest

The safety of all our people and how we embed safety into our culture is a key priority. Our safety criteria and frameworks are consistently applied everywhere we operate. Our Driving Out Harm initiative, launched in 2011 and refreshed as technology has advanced, has created and maintained a strong safety culture, reflected in our performance.

In particular, we have invested in training and tools (including Lytx DriveCam, Zonar, speed monitoring, fatigue monitoring, virtual wing mirrors, Alcolock and collision avoidance systems) to continually improve our safety standards.

In 2021, UK Bus and North America had zero at-fault major responsible injuries. A full update on our safety performance can be found on pages 85 and 86 in the Safety & Environment Committee Report.

Improving the accessibility and affordability of public transport is also key to our business. The corresponding positive impact on customer satisfaction and, in turn, passenger numbers, is key to our continued success, and our purpose: to drive modal shift. In the UK, we currently have Sprint rapid transit lanes under construction which, when open in 2022, will reduce journey times on the same routes by 20%.

Most Satisfied Customers

We are proud of our progress. For example, ALSA delivered significant increases in the quality of service in Casablanca, Morocco, working in partnership with the local authority. Since 2020, measures of customer satisfaction have increased from 6.8 in 2020 to 7.8 in 2021 and the Net Promoter Score has improved from -21 to +23. This has been driven by improvements in the customer experience, including safety, reliability and comfort. We have improved the diversity of our driver population, recruiting more female drivers, and have introduced new routes providing access for communities that were previously underserved.

North America school bus recorded its highest ever customer satisfaction score in 2021: 66% of customers gave the highest possible score.

In Germany, our reputation for performance and reliability has led to the award of the largest ever emergency contract in the German rail industry.

Most reliable

Our customers expect us to be reliable so they know they will get where they need to go on time. In North America, a late school bus has serious consequence and during 2021 we have continued to focus on on-time yard departures.

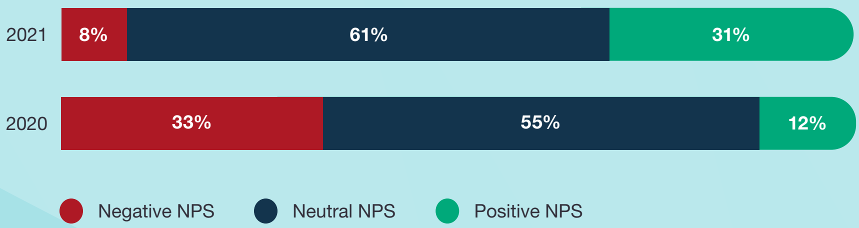
Through detailed analysis of our operations, we identified driver behaviour and scheduling as the key issues.

By reviewing and refining our processes our on-time departure has improved, leading to more consistent school arrival times and a reduction in penalties for lateness. This also supported the improvement in customer satisfaction scores, referenced earlier.

Driving customer satisfaction in Morocco

Satisfaction rate

Satisfaction rate improvement from 6.8 in 2020 to 7.8 in 2021 and the NPS from -21 to +23



Human capital

Employer of choice

We take our responsibilities to our 44,500 employees very seriously. In 2021, our Evolve strategy committed us to being the employer of choice.

During Covid-19, we maintained measures to undertake Pulse surveys in 2021, and were pleased to see engagement remained strong.

We measure progress through local employee engagement surveys and listening forums. We will be conducting our first global employee survey in 2022, which will enable us to have a consistent picture of our engagement scores.

Building on strong foundations, our refreshed people strategy will focus on sector leading employee engagement: creating a diverse and inclusive workforce and great people processes underpinned by our values.

Our 'listening' strategy is underpinned by regular and extensive internal communications with opportunities for two-way dialogue. The Board held four listening forums across all our territories in 2021, described in detail on page 64.

We have started the cascade of our Evolve strategy to all our employees. In doing so we will involve all employees in its delivery, promoting a common awareness of financial and economic factors affecting our performance.

In 2021, we increased our focus on health and wellbeing, providing access to wellbeing resources across divisions and a greater focus on mental health. We continued to protect colleagues during Covid-19, topping up wages impacted during furlough.

As part of our commitment to being the employer of choice, we support our people to participate in local community initiatives. However, due to Covid-19 restrictions, our level of community activity and associated investment was reduced in 2021. Nevertheless, we remain committed to our 1% PBT target.

Creating a diverse and inclusive workplace is very important to everyone at National Express. For example, we have recently rolled out a programme of unconscious bias training.

Our approach and performance are overseen by our Board and our Global Diversity & Inclusion (D&I) Council. See pages 74 to 75 of our Nominations Committee Report for more details.

We are fully committed to equal opportunities (see below).

Health Bus reaches visitor milestone

We are proud that in the UK, our employee 'Health Bus' won an award for 'Outstanding Contribution by an Employer to Workplace Health and Wellbeing' from the Society of Occupational Medicine. The award highlighted the excellent service the Health Bus has provided since launch in 2014. In 2021, the bus reached the milestone of more than 10,000 visitors and will be continuing its journey in 2022 with the launch of a new bus.

Equal opportunities

We are an equal opportunities employer and our 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.

We give full and fair consideration to disabled applicants for employment, having regard to their skills and capabilities, as well as recognising our 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. We work to ensure the continued career development of disabled persons including through training and promotion wherever their skills and capabilities permit.

We 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. Material concerns are reported to the Company's Board of Directors.

Governance

Governance is about having the best people governing our business and taking decisions on its behalf at every level of the organisation. We believe that the best people are those who are invested in the Company's purpose, behave in accordance with its values and are fully engaged in delivering its strategy. For full details, see our Corporate Governance Report on pages 50 to 108.

The Task Force on Climate-related Financial Disclosures

The Group has complied with the requirements of LR 9.8.6 R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures.

TCFD recommendation		Where in our TCFD disclosure is this addressed?
Governance	Board's oversight of climate-related risks and opportunities	A
	Management's role in assessing and managing climate-related risks and opportunities	B
Strategy	Climate-related risks and opportunities (short, medium and long term)	D
	Impact of climate-related risks and opportunities on the strategy and financial planning	E
	Resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or lower scenario	E
Risk management	Processes for identifying and assessing climate-related risks	C
	Processes for managing climate-related risks	C
	Identifying, assessing and managing climate-related risks, and integration into overall risk management	C
Metrics and targets	Metrics to assess climate-related risks and opportunities in line with strategy and risk management process	F
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks	G
	Targets used to manage climate-related risks and opportunities and performance against targets	F

A Board's oversight of climate-related risks and opportunities

The Board's oversight of environmental matters is through its Safety & Environment Committee, which meets three times a year. The Committee reports to the Board of Directors but all Non-Executive Directors are members of this Committee and the Executive Directors also attend its meetings in view of the importance of safety and the environment to the Company.

Key activities

The Safety & Environment Committee approved the Group's environment strategy, centred on the transition of the Group's fleet to zero emission vehicles (see section F below). The Committee reviewed a number of matters relevant to the strategy, including:

- economics and expected impact on the Group's Consolidated Income Statement and Balance Sheet;
- timetable and deliverability, including government and customer support and advancement of ZEV technology in each of the Group's core geographies; and
- communication to the Group's stakeholders.

The Committee also reviewed the Group's process for identifying climate-related risks and opportunities, and the summary thereof (see section D below), as well as agreeing the proposed climate scenarios to be financially modelled. Subsequently, the Committee reviewed the two climate scenarios (see section E below). These reviews included:

- due enquiry into how the risks and opportunities had been identified;
- robust challenge of whether the impact of the risks and the deliverability of the opportunities were realistic; and
- why the two climate scenarios had been chosen.

Training and development

To assist them in discharging their oversight responsibilities on the Group's environmental strategy and being able to give direction and raise challenges, the Directors engaged e4tech, a leading energy and sustainability strategy consultancy. The Non-Executive Directors are also members of Chapter Zero, the UK chapter of the Climate Governance Initiative.

B Management's role in assessing and managing climate-related risks and opportunities

The Company's Executive Directors are responsible for the delivery of the Group's environment strategy and the sponsors of its overall net zero and zero emission fleet ambitions. They have created a new role and appointed a Group Sustainability Director, who joined the Group in December 2021, to support this delivery and continue to develop the Group's environment and wider sustainability strategy. As the Group's environment strategy is centred on the transition of the Group's fleet to ZEVs, the Group has also established two steering groups to oversee and lead the ZEV transition. The below diagram explains the role different managers play in assessing and managing climate-related risks and opportunities:

Group Head of Compliance & Risk

Principal climate-related role & responsibility:

- Supports Company Executive Management in ensuring there is an effective risk management system

Company Executive Management (Group CEO & CFO)

Principal climate-related role & responsibilities:

- Delivery of the Group's overall strategy, including its zero emission fleet transition strategy and other climate-related opportunities
- Ensure effectiveness of the Group's risk management system, including for climate-related risks
- Management of the Functional Managers and Divisional Executive Managers, and being members of the Company ZEV Steering Group

Group Sustainability Director

Principal climate-related role & responsibility:

- Supports Company Executive Management in developing and delivering a sustainability strategy

Functional Managers

Managers and their climate-related responsibilities:

- Group General Counsel: assists with the identification of climate-related risks e.g. by advising on regulatory changes driving transitional risks
- Group Insurance Manager: assists with managing climate-related risks e.g. by securing insurance coverage for physical risks
- Group Safety Director: assists with managing climate-related risks e.g. by devising new safety policies and procedures to mitigate physical risks
- Group Procurement Director: assists with capitalising on climate-related opportunities e.g. by securing ZEV supplies on the best obtainable terms
- Group Head of Internal Audit: provides independent assessment of the effectiveness of climate-related risk management activities and of other functions' climate-related activities

Divisional Executive Management (Divisional CEOs & CFOs)

Climate-related role & responsibilities:

- Build climate-related risks and opportunities into divisional business plans, allocate resources for their delivery and manage and track their delivery
- Build the financial implications of climate-related risks and opportunities into divisional budgets and track these through forecasts

Company ZEV Steering Group

Membership: Group CEO, Group CFO, Divisional CEOs, Divisional ZEV Leads, Group Procurement Director, Group Commercial Director

Climate-related activities:

- Lead and oversee progress of delivery of ZEV transition plans
- Receive reports from Divisional ZEV Steering Groups on all matters reviewed by them

Divisional Commercial & Operations/Service Delivery Managers

Climate-related role & responsibilities:

- Manage the operational impact of climate-related risks e.g. develop and implement contingency plans to mitigate physical risks
- Deliver commercial arrangements to capitalise on climate-related opportunities e.g. arrange services to cover disruption caused by physical risks and apply for ZEV grant funding
- Assist in identifying new climate-related risks and opportunities

Divisional ZEV Steering Groups (x3)

Membership: Divisional CEOs, Divisional ZEV Leads, Divisional Procurement Directors, Divisional Commercial Directors

Climate-related activities:

- Develop and track progress against divisional ZEV transition plans
- Track financial impact of ZEV initiatives
- Review customer appetite for ZEV mobility
- Review ZEV supply chain relationships
- Review ZEV funding options
- Track ZEV technological advancements

C Processes for identifying, assessing and managing climate-related risks

Identifying and assessing

The Group's risk management system exists to identify, assess and report on all business risks, including climate-related risks (see pages 42 to 47 for more detail). This year, we introduced a specific climate-related risk self-assessment, completed by all the Group's divisions. Divisions assigned a probability of occurrence and a financial impact score against each of the climate-related risks identified.

In assessing these risks, we have considered materiality. For short- to medium-term risks, we have applied a level of materiality broadly equivalent to that used in the audit of our Financial Statements (5% of the Group's Underlying Operating Profit or £10 million (whichever is higher)). For longer-term risks, we assume a materiality of 10% of the Group's Underlying Operating Profit, as they are further away, less certain and the Group has longer to develop strategies to mitigate.

For each risk, divisions have assessed the expected 'velocity' and activities and controls in place to mitigate the risk, as well as the effectiveness of those controls. The risk assessment is split into two sections: physical risks (such as extreme weather events), and risks related to transition to a lower carbon society, such as the cost or operational challenges with transitioning rapidly to a zero emission vehicle fleet. Finally, each division has assessed potential opportunities related to climate change.

The risk assessments were reviewed by the Group Financial Controller, the CFO and the Group Head of Risk, and a report produced for the Safety & Environment Committee of the Board (a summary of the risks and opportunities is set out in section D below).

Managing climate-related risks

Climate-related risks, like any principal risks, are included in the divisional and group risk registers and are assigned Risk Owners, who are responsible for the day-to-day management of the risk and in charge of capturing and reporting any developments regarding the risk in the regular Risk Management updates that take place throughout the year. Any requirements to increase investment or expenditure to further mitigate the risks are discussed at the correct level of management and approved as per the Group's delegated authority framework.

Integration into the overall risk management

The newly introduced climate-related risk self-assessments feed into the wider divisional and group risk registers and any significant climate-related risks are captured on those for review and discussion at the various levels of management and the Board.

D Climate-related risks and opportunities

Physical risks and opportunities

We identified and assessed the following risks:

- Severe weather events damaging Company assets. For example, the loss of a key location due to a natural fire caused by extreme high temperatures, or a natural catastrophe such as a hurricane and/or floods.
- Severe weather events resulting in lost revenue. For example, increased lost operating days in North America due to snow causing schools to close, or flooding prohibiting us from operating services in certain locations.
- Rising sea levels impacting on operations located near to coasts, requiring relocation, additional insurance premiums or loss of premises.
- Extreme heat reducing tourism during peak summer months in Spain and Morocco.
- Increased insurance premiums.

Opportunities that could arise from the physical effects of climate change, even in a scenario where there is no coordinated, rapid central government intervention, include the following:

- Local authorities/city councils could introduce more stringent congestion charges or emission-free zones to counteract the impact of increased pollution. This would drive modal shift onto public transport.
- Extreme weather events could have more of a disruptive impact on rail infrastructure, resulting in increased cancellations of, or reductions in, rail services, resulting in modal shift from rail to bus or coach, as well as opportunities for rail replacement services.

Transition risks and opportunities

We considered the risk of regulatory change and/or customer demand requiring society to transition to zero emission cars and public transport. The transition would involve potentially material changes in procuring, maintaining and operating the assets, creating execution risk. It would also require significant change to infrastructure, along with a need to recruit, train and retain employees with the necessary skills to maintain and repair these vehicles. Furthermore, a rapid transition to zero emission fleets could result in a need to accelerate depreciation on non-ZEV vehicles.

However, transition to a lower carbon society also brings potentially huge opportunities for a public transport company, as governments around the world prioritise investment into public transport to help cities solve the challenges of the drive for a cleaner air environment and, at the same time, meet their countries' carbon reduction targets. Furthermore, should governments introduce bans on vehicles with internal combustion engines, this could drive significant modal shift out of private cars and into public transport.

E Impact of climate-related risks and opportunities

We developed two principal scenarios, both of which looked at the impact on the Group as of 2035: an extreme climate change scenario (assuming a lack of action to reduce emissions, resulting in more extreme weather events) and an extreme transition scenario (including an assumed ban on internal combustion engines). We chose 2035 as the year to assess the impact of our modelling as it was sufficiently long term for the negative impacts of climate change to develop whilst also being the earliest realistic date (even in an extreme transition scenario) for a potential global ban on the use of internal combustion engines.

We assessed the impact of these scenarios on the Group's profit, cash flow and net debt, as well as the impact on the covenant tests that apply to certain of the Group's borrowings.

Extreme climate change scenario

The extreme climate change scenario assumes governments fail to take coordinated action to address global warming, resulting in increased extreme weather events. This scenario effectively assumes the current warming rate continues unabated; rising to c.+4°C by the end of the century, as forecast by the Intergovernmental Panel on Climate Change (IPCC) in its worst case 'RCP 8.5' scenario.

We assumed a confluence of extreme weather events occurring at least once a year, every year. These included: damage to depots from flooding and fires; business disruption from extreme heat or cold/snow; and increased insurance premiums. We considered the impact of these before mitigations; we anticipate that mitigating actions could significantly reduce risk, for example by relocating assets away from localised flood or wildfire risks.

We concluded that the financial impact of those risks would not be material. We arrived at this conclusion because of the geographical spread of the Group; operating from hundreds of depots across 50 cities and 11 countries. Extreme weather events, whilst potentially very disruptive on a localised basis, are unlikely to impact all of the Group's physical locations in the same way at the same time. In any case, the Group's insurance policies cover many of the risks of physical damage, as well as the cost of business interruption.

Extreme transition scenario

This assumes that governments align on a coordinated decarbonisation strategy to limit the global temperature increase to 1.5°C above pre-industrial levels, as projected by the IPCC's 'RCP 2.6' scenario. Specifically, we have assumed that this involves a global ban on the use of any internal combustion engine vehicles from 1 January 2035, announced during 2022.

This scenario identified that whilst there could be financial impact from risks such as failing to comply with new regulatory requirements, difficultly in recruiting and retaining employees with the necessary skills to repair and maintain vehicles, and changing customer behaviour (e.g. resulting in lower demand for high carbon emitting activities such as flying and cruise ships, which in turn could impact our associated transport services to and from those places), these are not expected to be material either individually or in aggregate.

In modelling the impact of a ban on diesel vehicles from 1 January 2035, we concluded that, whilst the Group does not underestimate the operational challenges and, to that end, has set up the appropriate governance to plan for it, there would be no material adverse financial impact on the Group. This is because: we would have 13 years to plan for it; a 2035 target would not necessarily require much acceleration of fleet replacement beyond normal replacement cycles and our existing ZEV targets; and we have already identified that total cost of ownership for electric buses is better than for diesel.

Opportunities

In both scenarios there are potentially very material upside opportunities from modal shift.

In the extreme climate change scenario, whilst it is assumed that central governments take no action to reduce emissions, it is likely that local government authorities or transport authorities would unilaterally impose measures to address congestion and pollution in cities. These measures could include clean air zones or congestion zones that levy fees for cars, or even ban them from city centres completely. This would force modal shift out of private car and into public transport.

In the extreme transition scenario, as well as local authorities potentially imposing measures, it is likely that central governments would bring about measures to either ban combustion engine cars or make them prohibitively expensive, as well as incentivising the transition to ZEVs.

The UK's Climate Change Committee predicts that 9-12% of car journeys could be switched to bus by 2030, with 17-24% being switched by 2050. According to our analysis of the Department for Transport's 'Passenger transport by mode' 2019 statistics, a modal shift of 1% from car to bus would result in an increase of 23% bus passenger kilometres.

Conclusion

Under the most extreme climate scenarios, we anticipate the modal shift opportunities to more than offset the risks.

Our conclusion does rely on various assumptions, with varying levels of confidence. The following two assumptions are of note, as there is uncertainty attached to them and we will accordingly monitor and re-assess closely:

- Whilst electric is becoming established as a viable, and indeed more cost effective, alternative for urban buses, the zero emission solutions for long haul transport are less developed. The current expectation is that hydrogen will be the solution, but the technology is not as proven as electric buses.
- We have assumed that there will be political will, and hence government support, in the USA for electrification of school buses; the early signs are promising.

F Metrics and targets used to assess climate-related risks and opportunities

To limit the effects of climate change, the Group will focus on reducing its carbon footprint by monitoring metrics and setting emissions reduction targets.

In 2019, the Group adopted a set of intensity base metrics which are measured year-on-year and are used as the basis for three absolute science-based targets on GHG emissions, using the Sectoral Decarbonisation Approach (SDA) methodology. These targets have not yet been registered with the SBTi as the Group is first required to complete its Scope 3 footprint. These metrics or key performance indicators (KPIs) measure the level of carbon emissions from our vehicles and our sites. Our KPIs were chosen to meet the, then-prevailing, IPCC goal of controlling the increase in global warming to below 2°C. We aim to achieve these SDA KPIs over an initial seven-year performance period, 2019 to 2025, with 2018 being the baseline year. The three science-based targets sit alongside more traditional targets for onsite (Scope 1 & 2) emissions, landfilled waste disposal and water usage.

The performance against KPI intensity targets for 2020 and 2021 has been materially impacted by the significant reduction in passenger numbers and mandatory requirements limiting occupancy, both of which reduce the environmental efficiency relative to normalised operation. While absolute emissions have materially improved as we travelled significantly fewer miles and sites have been closed for long periods, our intensity metrics have worsened (i.e. emissions per passenger km have increased), driven by lower occupancy across the business and a mix away from long distance coach businesses and into urban bus businesses.

Please see page 98 to 99 for information on how our GHG reduction metrics and increase in zero emission vehicles are used as a remuneration metric in relation to the Executive Directors' and senior managers' LTIP scheme.

The table below shows the overall Group targets through to 2025 and our progress to date from our baseline year of 2018. More detail on these targets and on performance against them is set out in the detailed environmental data disclosures on pages 221 to 223.

Reduction target description (metric)	Base year (2018)	2025 target	Required % reduction from 2018	2021	% change from base year	% change YOY (2020-2021)	**Required % reduction to meet target**
Traction Energy: (vehicle fuel and electricity) ***MWh/mpkm***	66.92	58.72	(12.25)%	86.19	28.8%	20.7%	**(31.9)%**
Traction Carbon Emissions (Scope 1 & 2) ***tCO_2e/mpkm***	17.67	15.45	(12.53)%	24.15	36.7%	8.4%	**(36.0)%**
Total Scope 1 & 2 Emissions ***tCO_2e/mpkm***	19.26	16.45	(14.59)%	25.34	31.2%	5.9%	**(34.9)%**
Site Scope 1 & 2 Emissions (building use only) ***tCO_2e***	41,656	38,199	(8.30)%	31,683	(23.9)%	(13.3)%	**Met**

As an early adopter of decarbonisation targets, the Group initially set KPIs designed to meet the IPCC goal of controlling the increase in global warming to below 2°C. These new targets introduce Net Zero targets for the Group for the first time, as well as new targets for fleet decarbonisation at the divisional level, where our vehicles currently contribute around 95% of the Group's Scope 1 and 2 emissions.

At the Group level, we have launched a new target to achieve net zero (Scope 1 & 2) by 2040. Delivery of our Group-wide targets will be achieved through our ambition to replace all carbon emitting vehicles – see page 32 for full details of our zero emission targets, and for details of ZEVs we are currently operating. Going forward we will report externally in our annual report on the number of ZEVs that the Group is operating.

G Scope 1, 2 and 3 GHG emissions and related risks

We measure our absolute Scope 1 and 2 emissions and are increasingly developing our Scope 3 emissions reporting. By reducing our absolute emissions, we believe we are reducing our exposure to risks of regulatory change, public policy and changing customer demands – please see pages 42 to 47 for more information on our principal risks and uncertainties. As the Group decarbonises, these risks are expected to become opportunities as the Group's businesses leverage the environmental benefits delivered through greater use of public transport.

tCO_2e emissions by scope	2016	2017	2018	2019	2020	2021	% change YOY (2020-2021)
1	815,788	801,061	808,650	823,582	**514,106**	**657,239**	27.8%
2	95,107	60,682	48,583	49,938	**67,879**	**73,649**	8.5%
3	9,620	6,127	7,627	8,221	**8,641**	**5,762**	(33.3)%
Total	**920,516**	**867,870**	**864,859**	**881,741**	**590,626**	**736,650**	**24.7%**

Scope 1 emissions (from combustion of fuels) represent the largest category for emissions, with vehicle emissions representing around 95% of Scope 1 emissions. Scope 2 emissions (from electricity usage) represent energy usage both in our buildings and in our German rail operations. Scope 3 emissions represents business travel, waste, water and certain other upstream emissions. However there is more work to be done to quantify a complete set of Scope 3 emissions. We have initiated a screening exercise in order to develop our understanding of Scope 3 emissions and will report on our progress in our 2022 Annual Report. We recognise the importance of emissions data, and ESG data more generally, and the quality of data underpinning it. Accordingly we continue to enhance our approach and processes in line with external expectations. Whilst we do utilise external support in the calculation and compilation of the Group's emissions, the Group's disclosures are not currently subject to independent assurance. For more information on the emissions data, please refer to our detailed environmental disclosures on pages 221 to 223.

Engaging our stakeholders

Colleagues

Why they are important to strategy
Our people are the heart of our business. They are at the front line of executing strategy, ensuring that our services are the safest and most reliable and that our customers are the most satisfied

How we engage
– Group HR oversight with divisional HR programmes
– Regular Group communications and divisional newsletters
– Open lines of communication with Group and divisional management and two-way dialogue with the Board
– Constructive dialogue with trade unions
– Employee engagement surveys

What they value
Our employees expect us to look after their safety, health and wellbeing. They expect a workplace that values diversity and champions inclusion, and an employer that respects legal rights. They want fair reward and recognition for their work and opportunities for progression. They value regular and clear communication

Delivering for them
– We maintain the highest safety standards to protect health and wellbeing
– We were the first transport company to adopt the real Living Wage or equivalent
– We have increased investment in development programmes
– We are promoting diversity and inclusion

Link to KPIs: FWI

Market and regulatory factors
– Labour laws can impact working conditions and cost of employment
– Qualification and training regulations can impact recruitment time
– Immigration laws can impact access to labour pools
– Competitor pay and working conditions can impact recruitment and retention
– Flexible working conditions and benefits can attract and retain a more diverse workforce

Opportunities
– An engaged workforce can better support delivery of strategic goals
– Knowledgeable and well trained employees can help us innovate and identify new opportunities
– Favourable workplace conditions can attract and retain talent

Risks
– Labour shortages can hinder our ability to deliver reliable services
– Discontent can lead to strikes or attrition
– Mandatory Covid-19 vaccinations or testing can cause attrition and increased process and costs

Passengers and customers

Why they are important to strategy
Our ability to win passenger and customer loyalty and satisfaction in both our B2B and B2C businesses by meeting expectations for the provision of safe and reliable services is central to our ability to consolidate our markets and compound our growth

How we engage
– Local relationships guided by Group standards
– Intuitive and highly rated websites, apps and social media, and easily accessible customer service centres, for passengers
– Direct dialogue with transport authority, school board and corporate customers
– Passenger feedback and customer satisfaction surveys

What they value
Our customers and passengers want safe and reliable services, and great value for money. They value consistent service delivery that generates trust. They expect prompt and pragmatic responses to changing demands, and open and honest communication. Increasingly they also want to do business with a socially responsible and sustainable company

Delivering for them
– We are consistently the most trusted transport provider in B2C passenger trust scores and we have consistently improved our B2B customer satisfaction scores
– We invest heavily in our safety programme
– We train our employees to offer great passenger and customer service
– We adapt our services, develop operational initiatives and invest in technology, to best meet our passengers' and customers' needs

Link to KPIs: Passenger journeys and FWI

Market and regulatory factors
– Passenger confidence in public transport and changing travel behaviours as we emerge from the Covid-19 pandemic impact demand
– Regulation to achieve better air quality in cities can increase the relative attractiveness of shared mobility for passengers and prompt B2C customers to seek more shared mobility solutions
– The de-regulation or re-regulation of certain markets can create new opportunities and risks

Opportunities
– More optimised transport networks, and greener fleets, can attract more passengers
– Increased North America school bus outsourcing and corporate client shuttle solutions can create new customer opportunities
– Increased congestion and clean air charging increases the relative attractiveness of shared mobility

Risks
– Macro political and economic events can change travel behaviours and transport funding
– Increased competition can erode market share and reduce margins

Suppliers

Why they are important to strategy
Our suppliers partner with us to supply the resources we need to deliver our services, and innovative solutions to continuously improve those services, in furtherance of our strategy

How we engage
– Local divisional relationships supplemented by oversight from the Group procurement team
– Tendering contracts and engaging in contract negotiations
– Governing contracts including by formal contract reviews

What they value
Our suppliers want to work in partnership and collaborate with us and invest in relationships over the long-term to achieve mutual benefits. They value good line of sight on placement of orders and fair engagement and payment terms

Delivering for them
– We invest in long-term supply relationships and give good visibility on orders wherever we can, with a focus on new long-term relationships with suppliers of zero emission vehicles and alternative energy supplies
– We contract on mutually acceptable commercial terms
– We meet our payment obligations

Link to KPIs: ROCE

Market and regulatory factors
– Component shortages and labour shortages can disrupt the supply chain
– Increased regulation affecting suppliers, such as changes in import/export rules and charges, can impact the cost and speed of the supply chain

Opportunities
– Our scale and long-term relationships give us access to more competitive pricing and to priority in manufacturing slots and so delivery times
– Investing in long-term relationships can aid our transition to a zero emission fleet by giving suppliers confidence to invest in developing innovative solutions with us

Risks
– Poor quality control by suppliers can compromise our supplies
– Financial difficulties for suppliers can compromise our supplies

Our Section 172(1) Statement

Our Company Directors have had regard to our stakeholders' interests as described on these pages, and the other matters set out in Section 172(1) (a) to (f) of the Companies Act 2006, when making key decisions on behalf of the Company during the year under review. Two case studies, examining the way in which they did so when making two of the Board's most material decisions, are set out on pages 56 to 59 of the Corporate Governance Report, and are incorporated into this statement by reference.

Equity and debt investors

Why they are important to strategy

Our equity and debt investors give us ready access to capital which enables us to fund the delivery of our strategy

How we engage

- Market announcements, financial results presentations and investor roadshows, including the Capital Markets Day to communicate the Evolve strategy
- Annual General Meeting and other direct engagement by the CEO, CFO, Chair and other Board Directors with shareholders and by the CFO and treasury team with debt providers

What they value

Investors value clarity of strategy and business model and consistent financial performance and returns. They expect strong risk management and internal controls, and compliance with listing obligations and debt terms. They increasingly expect commitment to sustainability and environment, social and governance matters

Delivering for them

- Pre-pandemic, we had a consistent track record of strong financial performance, which is being rebuilt post pandemic
- We maintained an investment grade rating throughout the pandemic, which was recently upgraded
- We secured MSCI rating AA for ESG, with particularly strong governance scores
- We are recognised as a top-rated ESG Performer by Sustainalytics

Link to KPIs: Underlying Operating Profit, free cash flow, ROCE

Market and regulatory factors

- Macro events such as the pandemic and its impact on our operations and financial performance can materially impact our share price and liquidity
- Regulation relating to our equity listing can increase our costs
- Regulation of debt providers can impact access to and/or cost of capital

Opportunities

- Investors' increased focus on ESG should increase the demand for quality public transport stocks
- Cost and access to debt capital should favour purpose-led companies with positive environmental impact

Risks

- Constrained equity and/or debt markets could increase the costs of capital or debt financing
- Capital is diverted towards 'moon shot' disruptors impacting fundamental valuations

Governments

Why they are important to strategy

Central and local government authorities set transport policies and provide funding for transport initiatives, which can create favourable conditions for the delivery of our strategy

How we engage

- Local relationships guided by Group standards
- Formal alliances, such as the Bus Alliance in the West Midlands
- Direct bilateral discussions
- Industry groups and associations

What they value

Governments want safe, reliable and good value passenger transport services for the benefit of the communities they serve. They seek partners who will work with them to solve the challenges of clean air and traffic congestion

Delivering for them

- We invest consistently in the safety and operational reliability of our services
- We keep service standards high while keeping prices low on services that generally serve communities
- We are working towards ambitious fleet decarbonisation targets across our markets

Link to KPIs: Passenger journeys, GHG emissions and FWI

Market and regulatory factors

- Governments can impose restrictions on travel, as they did through the pandemic, impacting demand
- Laws and regulations on driver licensing and training, vehicle condition and testing, and Covid-19 vaccinations or testing directly impact our economics
- Increased regulation to reduce carbon emissions can create demand for green technologies but make older technologies obsolete

Opportunities

- UK bus franchising and re-regulation of certain markets present new opportunities in markets we are not yet in
- Increased grant funding to support transition to zero emission fleet can improve our economics

Risks

- Spanish concession re-tendering and de-regulation of certain markets can reduce margins or increase competition
- Reduction or withdrawal of government support for public transport can worsen our economics

Communities

Why they are important to strategy

The communities in which we operate drive the demand for transport services that underpins our strategy as well as being where our employees live and work

How we engage

- Each division has well established community support programmes under the umbrella of the National Express Foundation
- The Youth Promise in the UK
- Partners Beyond the Bus in North America
- The Integra Foundation Partnership in ALSA

What they value

The communities in which we operate look to us for safe and affordable transport services and opportunities for rewarding employment. They also value companies which give back to their communities

Delivering for them

- We offer attractive employment opportunities by investing in colleague health and wellbeing, paying a fair wage, investing in training and development, and promoting diversity and inclusion
- We support our communities through making donations to community charities

Link to KPIs: Passenger journeys and FWI

Market and regulatory factors

- Mobility restrictions put in place through the pandemic have dented the confidence of some members of communities in public transport
- Increasing regulation such as Low Emission Zones will help drive modal shift to public transport

Opportunities

- Increased congestion and clean air charging increases the relative attractiveness of shared mobility
- Increasing awareness of global warming and air quality issues creates demand for alternatives to the car

Risks

- Community confidence in using public transport may not return, and/or travel behaviours by members of the community may not revert to pre-pandemic norms

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 a leading international transport company, 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, it:

- 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.

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 the risk either 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.

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. The acceptable level of risk is assessed on an annual basis by the Board, which defines its risk appetite against key indicators including potential impact of risk, likelihood of risk and ability to reduce risk through mitigation. This ensures alignment between our view of acceptable risk exposure and the strategic priorities of the Group.

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	– Sets strategic objectives – Determines overall risk culture and appetite – Establishes delegated authorities and clear operating processes – Reviews and approves Group Risk Register, Risk Appetite Statement and Emerging Risk Register
	Audit Committee	– Conducts 'deep dive' reviews of divisional risk registers, or specific Group risks
Third line	Group internal audit	– Provides reasonable assurance that systems of risk management, internal control and governance are effective
Second line	Group Executive Committee Group functions including Risk	– Support divisions with 'first line' responsibilities – Coordinate and report on Group-level risks – Build risk capability and understanding
First line	Divisional Executive Committees Divisional management	– Identify, assess and report key risks – Regularly review and update divisional risk registers – Implement risk mitigation plans

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. From the start of the pandemic, the Group sought to limit its impact by renegotiating contracts, entering into 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. A moderate likelihood, significant impact risk is reflected in the principal risk matrix 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.

Climate-related risks

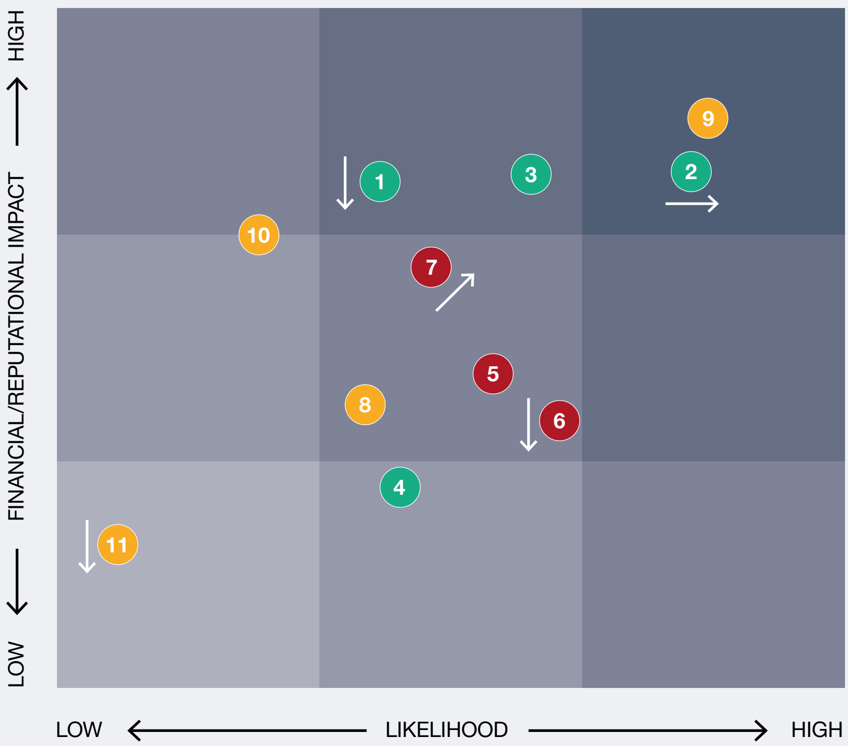
In line with the TCFD requirements, a climate-related risk assessment has been undertaken across the Group during 2021 and its results have been reviewed by the Board.

In summary, it has been assessed that whilst the Board believes that it is highly likely that extreme weather events will increase in frequency and intensity and a new, more stringent, regulatory landscape demanding cleaner vehicles will be introduced by governments in most of the geographies where the Group operates, the net financial impact of those risks will be low.

The Group's operations are geographically very diverse; the Group has hundreds of depots across 50 cities in 11 countries. It is highly unlikely that many of them would be affected by extreme weather events simultaneously, and therefore any damage would be considered immaterial from a Group-wide perspective. It was also concluded that although it is probable that new environmental regulation will lead to the need to transition to zero emission vehicles over time, the Group is already planning to do this and has set industry-leading targets.

In any climate-related scenario, the opportunities associated with modal shift out of private cars and into public transport are potentially very material; more than offsetting any downside financial impact.

Principal risk matrix



Key

↑ Denotes movement in risk during the year

Macro/external risks

1. Extended Covid-19 impact
2. Economic conditions/ driver shortages
3. Political/geopolitical/ regulatory landscape
4. Climate risk (physical)

Strategic risks

5. Changing customer expectations in a digital world
6. Climate risk (transitional)
7. Competition and market dynamics

Operational risks

8. Attraction/retention of talent/HR/ labour relations
9. Cyber/IT failure/data protection
10. Safety, security incident, litigation and claims
11. Credit/financing

Emerging risk

The Emerging Risk Register is reviewed and approved by the Board. The Group considers an emerging risk to be one that cannot yet be fully assessed and 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;
- preliminarily 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 mobility as a service 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.

Key

- Increase in risk during the year
- Reduction in risk during the year

Macro/external risks

1. Extended Covid-19 impact

Risk movement: Reduction

Risk appetite: N/A

Potential 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

Management/mitigation
- Re-balance investment across our portfolio in the short term, e.g. less reliance on airport work
- Remain flexible to scale service up and 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 employees to ensure safety is paramount

Opportunity
- 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 air pollution

Change in risk in the year
- Sporadic and ongoing local and national lockdowns throughout the year have continued to impact mobility and hence demand for our services
- Extensive vaccination programmes have taken place throughout 2021 in all our geographies. Vaccines and new dominant variants appear to have reduced the severity of the disease, and in turn, increased travel confidence

2. Economic conditions/ driver shortages

Risk movement: Increase

Risk appetite: Moderate

Potential impact
- 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 employees, or cause inflationary pressure on costs

Management/mitigation
- 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

Opportunity
- Despite a generally unsettled economic outlook due to the pandemic, private consumption and demand conditions for public transport continue to be strong
- Higher unemployment rates should relieve pressure on labour costs and turnover

Change in risk in the year
- Global shortages in drivers and concern over vaccine mandates have led to increased difficulties in attracting and retaining drivers

Key

- Increase in risk during the year
- Reduction in risk during the year

Macro/external risks

3. Political/geopolitical/ regulatory landscape

Risk movement

Risk appetite N/A

Potential impact
- 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

Management/mitigation
- 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

Opportunity
- Political and social pressure continues to grow on congestion and clean air, which favours public transport
- Increasing city regulation and investment in public transport
- Continued liberalisation of markets in many territories

Change in risk in the year
- Following continued delays in recent years, we now expect the Spanish Long Haul franchise renewals process to commence in 2022. Significant sums of money committed to drive public transport projects in the UK, the USA and the EU to combat pollution and congestion
- UK Bus franchising looking more likely in some cities (e.g. Manchester) and less in others (e.g. Birmingham)

4. Climate risk (physical)

Risk movement

Risk appetite N/A

Potential impact
- 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

Management/mitigation
- 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

Opportunity
- Potential for increased legislation at local or national level to drive modal shift to reduce the impact on the environment

Change in risk in the year
- Continued general increase in extreme weather events around the globe, including hurricanes, storms, floods and wildfires
- In-depth Climate-related Risk Assessment conducted during 2021

Strategic risks

5. Changing customer expectations in a digital world

Risk movement

Risk appetite Moderate

Potential impact
- 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

Management/mitigation
- 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

Opportunity
- 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

Change in risk in the year
- Significant investment in potentially disruptive business models in the mobility space
- Innovation programmes implemented in North America, UK and Spain continue to improve the customer digital experience
- Continued increases in bookings through online and digital mobile platforms

Key

- Increase in risk during the year
- Reduction in risk during the year

Strategic risks continued

6. Climate risk (transitional)

Risk movement: Reduction

Risk appetite: High

Potential impact
- Increasing popular, political and customer demand for ZEVs
- Transition involves potentially material changes in financing, to maintain and operate the assets, creating execution risk
- Requires significant change to infrastructure

Management/mitigation
- Environmental leadership with pledge to never again buy a diesel bus in the UK. Ambition to reach zero emissions in UK Bus by 2030; UK Coach and Spain bus by 2035; and Spain coach, North America and Morocco by 2040
- Cross-division executive leadership of ZEV strategy
- Close engagement with new and existing original equipment manufacturers
- Pilot testing in a number of areas

Opportunity
- ZEVs 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
- Clear opportunities to fulfil our vehicle requirements through 'availability contracts', which require no capital expenditure and reduce technology risk, enabling a faster transition

Change in risk in the year
- Introduction of 20 hydrogen buses, potentially scaling to 200
- Signed first 'availability contract' with Zenobe for around 200 electric buses and related infrastructure
- Increased pilots in Spain and North America
- School boards in North America beginning to take ZEV adoption seriously
- Infrastructure funders looking to facilitate the transition

7. Competition and market dynamics

Risk movement: Increase

Risk appetite: N/A

Potential impact
- 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

Management/mitigation
- 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

Opportunity
- 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

Change in risk in the year
- A new discount coach brand entered the UK (and rapidly entrenched)
- Spanish high speed rail rejuvenated by de-regulation

Operational risks

8. Attraction/retention of talent/HR/labour relations

Risk movement

Risk appetite: Moderate

Potential impact
- Lack of available management talent/leadership skills can inhibit growth
- Shortages in drivers and other key roles 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

Management/mitigation
- 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

Opportunity
- Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities

Change in risk in the year
- Driver shortages in North America school bus expected to last for the entire 2021/22 school year
- Lower unemployment levels in key markets have led to higher pressures on recruitment, retention and cost inflation
- Up-weighted Group HR team

Key

- Increase in risk during the year
- Reduction in risk during the year

Operational risks

9. Cyber/IT failure/ data protection

Risk movement Increase

Risk appetite Low

Potential impact
- Major IT failure could disrupt operations and lead to loss of revenue
- Data compromise involving a loss of customer information could result in reputational damage and significant remedial costs
- Breach of the UK Data Protection Act (DPA), EU General Data Protection Regulation (GDPR) or the US California Consumer Privacy Act (CCPA) could result in a regulatory investigation and financial losses

Management/mitigation
- Continuous investment in organisational and technical measures to protect data assets
- A cyber security strategy aligned with the threat landscape
- Regulatory compliance plans in place, tailored to each division's exposure (DPA, GDPR or CCPA)

Opportunity
- Strengthened resilience against cyber threats and IT outages increases awareness and leverage of technology across the Group

Change in risk in the year
- Increase and professionalisation of ransomware attacks across the globe targeting all industries
- Additional states in the USA introducing data protection legislation
- Cyber security investment continuously supporting further resilience and risk management

10. Safety, security incident, litigation and claims

Risk movement

Risk appetite Low

Potential impact
- 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
- Non-compliance with regulations can create legal and financial risk
- A security incident (e.g. terrorism) would have a 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

Management/mitigation
- Very strong safety culture
- Dedication to leading edge safety technology
- Appropriate insurance coverage for terrorism and accident-related claims to employees and third parties with experienced claims management and legal teams in each division
- All divisions have developed emergency plans and established safety audit programmes, validated by Group internal audit

Opportunity
- Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering

Change in risk in the year
- Whilst the pandemic has exposed the Group to potential claims from employees or passengers contracting Covid-19, there have been limited claims to date and our estimation of the potential liability has come down
- The Group was able to achieve satisfactory insurance renewals due to our commitment to safety and to effective litigation/claims management

11. Credit/financing

Risk movement Reduction

Risk appetite Low

Potential impact
- 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

Management/mitigation
- 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

Opportunity
- Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth

Change in risk in the year
- Fitch revised its rating up to BBB (stable)
- Over half a billion pounds of facilities were allowed to lapse during the year due to the Group's significant liquidity levels
- Lending covenants amended until December 2022

Viability

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 4% 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 50 cities across 11 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
- 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 the Covid-19 pandemic, 90% of free cash flow was 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, including the recent emergency award in Germany and new wins in school bus and shuttle.

The Group has strong liquidity, with £0.9 billion of cash and undrawn facilities available as at 31 December 2021. The Group's credit rating is investment grade.

Principal risks and assessment period

The Board reviewed the Group's principal risks (pages 42 to 47), 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 specific risks modelled are outlined below. While there are other principal risks included in the Group's risk matrix, these are not considered to have a material financial impact in the near term.

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, principally including the following:

- Pandemic: the impact of Covid-19 is expected to have subsided in any scenario
- Regulatory: the outcome of the majority of the major Spanish concessions renewals is expected to have become more certain
- Financing: the Group's next major refinancing activity will be complete, with the replacement of the £400 million bond in November 2023

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 and climate change, 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 new strains of the virus resulting in periodic re-impositions of mobility restrictions or reduced levels of customer confidence to use public transport in the short term.

In this downside scenario we assume that Group revenue (on a constant currency basis) does not recover to pre-pandemic levels until the end of 2023; this is broadly a year later than our base case.

The base case assumes that there will continue to be Covid-19-related government support in 2022; this is detailed in the going concern assumptions in note 2 to the Financial Statements: the downside assumes a reduction in this funding. No government support beyond pre-pandemic levels is assumed beyond 2022 in any scenario.

Climate change

Utilising the Group's new climate risk assessment process, which is a very granular risk assessment that has been built up by division, the Board has also considered how climate risks could impact the Group's viability.

More detail on the Group's assessment of risks and opportunities from climate change is contained in our TCFD disclosures on pages 35 to 39. The key conclusions pertaining to the viability assessment were as follows:

- Given the Group's geographic diversity, operating from hundreds of depots in 50 cities across 11 countries, the financial impact of extreme weather events over the three-year viability period was not likely to be material. Nonetheless, for stress test purposes, the financial projections include some level of impact from disruption caused by extreme weather events.
- Transitional risks, from governments taking concerted action to reduce emissions, were unlikely to cause any material adverse impact over the viability period given that, whilst the vast majority of the Group's emissions are from vehicles, the Group is already targeting industry-leading timescales for transitioning its vehicles to zero emission.

All other stress tests

The following downsides were evaluated and modelled:

Economic conditions/driver shortages:
driver shortages are ongoing and high levels of inflation on wages and other costs impact profit margins while also reducing customer demand as a result of reduced disposable income.

Competition and market dynamics:
there is additional competition in our long haul markets in the UK and Spain as a result of new market entrants and aggressive high speed rail pricing strategies, and new contract wins assumed elsewhere in the Group in the latter years of the assessment period are reduced.

Political/geopolitical/regulatory landscape:
the Spanish concession renewal process is brought forward by a year and results in material margin loss, while funding for UK Bus is also reduced as a result of government budget cuts.

Cyber/IT failure/data protection:
IT system failure and data loss following a cyber attack causes significant revenue loss and financial penalties.

Safety, security incident, litigation and claims:
following a major safety/terrorism-related incident, either on board our vehicles or in the wider markets in which we operate, there is a reduction in demand for discretionary travel.

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.

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	– Group Environmental Policy – Health & Safety Policy	+ Environment page 32 + Safety & Environment Committee Report pages 84 to 88 + Environmental performance data pages 221 to 223 + www.nationalexpress.com/sustainability
Employees	– Equal Opportunities & Diversity Policy – Workplace Rights Policy	+ Social capital page 33 + Human capital page 34
Human rights	– Human Rights Policy – Modern Slavery Policy – Whistleblowing Policy – Privacy Policy	+ Human capital page 34 + Audit Committee Report pages 78 to 83
Social matters	– Rather than a specific policy, our approach to social matters is framed by our Community and Environment Value	+ Social capital page 33
Anti-corruption and anti-bribery	– Anti-bribery and Corruption Policy – Purchasing Policy	+ Social capital page 33 + Audit Committee Report pages 78 to 83
Policy implementation, due diligence and outcomes	– Anti-bribery and Corruption Policy – Purchasing Policy	+ Corporate Governance pages 50 to 70 (including Board activity during the year page 55 and Audit Committee Report pages 78 to 83)
Principal risks and impact on business activity		+ Risk management pages 42 to 47 + Audit Committee Report pages 78 to 83
Description of business model		+ Our business model pages 6 to 7
Non-financial key performance indicators		+ Key performance indicators pages 28 to 29 + Environmental performance data pages 221 to 223

Our 2021 Strategic Report, from the inside front cover to page 49, has been reviewed and approved by the Board.

Ignacio Garat

Ignacio Garat
Chief Executive Officer
National Express Group
9 March 2022

Chairman's introduction to Corporate Governance

Sir John Armitt CBE
Chairman

> Our well established corporate governance has helped the Board lead the Company and its Group through another challenging but exciting year"

Governance at a glance

Effective decision-making, including in accordance with our s.172(1) duty – see the Board's activities on page 55 and the s.172(1) case studies on pages 56 to 59

A focus on Board and senior management succession planning, talent development and diversity – see our Nominations Committee Report on pages 71 to 77

Robust and ever-evolving risk management and internal controls – see our Audit Committee Report on pages 78 to 83

A drive to lead the industry in safety and environmental matters – see our Safety & Environmental Committee Report on pages 84 to 88

Carefully balanced Director pay decisions, having regard to all relevant considerations – see our Annual Statement by the Remuneration Committee Chair and Directors' Remuneration Report on pages 89 to 108

Strong corporate governance underpinning our purpose and decision-making

I am pleased to report that our well established corporate governance has helped the Board lead the Company and its Group through another challenging but exciting year in which we have seen that our corporate purpose, of leading the modal shift from cars to mass transit, has remained critical to the customers and communities we serve. This Corporate Governance Report describes our governance practices. Our corporate governance framework within which those practices operate is set out on page 67.

During the year, the Board and its Committees took a number of key decisions and oversaw a range of initiatives and events, from approving the Group's Evolve strategy and the adoption of ambitious carbon reduction targets, to overseeing the performance of each of the Group's business divisions and the development and rollout of the OPERATE programme, as well as the delivery of the Company's Capital Markets Day.

The Board also decided to make an offer to effect the potential combination of the Company and Stagecoach. As explained in the Company's market announcement made on 14 December 2021, such a combination represents a strategically compelling proposition which is expected to create value for both the Company's and Stagecoach's shareholders and other stakeholders, for the reasons summarised on pages 56 and 57 which form part of our section 172(1) statement. Shortly prior to the approval of this Report, Stagecoach announced that it had received a competing offer which its board of directors intends to accept. The Company's Board is considering its options but continues to believe that the Company's offer for Stagecoach is compelling.

Strategy, risk management, internal control, and safety & environmental leadership

The Board is responsible for reviewing the Group's strategy and its management of risk and ensuring that there is a robust system of internal control in place. The Board, supported by its Audit Committee, has been active during 2021 in discharging these responsibilities, by overseeing the launch of the Evolve strategy, conducting 'deep dive' reviews of Group-wide and divisional risks, including climate-related risks, and monitoring the Group's overall compliance programme.

The Board's Safety & Environment Committee also continued to monitor the Group's all-important safety programme and its continued drive to demonstrate environmental leadership in our industry through the development of the fleet zero emission transition strategy, reinforced by the adoption of new zero emission fleet targets for the Group's ALSA and North American operations which complement those already adopted for UK operations.

Further details of these matters are set out throughout the Strategic Report, in the Audit Committee Report and in the Safety & Environment Committee Report.

Board and senior management composition, succession, talent and diversity

After welcoming our new Group CEO, Ignacio Garat, and bidding farewell to some of our long-standing Non-Executive Directors in 2020, we continued in 2021 to refresh our Board. We were delighted to welcome Carolyn Flowers as a new Non-Executive Director, a Q&A with whom can be found on page 76. We also said goodbye to another long serving Non-Executive Director, Dr Ashley Steel, who we thank for her significant contribution to the Board during her tenure.

During 2021, we developed succession plans for the Board and its Committees, both with and without the potential combination with Stagecoach, with a focus on my succession. I will remain as Chairman to provide continuity of leadership to the Company and the Board throughout its response to the recent developments on the combination and pending the selection of my successor, about which we will update shareholders in due course. Underlying these plans, we have a strong and stable Board composed of Directors with a wide range of relevant knowledge, skills and experience, as more fully explained in our Nominations Committee Report.

This was confirmed in 2021 when, we, as a Board and as individual Directors, underwent an external evaluation. This gave us valuable insights into our collective and individual strengths and areas for further development, positioning us well to maintain and further enhance our effectiveness. The Board's Nominations Committee, supported by the new Group HR & Communications Director, also undertook its first 'deep dive' into senior management succession planning and the talent pipeline, giving us a deeper understanding of where we have talent to nurture and gaps to fill and how management intend to do this.

Further information about the Board's and its Committees' composition, succession plans and evaluation, senior management succession and talent development plans, and how diversity and inclusion are being fostered on the Board and across the Group, can be found in our Nominations Committee Report.

Remuneration balance between reward and restraint

The Board, through its Remuneration Committee, is responsible for ensuring appropriate arrangements are in place for rewarding and incentivising management in the context of Company and individual performance as well as the workforce, shareholder and wider stakeholder experience.

The Remuneration Committee has sought to achieve the right balance between rewarding the Executive Directors and incentivising them to continue their work on leading the Company's recovery and exercising restraint on their total pay, having regard to both the majority and minority shareholders' views demonstrated through their voting on the Director pay resolutions at the Company's 2021 AGM and a further consultation undertaken with major shareholders in advance of this year's pay decisions.

Further information about the Remuneration Committee's decisions on Executive Director pay, alongside the regulated information about all Directors' pay, can be found in the Directors' Remuneration Report.

Stakeholder relations

I explained last year that the challenges brought on by the Covid-19 pandemic had reinforced just how important the Group's relationships with its stakeholders are. Accordingly, considerations relating to stakeholders have remained high on the Board's agenda in 2021, including through: direct engagement with equity and debt investors on key matters; direct engagement with the workforce; and opportunities to hear other stakeholders' views either directly or via the Group's businesses, as described on pages 62 to 66 of this Report.

Annual General Meeting

Our Annual General Meeting (AGM) will be held at 2.00pm on Wednesday, 11 May 2022 in the Banqueting Hall at Glaziers Hall, 9 Montague Close, London SE1 9DD.

We intend to conduct this year's AGM as an in-person meeting to give shareholders the opportunity to meet with Directors after the last few years of this not being possible. Further information about the AGM and how to vote your shares on the resolutions to be proposed at it is set out in the Notice of AGM which has been made available alongside this Annual Report. However, if any restrictions are reintroduced by the UK Government on in-person meetings by the time of the meeting, we will need to observe these and we will keep shareholders updated on any consequential changes to the AGM arrangements via our website and market announcements.

Conclusion

Before introducing the remainder of this Corporate Governance Report, I would like to say that I am extremely proud of the way our global businesses have adapted to the changing mobility environment in which they work and how everyone who works in and with our businesses, from our colleagues to our customers, suppliers and other stakeholders, have contributed to and supported that work. I thank them all and extend my thanks to my fellow Board members for continuing to provide strong leadership in these changing times. We, as a Board, look forward to 2022 with confidence.

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 FRC in July 2018 (which can be found at: www.frc.org.uk) for its financial year ended 31 December 2021, except part of Provision 38 (where alignment of the Group CFO's pension with the UK majority workforce rate will occur in 2023 as further explained on page 91).

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

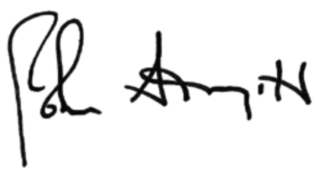
Board leadership and company purpose
Principles A, B, C, D and E
Pages 52 to 66

Division of responsibilities
Principles F, G and H
Pages 67 to 70

Composition, succession and evaluation
Principles I, J, K and L
Pages 71 to 77

Audit, risk and internal control
Principles M, N and O
Pages 78 to 88

Remuneration
Principles P, Q and R
Pages 89 to 108



Sir John Armitt CBE
Chairman
9 March 2022

Board of Directors

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 Chair 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 the Company's strategy:

– Provides effective leadership of the Board in its robust review and careful monitoring of the delivery of the Company's strategy and management of risk
– Offers valuable insights into UK government policy and priorities on public transport and infrastructure
– Promotes strong corporate governance, including by promoting the Board's understanding of stakeholders' views, aiding its assessment of whether the Company is achieving the six desired stakeholder outcomes of the Evolve strategy

Current external appointments:

– Chairman, National Infrastructure Commission
– Non-Executive Director, Berkeley Group Holdings PLC
– Non-Executive Director, Expo 2020

Committee membership:

SE N

Jorge Cosmen

Non-Independent Deputy Chairman
Appointed: December 2005

Experience: Jorge has accumulated a wealth of experience in international business. He currently serves as the Non-Executive Chair of the Group'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 worked in banking, sales and distribution. He also served for several years as a Non-Executive Director at Bankia prior to its merger with Caixabank.

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

Key strengths in support of the Company's strategy:

– Deploys the breadth and depth of his knowledge of the Group's business in supporting executive management in their delivery of strategy and management of risk
– Uses his insights into the international passenger transport sector to assist executive management in identifying and assessing opportunities and risks
– Supports the Chairman in assisting the Board to better understand stakeholders' views and track the delivery of the six desired stakeholder outcomes of the Evolve strategy

Current external appointments:

– None

Committee membership:

SE N

Carolyn Flowers

Independent Non-Executive Director
Appointed: June 2021

Experience: Carolyn has held several significant leadership roles in the North American passenger transport industry, in both the private and public sectors. She served for many years as Chief Operations Officer for Los Angeles Metro, following which she worked for a number of US State Transit Authorities and the US Federal Transit Administration. She currently serves on several transportation industry and trade non-profit boards and advises on US infrastructure development at InfraStrategies.

Key strengths in support of the Company's strategy:

– Deploys her significant experience of and expertise in North American transit operations to support and challenge executive management in applying the Company's consolidate and compound customer proposition as comprised in its Evolve strategy to the Company's North American transit business
– Uses her experience of being a customer of North American transit services to support executive management and the Company on its pathway to achieving the most satisfied customer outcome of its Evolve strategy

Current external appointments:

– Partner and Managing Principal, InfraStrategies LLC
– Independent Director, CirclePoint

Committee membership:

SE A N

Committee membership key

Committee Chair
A Audit
N Nominations
R Remuneration
SE Safety & Environment

Committee membership is shown as at 9 March 2022

Ignacio Garat

Group Chief Executive Officer

Appointed: November 2020

Experience: Ignacio has more than 26 years' strategic, commercial, operational and business transformation experience in the freight and logistics industry. Previous roles include CEO Spain & Portugal and CEO Brazil at TNT and Senior Vice President for Southern Europe, France and Benelux at FedEx. He has a track record of leading international, complex, operational businesses to achieve clear strategic purposes, adopting an inclusive management culture in doing so aided by his focus on people.

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 the Company's strategy:

- Provides strategic and operational leadership for all five of the customer propositions comprised in the Evolve strategy, leveraging his previous management experience of delivering operational transformation and his commercial acumen to exploit new and profitable growth opportunities
- Champions all six of the desired stakeholder outcomes of the Evolve strategy, including by maintaining a dedicated focus on the Company being the safest and most reliable passenger transport operator, and having the most satisfied customers, including through prioritising the digital agenda
- Drives culture transformation fostering a strong sense of purpose, including by empowering people and developing talent, advancing the Company's ambition to be the employer of choice within passenger transport

Current external appointments:

- None

Chris Davies

Group Chief Financial Officer

Appointed: May 2017

Experience: Chris has more than 26 years' financial, commercial, treasury and IT management experience. He has a strong track record working with international organisations in these fields in both established and emerging markets, including in his work with Andersen Consulting, The Boots Company plc and Marakon Associates. He previously served as Group Financial Controller and Treasurer and then interim Group Chief Financial Officer at Inchcape plc, and Chief Financial Officer for North America at Diageo plc, where he also held several other senior roles.

Chris is a qualified management accountant.

Key strengths in support of the Company's strategy:

- Provides effective financial support for the development and delivery of Company strategy
- Maintains robust management of internal controls, including risk management, providing a sound control and risk environment within which strategy can be delivered
- Champions the Company's environmental leadership comprising one of the stakeholder outcomes of the Evolve strategy
- Builds strong relationships with the Company's equity and debt investors helping to ensure their understanding of the Company's strategy

Current external appointments:

- Non-Executive Director, Motability Operations Group PLC

Karen Geary

Independent Non-Executive Director

Appointed: October 2019

Experience: Karen is a former FTSE 100 HR Director with an extensive track record. She brings over 20 years' of leadership experience, including of international HR and business transformation, from across a variety of industries in the UK, US and Europe. She held an executive committee role as Group HR Director at The Sage Group plc for more than 10 years. After this, she held executive roles with a US based software business, followed by a FTSE 100 software company which she originally joined as a Non-Executive Director and Chair of its Remuneration Committee. Since 2019, Karen has pursued a Non-Executive portfolio career.

Key strengths in support of the Company's strategy:

- Puts people, their wellbeing, inclusion, recognition, reward and development at the heart of the Board's discussions, supporting the Company on its pathway to achieving the employer of choice outcome of its Evolve strategy
- Uses her deep experience of supporting organisations undertaking M&A and transformation to support the Company in the delivery of its compound and consolidate customer proposition comprised in its Evolve strategy

Current external appointments:

- Non-Executive Director, ASOS PLC
- Non-Executive Director, Sabre Insurance Group plc

Committee membership:

SE N R

Further details about Directors' independence, conflicts of interest and commitment are set out on pages 69 to 70 of this Corporate Governance Report.

Board of Directors continued

Matthew Crummack
Senior Independent Director
Appointed: May 2015

Experience: Matthew has extensive international management experience across multiple functions in the consumer product and digital services industries, including online travel, financial services and consumer goods. He has held 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. He is currently CEO at Domestic & General Ltd.

Key strengths in support of the Company's strategy:
- Uses his extensive and current executive management experience of developing and delivering strategy to support and challenge executive management in their delivery of the Company's strategy
- Provides advice and support to the Company on its delivery of the five customer propositions on which the Evolve strategy is built through their digital enablement
- In his role as Senior Independent Director, facilitates healthy debate among, and effective decision-making by, the Board on strategic matters

Current external appointments:
- Chief Executive Officer, Domestic & General Limited

Committee membership:
SE N R

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 sectors, having previously served as Chief Financial Officer at Severn Trent and Chief Financial Officer at Novar. Earlier in his career, he held various senior management and advisory roles at Rolls-Royce, CarnaudMetalbox, Elf Atochem and PwC. He has also previously held other Non-Executive roles, including as Senior Independent Director at The Merchants Trust PLC.

Mike is a chartered accountant.

Key strengths in support of the Company's strategy:
- Provides strong oversight of the Company's financial and other internal controls, helping to sustain a controlled environment in which the Company's Evolve strategy can be delivered
- Uses his previous executive experience of developing and delivering strategy in regulated and complex international operational businesses to support and challenge the strategic plans and initiatives to achieve the Evolve strategy customer propositions of reinvigorating public transport and delivering operational transformation

Current external appointments:
- None

Committee membership:
SE A

Ana de Pro Gonzalo
Independent Non-Executive Director
Appointed: October 2019

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

Key strengths in support of the Company's strategy:
- Provides added strength to oversight of the Company's financial reporting, risk management and controls, mitigating risks to the delivery of the Company's Evolve strategy
- Provides relevant insights from her recent experience in the online travel services industry to support the Company in the digital enablement of the five customer propositions on which the Evolve strategy is built

Current external appointments:
- Non-Executive Director, Indra Sistemas SA
- Non-Executive Director, ST Microelectronics NV
- Non-Executive Director, Novartis AG
- Independent Director, National Advisory Board, representing Spain before the Global Steering Group for Impact Investment

Committee membership:
SE A R

Dr Ashley Steel
Independent Non-Executive Director
Appointed: January 2016

Resigned: December 2021

Experience: Ashley has significant international experience of advising FTSE listed and Fortune 500 boards, including in relation to strategy, M&A, organisation effectiveness, risk management and HR, across multiple sectors including transport, infrastructure, technology, media, professional services and business services, from her role at KPMG. She has also held a number of Non-Executive roles with 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 the Company's strategy up to 3 December 2021:
- Used her significant experience advising companies on the development and implementation of strategy in supporting and challenging executive management in their delivery of the Company's strategy
- Offered wide-ranging insights based on the breadth of industries she advised
- Had a strong focus on the retention, reward and incentivisation of management in the delivery of strategy

External appointments as at 3 December 2021:
- Non-Executive Director, Cineworld Group plc
- Non-Executive Director, Vistry Group plc

Board activity in 2021

The Board's principal activities in 2021 were those as set out in the table below:

Strategy, business and operational performance	– Reviewed and approved the Group's Evolve strategy and its communication to investors via the Capital Markets Day – Reviewed the launch, implementation and progress of the OPERATE programme across the Group – Considered and approved a potential combination between the Company and Stagecoach – Reviewed the performance of each of the Group's divisional businesses, including ongoing careful monitoring of the UK Coach business' performance and the outcome of the North American transit business review – Reviewed and approved bids for passenger transport concessions in Dubai, Chile and Ireland, and reviewed and approved the acquisition of Transportes Rober in Spain – Monitored trading and market conditions, competitor activity and the economic, legislative and political landscape for all the Group's businesses
Safety and environmental leadership	– Received reports from the Safety & Environment Committee on its review of the Group's safety performance, including core safety initiatives, any major safety risks or incidents and action plans arising from the same – Received reports from the Safety & Environment Committee on the Group's environment performance and the adoption of ambitious Group-wide environmental targets and zero emission vehicle targets and strategy – Reviewed the Group's first zero emission fleet and charging infrastructure availability contract
Financial performance	– Received reports from the Audit Committee on the integrity and reasonableness of, and reviewed and confirmed, the Company's and its Group's full year and half year financial results, the going concern basis on which they were prepared and the Company's viability – Approved the Group's annual budget and reviewed the Group's performance against both budget and forecasts in light of changing market conditions as the Group emerged from the Covid-19 pandemic – Reviewed the growth and cost synergies capable of being delivered through the potential combination with Stagecoach, including the Qualified Financial Benefits Statement – Reviewed the Group's financing arrangements, including headroom against Board-set liquidity requirements and Bank-set covenants, and approved further amendments to debt covenants for going concern purposes – Considered the Company's dividend policy and reconfirmed the Board's intention to reinstate dividends as soon as the Company's financial performance and the restrictions in its amended debt covenants allow
Risk management and internal control	– Reviewed the Group's risk appetite and its management of principal and emerging Group-wide risks – Received reports from the Audit Committee on its reviews of cyber risk and divisional risk management – Received reports from the Audit Committee on, and made its own conclusion about, the effectiveness of the Group's system of internal control, including the findings and effectiveness of the internal audit function and the work of the auditor, as well as the Group's compliance framework and its tax and treasury functions' activities – Reviewed the Group's guarantees register and approved the annual renewal of the Group's insurances – Received legal briefings on the Company's and its Directors' responsibilities under the UK Takeover Code in the context of the potential combination with Stagecoach – Received regular updates on legal and regulatory matters, including material legal claims brought by and against the Group's companies and legal aspects of material transactions entered into by the Group's companies
Leadership, people and remuneration	– Received and approved recommendations from the Nominations Committee on the appointment of a new Non-Executive Director, the proposed size and composition of the Board and its Committees both with and without the potential combination with Stagecoach, and the annual re-election and election of Directors at the next AGM – Received reports from the Nominations Committee on senior management succession plans, talent identification and development programmes, and diversity and inclusion initiatives – Reviewed quarterly people reports, with a particular focus on the conditions in the Group's labour markets causing driver shortages and the action plans designed to mitigate such shortages – Took part in workforce engagement activities – Received reports from the Remuneration Committee on its activities, including its deliberations on Chair, Executive Director and senior management pay, bonus awards and long-term incentive awards, made in the context of consideration of pay conditions across the Group, shareholder and wider stakeholder experience – Reviewed and approved Non-Executive Director fees
Governance and stakeholder relations	– Reviewed and approved the Company's Annual Report, including its fair, balanced and understandable nature – Considered the voting outcome at the last AGM, consulted with shareholders to ensure their views were understood and sought to understand wider stakeholders' views through various means, including direct engagement – Reviewed the Board's schedule of reserved matters, its Committees' terms of reference and the Group's delegated authorities framework, and refreshed the Board's conflicts of interest and external interests policies – Considered developments in corporate governance and reporting, including the BEIS consultation on restoring trust in audit and corporate governance and TCFD recommended disclosures on climate-related risks and opportunities – Participated in and reviewed the outcome of an external evaluation of the Board, its Committees and individual Directors, and agreed follow-up actions to address its recommendations

Further details about the Board and Committee meetings held during 2021, Directors' attendance at those meetings and the Board and its Committees' processes are set out on pages 69 to 70 of this Corporate Governance Report.

Section 172(1) statement

Potential combination of National Express and Stagecoach

Among its principal activities during the year under review, the Board decided to make an offer to effect the potential combination of the Company and Stagecoach as it firmly believed such offer was in the best interests of the Company's shareholders and wider stakeholders. In making its decision, the Board also took into account all the matters set out in section 172(1)(a)-(f) of the Companies Act 2006:

s.172(1)(a) The likely consequences of any decision in the long term

The rationale for the Board's decision to make an offer for Stagecoach was rooted in the long-term benefits the Company could derive from it, including:

- significant growth and cost synergies, including through operational efficiencies across combined UK networks, shared operational best practices and implementing environmental and sustainability solutions at scale, which could deliver strong value creation for shareholders;
- a stronger pro forma balance sheet creating additional capacity for growth investment, particularly in the Group's North American and ALSA businesses; and
- enhanced opportunity for contract wins by the National Express Transport Solutions business, by leveraging the broader physical footprint of the combined group's operations and applying the 'best of both' of National Express' and Stagecoach's capabilities.

s.172(1)(f) The need to act fairly as between members of the Company

The Board took into account that all Company shareholders would be treated in the same way during implementation of the potential combination and would benefit proportionately and pro rata to their shareholdings from the potential combination, with:

- each shareholder having the right to vote to approve such combination on a one vote per share basis; and
- each shareholder (together with Stagecoach's shareholders) sharing pro rata in the expected value creation through accretive earnings per share and returns on invested capital, including via a targeted return to and growth in dividends.

s.172(1)(b) The interests of the Company's employees

The Board had particular regard to the interests of the Group's employees (and the employees of the Stagecoach group) by noting that the potential combination:

- would afford them increased opportunities, including for training and development and career flexibility; and
- was not expected to result in any job losses for frontline employees.

However, the Board also took into account that the potential combination would likely involve headcount reductions in duplicative corporate and administrative roles, which downside was weighed in the balance against both the upsides for other employees and the benefits to be derived by other stakeholders, including shareholders, customers and communities generally.

s.172(1)(c)
The need to foster the Company's business relationships with suppliers, customers and others

The Board took into account that the potential combination was expected to:

- realise wider benefits for customers, including optimised routes and schedules, comfortable and environmentally friendly fleet, flexible ticketing options and enhanced customer engagement technologies;
- create stronger relationships with existing and potential new suppliers to service the larger scale supply needs of the combined group; and
- create a stronger platform for the combined group in the UK bus market from which it could deepen relationships with central and local government stakeholders, including via the 'Bus Alliance' model adopted with Transport for West Midlands.

In addition, the Board would work with other key stakeholders in implementing the potential combination, including:

- the Group's debt providers, who were approached for and gave their consent to the potential combination prior to it being announced;
- the UK Competition and Markets Authority, with which both the Company and Stagecoach would work with to obtain clearance for the potential combination; and
- the UK Takeover Panel, which was and will continue to be duly consulted on all relevant aspects of the potential combination.

s.172(1)(d)
The impact of the Company's operations on the community and the environment

The Board considered that the potential combination would enable the Group to extend its zero emission fleet and net carbon zero ambitions across the combined group and to implement its industry-leading environmental solutions, such as its zero emission vehicle availability model, at scale.

The Board also noted that the combined group would serve wider communities across the UK, bringing the customer benefits noted in the box above to more communities.

s.172(1)(e)
The desirability of the Company maintaining a reputation for high standards of business conduct

The importance of maintaining a reputation for high standards of business conduct underpinned the Board's approach to the potential combination, as demonstrated by:

- its selection of Stagecoach, as one with the same premium equity listing obligations, corporate governance standards, as well as common business ethics and values, as the Company;
- the financial and legal due diligence undertaken on the Stagecoach group, and the competition risk assessment conducted, prior to the potential combination being announced;
- the Company's approach to funding Stagecoach's defined benefit pension schemes, similar to that for its own defined benefit schemes; and
- the Company's and its Directors' compliance with its and their obligations under the Companies Act and UK Takeover Code.

The Board also considered how the potential combination could advance the Company's purpose:

Combining the Company and Stagecoach…

could accelerate the modal shift from cars to mass transit by expanding the Group's presence in the UK, thereby bringing the customer benefits to a wider audience and accelerating the Group's expansion in other markets

Section 172(1) statement continued

Supporting the continued operation of the UK Coach business

The Group's UK Coach network was particularly hard hit by the Covid-19 pandemic due to its commercial (rather than contracted) model, the (principally) discretionary nature of its customers' travel and the absence of UK Government revenue support for coach services. Throughout the pandemic, the Board therefore closely monitored the performance of this business and, notwithstanding the full year loss generated in 2020, took a key decision in Q1 2021 to continue to support the UK Coach business, at a continued loss, having particular regard to the factors set out in section 172(1)(a), (b), (c) and (d) of the Companies Act 2006:

s.172(1)(a) The likely consequences of any decision in the long term

In making its decision to support the UK Coach network through the Covid-19 pandemic, the Board had particular regard to what it believed was a positive medium to long-term outlook for the business. This belief was based on:

- the historic, pre-pandemic, financial performance of the UK Coach business, which, since 2012 (and withdrawal by the UK Government of the Coach Services Operators Grant), had consistently grown its revenue and profit, achieving c.10.5% compound annual growth per annum, and was achieving an excellent return on capital employed of c.63% and a cash flow conversion rate of c.85%;
- the underlying pent-up demand for UK coach travel, as demonstrated by the rebound in passenger numbers in the summer of 2020 between the first and second Covid lockdowns and another rebound when the second lockdown ended in March 2021;
- the market-leading position and well recognised and trusted brand the National Express coach network enjoys, which has generated existing customer loyalty and continues to win new customers; and
- the investment and improvements made in and to the UK Coach network since 2012, including the investment in the revenue management system and single view customer account, and improvements in on-board safety, comfort and entertainment and in network planning, which helped generate the pre-pandemic returns and creates a platform for further growth.

The Board also had regard to the short and longer term consequences of any decision to cease operating the UK Coach network or to not resume its operations as soon as UK Government restrictions permitted, which were the likely loss of market share, customer loyalty and dilution of the brand's reputation, which the Board considered would damage the long-term prospects noted above.

s.172(1)(b) The interests of the Company's employees

Employees' interests featured prominently in the Board's deliberations about the future of the UK Coach network, as:

- while some redundancies had been made in UK Coach in 2020, and further potential redundancies were considered in Q1 2021 when the network was closed down during the second lockdown to reduce costs, the Board rather endorsed the UK Coach business' continued use of the UK furlough scheme to retain UK Coach employees, and to continue to top up their salaries to 100% while still on furlough; and
- the longer-term retention of talent within the UK Coach business, and particularly in its sales and marketing, commercial and network planning teams, was key to enabling the UK Coach business to capitalise on the pent-up demand for travel when Covid-19 restrictions eased.

s.172(1)(d)
The impact of the Company's operations on the community and the environment

The Board noted that communities and the environment would also benefit from the Board's decision to support the UK Coach business, as:

- its UK Coach network services more communities across the UK than any other coach provider, so continuing in operation preserves mobility and, for those communities served by other intercity transport modes, choice for customers; and
- the UK Coach business has adopted the ambitious target of its fleet being net carbon zero by 2035, and already represents a lower carbon mode of transport than cars and other mass transit modes, so preserving the network reduces the impact of mobility on the environment.

s.172(1)(c)
The need to foster the Company's business relationships with suppliers, customers and others

The Board took specific account of the importance of relationships with other stakeholders when determining the appropriate action to take on the UK Coach network. This was demonstrated through agreements that:

- coach network operations should resume as soon as the second lockdown ended and ramp up in line with passenger demand, notwithstanding ongoing challenges such as social distancing which necessarily reduced coach load factors and impacted profitability, to service the pent-up demand from our customers for UK coach travel and thereby seek to retain their loyalty;
- the UK Coach business would continue to support the majority of its UK network partner operators who perform parts of the UK Coach network rather than wholly suspending or ending those relationships, primarily to help ensure the survival of those partners, which in turn helped to ensure the business' ability to quickly restart and flexibly ramp up the UK Coach network in response to passenger demand after lockdowns ended and travel demand returned; and
- the UK Coach business would renegotiate its contracts with commercial partners, such as airports, coach stations, sales and marketing agents, and other suppliers such as vehicle manufacturers, to better reflect the reality of short-term reduced travel demand and constraints on capital but longer-term preservation of those well established and mutually beneficial relationships.

The Board also considered how supporting the UK Coach business would advance the Company's purpose:

Preserving a viable National Express UK Coach network for the long term ... > **facilitates our purpose of leading a modal shift from cars to mass transit**

Purpose, values and culture

Purpose, vision, values and strategy

The Company has a clear purpose and vision to be achieved through the execution of the Company's Evolve strategy. This strategy is built upon five customer propositions, each underpinned by the focused application of technology, to deliver six outcomes for stakeholders, all as more particularly explained on pages 10 and 11 of the Strategic Report.

Alignment of purpose, vision, values and strategy

The Company's traditional values – of Safety, Excellence, Customers, People and Community & Environment – support the execution of the Evolve strategy as they are directly aligned with the six outcomes for stakeholders which the five customer propositions are intended to achieve, as illustrated by the examples of this alignment given in the diagram below:

Community & Environment

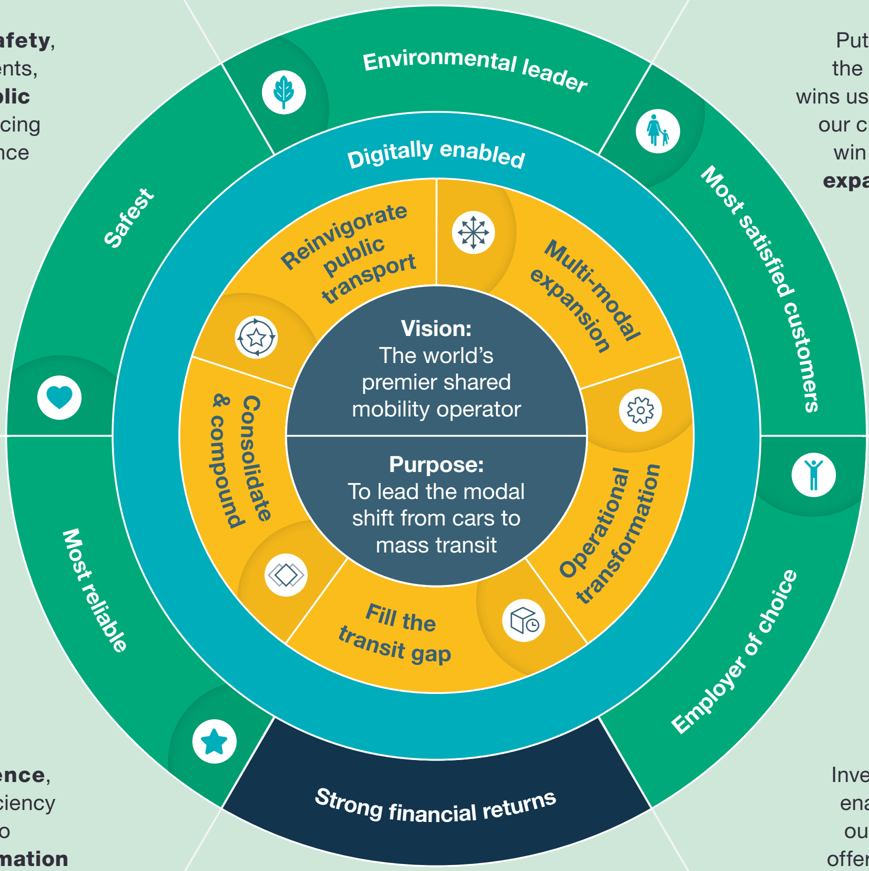
Our desire to ensure **communities** are better served by public transport, and our commitments to reducing our impact on the **environment**, encourage us to **fill the transit gap**

Safety

Our prioritisation of **safety**, and reducing accidents, **reinvigorates public transport** by enhancing passenger confidence

Customers

Putting **customers** at the heart of what we do wins us their loyalty, and builds our credentials, helping us win more **multi-modal expansion** opportunities



Excellence

Our focus on **excellence**, delivered through efficiency initiatives, leads to **operational transformation**

People

Investing in our **people** enables us to improve our customer service offering, **reinvigorating public transport** by growing patronage

Culture

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

Culture framework	Board methods of monitoring culture
Our health and safety priority The Company's prioritisation of health and safety, led from the top, ensures it remains central to all business decisions and operational practices. The Company's global safety policies, and numerous health and safety practices and procedures developed to implement them, set high and consistent standards of health and safety across our operations worldwide. The inclusion of stretching safety targets in Executive Director and senior manager short-term incentives maintains focus.	– The Safety & Environment Committee of the Board monitors the development and implementation of, and compliance with, the Company's global safety policies and reviews major safety incidents. – Members of the Safety & Environment Committee perform safety tours to assess safety compliance and safety culture across different parts of the business and report on them to the Board. – The Group CEO, supported by the Group Safety Director, constantly monitors the Group's safety performance, including by reference to a series of KPIs, including FWI, Preventable Accidents and Driver Risk scores, and reports on such performance to the Board at every Board meeting and to the Safety & Environment Committee of the Board.
Our environment strategy and ambitions The Company's environment strategy, centred on the transition of the Group's fleet to be zero emission, and its environment ambitions to achieve zero emission fleets within each of its current business divisions by future dates, is driving a focus on their achievement. Its seven-year environmental KPIs enable progress against ambitions to be tracked and the inclusion of carbon reduction and ZEV increase targets in Executive Director and senior manager long-term incentives maintains focus.	– The Safety & Environment Committee of the Board reviews and approves the Group's environment strategy and targets, and monitors progress against them. – The Group CEO and Group CFO, assisted by the newly appointed Group Sustainability Director and newly established Company Zero Emission Vehicle Steering Group, regularly assess the development and delivery of zero emission fleet and other environmental initiatives, track progress against the environmental KPIs, and report on such performance to the Safety & Environment Committee of the Board.
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. During the year under review, a new Head of Group Compliance was appointed to champion compliance, and a compliance framework has been developed to bring greater alignment to corporate policies.	– The Company's compliance framework, and the corporate policies which form part of it, are reviewed and approved by the Board. – The newly appointed Head of Group Compliance leads the Company's compliance programme, manages its development and enforcement, and reports to the Audit Committee of the Board on its effectiveness. – 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 our colleagues' health and wellbeing, develop their talent, recognise their excellence, encourage innovation and promote diversity and inclusion among them.	– The Board receives quarterly people reports which report on all key people data and trends, including levels of engagement. – The Board also receives reports on key people matters as they arise, including the outcome of staff surveys and the progress of trade union relations. – The Nominations Committee of the Board performs 'deep dive' reviews into the effectiveness of senior management succession plans, talent identification & development plans, and diversity & inclusion initiatives. – The Group CFO chairs the Group Diversity & Inclusion Council and Directors engage directly with colleagues 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. Building long-term, mutually beneficial, relationships with suppliers also enables the Company and such suppliers to understand, and assist in the achievement of, what is important to each other.	– The Board receives stakeholder reports on, and presentations from, major suppliers to the Group from time to time. – The Group Procurement team monitors compliance by key suppliers with the Company's policies, protocols and procedures and, during the year under review, reported directly to the Board on how it manages supplier relationships and the mutual value derived from them.
Our values The Company has an embedded set of values which all colleagues are encouraged to live by. The identification in the Evolve strategy of the six stakeholder outcomes, by which the Company will measure whether it is delivering on its strategy and achieving its purpose, is serving to further reinforce the importance of the values as those outcomes are so closely aligned with the values as explained on page 60.	– The Board's engagement with the workforce, through the means described on pages 63 to 65, enables the Board to assess first-hand whether our colleagues are living by our values. – The Board also hears customer, supplier and other stakeholder views through the means described on pages 40, 41 and 66, facilitating a further assessment of whether our stakeholders consider we are living by our values.

Through its monitoring activities, the Board is satisfied that the Company's culture is strongly aligned with its values.

Stakeholder relations

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.

The Executive Directors, with the support of the investor relations team, undertook their traditional investor relations programme during the year which is aligned with the Company's financial reporting calendar, holding meetings with and giving presentations to existing and prospective equity investors and participating in analyst-arranged investor conferences and investment bank sales desk meetings. These events are shown by the blue text in the investor relations programme opposite.

In addition, during 2021 the Executive Directors, supported by the executive management team, arranged the Company's first Capital Markets Day in several years at which they unveiled the Company's Evolve strategy and announced the Company's adoption of ambitious net zero and zero emission fleet targets across its wider Group. This event is shown in yellow opposite.

Further, the Executive Directors, the Chairman and members of the Remuneration Committee undertook additional engagement with equity and debt investors throughout the year in connection with:

- further rounds of amendments to the Company's financial covenants in its major debt facilities and private placement note programmes, as shown in purple text;
- further communications and one-on-one discussions with major shareholders about the 2020 Directors' Remuneration Report and new Directors' Remuneration Policy in the lead up to and following the 2021 AGM, particularly to ensure the Board understood the views of the minority of shareholders who voted against that Report or Policy at such AGM, as shown in green text; and
- the potential combination with Stagecoach, as shown in red text.

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 gives shareholders the opportunity to engage with the Company and its Board of Directors regarding the matters before the meeting and, whereas shareholders could not be physically present at the 2021 AGM due to lockdown restrictions, the Company was pleased to welcome shareholders virtually.

The Company's 2022 AGM is proposed to be held as an in-person meeting to give shareholders the opportunity to meet with Directors after two years of not being able to do so. Further details are in the Notice of 2022 AGM.

However, the Company will observe any UK Government restrictions on travel and in-person meetings in place at the time, so the AGM arrangements could be subject to change. Shareholders should look out for any such changes which will be communicated by market announcement and the Company's website: www.nationalexpressgroup.com/investors/agm.

During 2021, 10 analysts published equity research notes covering the Company. Details of the firms that currently follow the Company appear on the investor section of the Company's website. Bank of America and HSBC analysts were restricted from publishing research notes following the Company's possible offer announcement for Stagecoach as they are acting as the Company's financial advisers on that transaction.

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

2021 investor relations programme

Jan	– Closed period
Feb	– Closed period – Discussions with debt investors on third amendments to financial covenants
Mar	– 2020 full year results announcement and full year results investor roadshow – Meeting with HSBC sales desk – Fireside investors chat hosted by Berenberg – Jefferies Pan European investors conference
Apr	– Berenberg Sustainable Development Goals investor conference – Letters sent to major shareholders on executive remuneration matters in advance of the 2021 AGM, following earlier communications in November and December 2020
May	– Q1 trading update – 2021 AGM – One-on-one discussions with those major shareholders who wished to engage on executive remuneration matters in advance of and following the 2021 AGM – Berenberg US investor conference – Meeting with Berenberg sales desk – Fireside investors chat hosted by Berenberg – Fireside investors chat hosted by Jefferies – Meeting with Exane BNP sales desk
Jun	– Meeting with Liberum sales desk – Fireside investors chat hosted by Liberum – US group investor meeting hosted by HSBC – Goldman Sachs Travel and Leisure investor conference – Pan European Transport virtual fieldtrip hosted by Bank of America
Jul	– Closed period – 2021 half year results announcement – Meeting with HSBC sales desk – Discussions with debt investors on fourth amendments to financial covenants
Aug	– 2021 half year results virtual investor roadshow
Sep	– 2021 half year results virtual investor roadshow cont. – UBS Business, Transport and Leisure investor conference – Citi Mid-Cap and Growth investor conference – Rule 2.4 possible offer announcement about the potential combination with Stagecoach, followed by (duly chaperoned, in line with the Takeover Code) one-on-one discussions with certain shareholders
Oct	– Q3 trading update – Capital Markets Day
Nov	– US investor meetings in New York – Investec Best Ideas investor conference
Dec	– Berenberg European investor conference – Meeting with HSBC sales desk – Rule 2.7 firm offer announcement about the potential combination with Stagecoach

Board engagement with the workforce

With the lifting of restrictions on mobility and in-person meetings in the second half of 2021, the Board was pleased to resume its programme of visits to the Company's operations.

Coventry bus depot site tour

In November 2021, the Board toured the Coventry UK Bus depot which involved a full programme of activities:

1

Arrived at the Coventry depot on one of National Express' new zero emission buses

2

Received a welcome and safety brief from the depot manager

3

Given a DriveCam demonstration, including description of how the technology works, observation of driver footage to understand how driver risk is identified and explanation of how driver coaching is performed to improve driving standards

4

Boarded the employee health bus and heard about its valuable provision of on-site health and wellbeing support for colleagues, which was particularly valuable during the pandemic when there was reduced access to GPs

5

Educated about the propulsion mechanisms for hydrogen and electric buses and discussed the operational adjustments for, and safety features of, these new technologies

6

Learned about engineering transformation which is driving efficiencies and cost savings, including through greater use of technology

7

Spoke with the operations team about the network control activities controlled from the control room

8

Met with the engineering apprentices who discussed their training and development

9

Received feedback from OPERATE programme delegates who proudly presented their projects to deliver efficiencies and cost savings at the ground level

10

Left the Coventry depot on a National Express coach

Stakeholder relations continued

Board engagement with the workforce continued

As in recent years, the Board's programme of site visits was supplemented by Directors participating in workforce engagement events with groups of colleagues to discuss matters of importance to both them and the Board. Non-Executive Directors conducted four workforce engagement events during 2021, each of which took the form of a roundtable discussion between two Non-Executive Directors and members of the workforce drawn from a variety of roles. In 2021, all the Non-Executive Directors participated in at least one of these events which ensured every Director benefitted from direct touchpoints with colleagues and was able to take what they learned from talking to colleagues into account back in the Boardroom. Further detail on these events is set out below:

Front-line colleague roundtable

Three online discussion groups were held in May 2021, one for colleagues from each of the Company's principal business divisions of UK & Germany, North America and ALSA. Colleagues' roles ranged from bus and coach drivers to vehicle technicians and operational and functional support team members. The UK event was attended by Karen Geary and Ashley Steel, the North American event by Mike McKeon and Matthew Crummack and the ALSA event by Jorge Cosmen and Ana de Pro Gonzalo.

Due to the roles performed by the colleagues participating in these events, the discussions tended to focus on the front-line successes and challenges our colleagues face. These included the success of some of the new ways of working both during the pandemic and as the Company has emerged from it, such as the speed and efficiency of ramping up and down operations and the ability for support functions to effectively support the operations while working from home. They also included the challenges that have accompanied those successes, such as more frequent driver rota changes as service levels have changed to respond to passenger demand and more overtime working due to higher absences caused by colleague illness or isolation. Topical issues, such as how to solve driver shortages and whether there should be enhancements to employees' medical benefits, were also discussed.

However, front-line colleagues were also keen to engage in discussions about the Company's strategy and how it could best compete against alternative forms of shared transit, demonstrating a collective sense of ownership of and responsibility for the Company's success.

Ana de Pro Gonzalo

"It was interesting that colleagues on the front-line were keen to discuss and know about the Company's future. The deep sense of pride and belonging that colleagues felt is very encouraging"

Karen Geary

"Colleagues, when asked about the Company's diversity & inclusion, said they felt the Company was a very welcoming place to work"

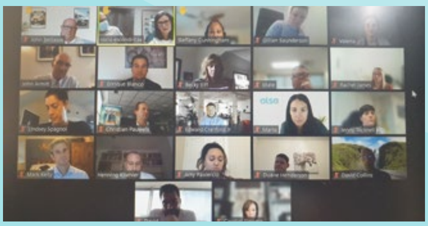
Management colleague roundtable

A further online discussion group was held in October 2021 which brought together middle managers from across the Company's principal business divisions of UK & Germany, North America and ALSA. The Chairman and Carolyn Flowers attended this discussion group.

This event had an open agenda and some of the key themes discussed were the Company's Evolve strategy, ensuring a people first approach, the Group's future challenges and opportunities, solving the driver shortage issue, and the Company's succession and talent initiatives, all of which topics echoed those that are regularly discussed in the Boardroom.

Carolyn Flowers

"The takeaways from this event have been very rewarding – it will help us as a Board in assessing the strategic plan and initiatives moving forward"



Sir John Armitt

"It was pleasing that our people could attend from all over the world and the event was uplifting as there was a real spirit of looking and moving forward"

Board engagement with the workforce continued

These touchpoints for the Board with the workforce are not just an important means of monitoring the Company's culture, but they also serve to deepen Directors' understanding of how the Group's operations function in practice and to hear directly from colleagues about matters that can be directly relevant to the Board's decision making or can give better context to that decision-making.

Whereas the events described on page 64 were organised online in response to pandemic-related restrictions, both colleagues and Board members have commented on how the videocall format is encouraging more open dialogue. This is because it removes some of the practical and emotional barriers to people coming together and sharing their observations and opinions and therefore a mix of in-person and online events will be used going forward.

When restrictions on travel and in-person meetings eased, Carolyn Flowers was able to visit a number of the North American operations:

New Non-Executive Director visits to our North American operations

As part of her induction, Carolyn Flowers:

- visited the WeDriveU headquarters in San Francisco where she learned about the shuttle business' plans for expansion, observed a demonstration of their driver monitoring technology and discussed efficiencies with the vehicle maintenance team;
- visited a special education facility in Oakland, where she learned about their route management partnership; and
- with Group CEO, Ignacio Garat, visited the CDT paratransit operations in Chicago where they spoke with drivers, the dispatch team and the maintenance team, as well as the general manager. Carolyn and Ignacio also visited a major school bus customer's facility in Chicago which gave important insight into stakeholder views.

Carolyn Flowers

"I was impressed with what I observed, particularly in terms of initiatives that could be used as a differentiator in the paratransit and transit markets. It was also pleasing to hear discussions about efficiency from the ground level in the business"

Our Board workforce engagement methodology

As explained in the Company's previous Annual Reports, our workforce engagement events are a variant of the UK Corporate Governance 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.

Stakeholder relations continued

Understanding other stakeholder views

Most engagement with other stakeholders, such as customers and passengers, suppliers, governments and regulators, is led by the Group's business divisions which use a variety of well established methods to engage and understand stakeholders' views. Divisional management report on the same to the Board.

However, to supplement these means of the Board understanding stakeholder views, the Board also engages directly with wider stakeholders where there is appropriate opportunity to do so. As travel and in-person meeting restrictions eased in the second half of 2021, the Board was pleased to welcome Councillor Waseem Zaffar, the cabinet member for Transport and the Environment from Birmingham City Council (BCC), into the Boardroom to hear more about the Birmingham Transport Plan published in October 2021, his plans for the future of public transport in Birmingham city and what is important to him:

BCC needs to work in partnership with private bus operators and I welcome the Company's partnership approach, the success of which is proven through higher levels of bus patronage in Birmingham vs the national average

The development and implementation of the emergency bus response plan during the pandemic was evidence of BCC and the Company working well together in partnership for the benefit of the local community

Introducing the Birmingham Clean Air Zone was designed to encourage the modal shift from cars to public transport, with revenues re-invested into public transport

Giving priority road access to buses is key to reducing the congestion and air pollution caused by cars on the road, improving productivity and public health in the city

The 2019 bus survey reveals that bus reliability is the most important factor in encouraging the use of public transport

The Company's commitment to a zero emission fleet is a 'game-changer' for clean air in Birmingham city

Removing Birmingham city's flyovers is intended to accelerate the modal shift from cars to public transport

The Company's roll-out of cross-Birmingham-city routes is creating greater connectivity which appeals to passengers

BCC, the Company and TfWM are working together to secure DfT funding for hundreds more hydrogen buses and infrastructure

The Birmingham Transport Plan sets out clear principles for unlocking the potential of public transport in order to improve the city for everyone

Public transport is an enabler, in particular to help young people access jobs

Further information about the Company's key stakeholders, how we engage with them, what they value, how we deliver for them, as well as the risks and opportunities inherent in those relationships, is set out on pages 40 and 41 of the Strategic Report. Examples of how different stakeholders' interests have been taken into account by the Board in its decision-making are also set out on pages 56 to 59 of this Corporate Governance Report.

Corporate governance framework

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 system of internal control, 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 page 55

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 Listing Rules and DTRs.

+ Further information about the activities of the Board's principal Committees can be found on pages 71 to 92

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.

Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and Group Chief Executive. Other roles are also clearly defined to enhance Board effectiveness. A summary of roles and responsibilities is set out below:

Role	Responsibilities
Chairman Sir John Armitt CBE[1]	– Provides overall leadership to, and ensures the 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 – 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 Cosmen[2]	– Maintains a close dialogue with the Chairman and the Group Chief Executive – Supports and deputises for the Chairman as required – Assists the Group Chief Executive in developing strategy, in view of his deep knowledge of the Group and the passenger transport sector
Group Chief Executive Officer Ignacio Garat[3]	– Develops the Company's strategy for consideration and approval by the Board and provides effective leadership to the executive team in their delivery of strategy – Responsible for the management of the Group's operations, including the Group's safety programme and environmental leadership – Manages, with his executive team, relationships with key stakeholders, from shareholders to key customers and suppliers, and leads the workforce – Communicates the Group's progress against strategy and operational performance to investors and analysts – Sets the Company's culture 'from the top'
Group Chief Financial Officer Chris Davies[3]	– Works closely with the Group Chief Executive 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, IT and cyber security functions – Manages investor relations, including by communicating the Group's financial performance to investors and analysts – Chairs the Group's Diversity & Inclusion Council and champions delivery of the Company's environmental ambitions
Senior Independent Non-Executive Director Matthew Crummack	– 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[4], Karen Geary, Ana de Pro Gonzalo and Carolyn Flowers[5]	– 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	– Provides advice and support 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 3 December 2021
5 Appointed to the Board on 1 June 2021

Board and Committee meeting attendance

The Board and its Committees conduct their business at scheduled meetings during the year. There were more meetings in the year under review than in a typical year, in part due to the Board's continued focus on the Company's recovery from the Covid-19 pandemic and in part due to the potential combination with Stagecoach. In addition to its standing Committees, the Board also established a further sub-committee (comprised of the Executive Directors, Chairman and Chair of the Audit Committee) with authority to consider appropriate matters relating to the potential combination. The table below sets out the attendance by Directors and Committee members at meetings of the Board, its standing Committees and its potential combination sub-committee in 2021:

Attendance at meetings[1]	Board	Nominations Committee	Audit Committee	Remuneration Committee	Safety & Environment Committee	Disclosure Committee	Potential combination Committee
Total meetings in 2021	10	4	5	7	3	9	4
Executive Directors							
Ignacio Garat, Group Chief Executive Officer	10	–	–	–	–	9	4
Chris Davies, Group Chief Financial Officer	10	–	–	–	–	9	4
Chairman and Non-Executive Directors							
Sir John Armitt	*10	4	–	–	*3	9	4
Jorge Cosmen	10	*4	–	–	3	–	–
Matthew Crummack	10	4	–	7	3	–	–
Carolyn Flowers[2]	6	1	–	–	2	–	–
Karen Geary[3]	10	4	–	*7	3	–	–
Mike McKeon[4]	10	4	*5	–	3	–	3
Ana de Pro Gonzalo[4,5]	10	4	5	–	3	–	–
Ashley Steel[4,6]	9	4	5	*7	3	–	–

1 Some Board and Committee decisions were taken outside of meetings during the year and the Chairman and Executive Directors were also invited to attend certain meetings of the standing Committees of the Board where appropriate, neither of which is shown in the table above
2 Carolyn Flowers was appointed to the Board and the Safety & Environment Committee on 1 June 2021 and attended all the meetings of the Board and this Committee held in the year after she was so appointed. She joined the Nominations Committee on 30 November 2021 for the last meeting of this Committee held in the year and she joined the Audit Committee on 4 December 2021 which was after the last meeting of this Committee in the year
3 Karen Geary was appointed as the Chair of the Remuneration Committee on 3 December 2021, succeeding Dr Ashley Steel in this role
4 Each of Mike McKeon, Ana de Pro Gonzalo and Dr Ashley Steel stood down from the Nominations Committee on 30 November 2021 following the conclusion of the last Committee meeting of the year and therefore attended all meetings of this Committee held in the year
5 Ana de Pro Gonzalo joined the Remuneration Committee on 4 December 2021 which was after the last Committee meeting of the year so she did not attend any meetings of this Committee held in the year
6 Dr Ashley Steel stood down from the Board and all its Committees on 3 December 2021 and attended all meetings of the Board and Committees held during the year prior to standing down
* Board Chairman or Committee Chair (noting that the Chairs of the Disclosure Committee and the potential combination Committee are not noted, as the chair was taken by different members of these Committees at different meetings)

Director independence

The Board reviews the independence of its Non-Executive Directors annually in advance of proposing Directors for election or re-election at the AGM. 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. Mr 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 valuable support when reviewing strategic and operational matters. On the advice of the Nominations Committee, the Board considers all other serving Non-Executive Directors to be independent.

Director 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) in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company. This policy was reviewed and refreshed during the year in review, including to give guidance on the process to follow should an actual or potential conflict situation be identified. 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.

A register of Directors' actual and potential situational conflicts of interest, together with authorisations previously given by the Board, is maintained by the Company Secretary. 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 Jorge Cosmen.

Mr Cosmen has a potential conflict of interest due to certain rights and obligations his family companies have in connection with their shareholding in the Company. This conflict has been authorised by the Board on the basis that, as noted above, Mr Cosmen brings significant value into the Boardroom.

Director commitment and external appointments

The Directors' ability to commit sufficient time and attention to the Company, including having regard to their external appointments, is also reviewed by the Board annually in advance of Directors being proposed for election or re-election at the AGM, following advice from the Nominations Committee which also keeps this matter under regular review.

All Directors are expected, and required by their appointment terms, to commit sufficient time to the Board and the Company as is necessary to carry out their duties. They are also required, by their appointment terms, to seek the Board's approval to taking on significant new commitments.

Roles and responsibilities continued

During 2021, the Board introduced a new policy on Directors' commitments and external appointments to give guidance on what constitutes a significant external commitment and the process to seek approval for these. While the new policy is premised on the overriding principle that Directors should not assume any significant external commitments which could prejudice their ability to dedicate sufficient time and attention to the Company, the Board will consider requests by Directors to assume significant new commitments based on all the facts and circumstances. The policy guides that the Board will not normally approve Executive Directors holding more than one other significant commitment, such as a non-executive directorship in another publicly traded company, and will not normally approve Non-Executive Directors holding more than five 'mandates' as defined in the policy.

A register of Directors' external appointments is maintained by the Company Secretary. Details of all Directors' current significant external appointments are included in their biographies on pages 52 to 54 of this Corporate Governance Report. Following review by the Nominations Committee of the application of this new policy during the year under review, the Board considers, taking into account Directors' attendance at Board and Committee meetings, their contributions to the Company outside the Boardroom and their other current significant commitments, including external appointments, that all the Directors are able to devote sufficient time and attention to the Company.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which matters include: strategy review; risk appetite and Group principal and emerging risk review; major acquisitions, disposals, bids and contracts; 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. Appropriate authorities in connection with the potential combination with Stagecoach were also delegated to a sub-committee of the Board.

The schedule of matters reserved to the Board and the terms of reference of each of its standing Committees, which are reviewed and approved by the Board annually, can be found on the Company's website: www.nationalexpressgroup.com. Matters that fall outside of those reserved to the Board or its standing Committees fall within the responsibility and authority of the Group Chief Executive Officer and/or the Group Chief Financial Officer and are either reserved to them or delegated further to their executive teams through a Group Delegated Authorities Framework, which is also reviewed and approved by the Board.

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 standing Committees. This incorporates flexibility for additional business to be discussed as required either at scheduled or at ad hoc meetings of the Board or its standing Committees or other Committees established for specific purposes. The scheduled programme of business and flexibility around it 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 updates from the Executive Directors on the Company's safety, strategic, operating and financial performance, and from the Group General Counsel and Company Secretary on legal compliance and corporate governance. Other regular Board agenda items include decisions relevant to strategy (such as those relating to acquisitions, major contract bids and capital allocation), risk management (including reviews of risk appetite and Group-level risks) and those relevant to stakeholders (such as decisions relating to investor relations, employee relations, talent development, 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 detailed 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, government or regulatory officials and experts in areas relevant to the Company's delivery of strategy or management of risk.

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.

Further, and as explained on pages 62 to 66 of this Corporate Governance Report, Non-Executive Directors participate in a number of stakeholder engagement activities during the year and they have the opportunity, throughout the year, to attend seminars and discussion groups on matters relevant to their Director roles and responsibilities or on topics of interest to the Company, including through the Deloitte Academy and Chapter Zero.

Nominations Committee Report

Jorge Cosmen
Committee Chair

> The Group's senior management succession and talent development plans are key to the Group's return to growth as we organise for success"

Primary role

To monitor the balance of knowledge, experience, skills, independence and diversity of the Board and its Committees, to ensure that appropriate procedures are in place for the nomination and evaluation of Directors and to develop and facilitate the implementation of succession plans regarding the Executive Directors 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 knowledge, experience, skills, 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, interviewing 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

- Kept the Board and Committee composition under review, recommended the appointment of a new North American based Non-Executive Director with extensive relevant experience in the North American transit sector and also commenced a Chairman succession process, in line with the previously developed Board succession and refreshment plans
- Considered and recommended the proposed size and composition of the Board and its Committees both with and without the potential combination with Stagecoach
- Conducted a 'deep dive' into senior management succession plans and reviewed proposals for the enhancement of talent identification and development programmes across the Group
- Reviewed the diversity of the Group's senior leadership teams and the Group's broader workforce, and the diversity and inclusion initiatives taken across the Group

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Jorge Cosmen (Chair)	01.12.05	–	4/4
Sir John Armitt	01.01.13	–	4/4
Karen Geary[1]	01.10.19	–	4/4
Matthew Crummack[1]	28.01.20	–	4/4
Carolyn Flowers[1,2]	30.11.21	–	1/4
Dr Ashley Steel[1,3]	28.01.20	30.11.21	4/4
Mike McKeon[1,3]	25.02.20	30.11.21	4/4
Ana de Pro Gonzalo[1,3]	25.02.20	30.11.21	4/4

*** The Committee thanks Dr Steel, Mr McKeon and Ms de Pro Gonzalo for their significant contributions to the Committee and welcomes Ms Flowers to the Committee**

1 Independent Non-Executive Director
2 Carolyn Flowers joined the Committee from the start of the last Committee meeting of the year on 30 November 2021 and therefore attended all Committee meetings held in the year while she was a member *
3 Each of Ashley Steel, Mike McKeon and Ana de Pro Gonzalo stood down from the Committee on 30 November 2021 following the conclusion of the last Committee meeting of the year and therefore attended all Committee meetings held in the year *

Other attendees: Company Secretary and, by invitation, Group Chief Executive Officer and Group HR & Communications Director

Further information about the Committee members is set out on pages 52 to 54

Nominations Committee Report continued

Dear fellow shareholder

I am pleased to present the Nominations Committee Report for the year under review. 2021 was another busy year for the Nominations Committee as we progressed certain of our previously developed Board succession plans and we considered and recommended the size and composition of the Board and its Committees both with and without the potential combination with Stagecoach. We also took our first ‘deep dive’ look at the Group’s senior management succession and talent development plans, which are key to the Group’s return to growth as we organise for success.

Board and Committee composition during the year under review

Throughout 2021, the Committee has kept the composition of the Board and its Committees under review.

In line with its previous succession plans and the principle of regular refreshment of the Board, Carolyn Flowers was appointed to the Board and its Safety & Environment Committee in June 2021. Carolyn has significant experience in the North American passenger transportation industry and has worked for multiple stakeholders in that industry, from US central government transport agencies to US area and county transit authorities. As such, she is well positioned to understand, support and challenge our North American businesses and offer valuable insights into stakeholder views.

Carolyn was identified as an ideal candidate to enhance the Board’s collective strong and relevant experience following market research conducted by, and recommendations received from industry contacts by, the Committee. As part of Carolyn’s induction, she undertook a programme of visits to our US operations as described on page 65. A Q&A with Carolyn, in which she shares her initial observations of the Group and her views on aspects of the mass transit industry, is set out in Appendix 1 to this Report.

In early December 2021, Dr Ashley Steel stood down from the Board at the end of an agreed six-year term. Ashley was a member of all the Board’s Committees and, since 2019, the Chair of the Remuneration Committee. I take this opportunity, on behalf of the Board, to once again thank Ashley for her significant contribution to the Board and its Committees.

Following these changes, the Board is now comprised of nine Directors who, as described in their biographies on pages 52 to 54 and as shown by the table below, have, between them, a wide range of highly relevant knowledge, skills and experience. This table is used by the Committee for Board succession planning.

Following these Board changes, the Committee also reviewed the membership of all the Board’s Committees to ensure that each Director's knowledge, skill and experience was being put to best use and that Non-Executive Directors were maintaining an appropriate share of Committee responsibilities.

The outcome of this review was that:

- Karen Geary, who was already a member of the Remuneration Committee, became its chair following Dr Steel standing down;
- Ana de Pro Gonzalo joined the Remuneration Committee and stood down from the Nominations Committee;
- Mike McKeon, who is Chair of the Audit Committee, stood down from the Nominations Committee; and
- Carolyn Flowers joined the Audit and Nominations Committees.

The Remuneration and Audit Committees therefore remain composed of three independent Non-Executive Directors who between them have both the requisite disciplinary experience but also wider relevant experience. As Matthew Crummack, the Senior Independent Director, and Karen Geary remain members of the Nominations Committee with Carolyn Flowers alongside myself and Sir John Armitt, it remains composed of a majority of independent Non-Executive Directors who, between them, have a good balance of relevant skills and experience.

Throughout the year, all Non-Executive Directors continued to be members of the Board’s Safety & Environment Committee, reflecting the importance the Board attaches to its business.

Name and role of Director	Passenger transport industry experience[1]	Closely adjacent industry experience	UK listed company experience[1]	Operational/ management experience	International business experience	Finance/ accounting experience[1]	People/ remuneration experience[1]	IT/Digital experience[1]
Sir John Armitt, Chairman	●		●	●	●			
Jorge Cosmen, Deputy Chairman and Nominations Committee Chair	●			●	●			
Ignacio Garat, Group Chief Executive Officer		●		●	●		●	
Chris Davies, Group Chief Financial Officer			●	●	●	●		●
Matthew Crummack, Senior Independent Non-Executive Director		●	●	●	●			●
Mike McKeon, Non-Executive Director and Audit Committee Chair			●	●	●	●		
Karen Geary, Non-Executive Director and Remuneration Committee Chair	●		●	●	●		●	
Ana de Pro Gonzalo, Non-Executive Director		●		●	●	●		●
Carolyn Flowers, Non-Executive Director	●			●	●			

[1] For all Directors, excluding via their directorships with the Company

Board and Committee composition going forwards

Part of the Committee's work prior to the Company making an offer for Stagecoach was to carefully consider and recommend to the Board how it and its Committees should be composed if that transaction were to complete. Details of the outcome of these considerations and recommendations were included in the Company's firm offer announcement issued on 14 December 2021.

Succession planning for Sir John Armitt, who reached his nine-year tenure as Company Chairman in February 2022, had already commenced in early 2021 but was paused as a result of discussions with Stagecoach on the potential combination. Should the combination not complete, the Committee will revert to its original succession planning. In that case and as he confirmed in his introduction to Corporate Governance, Sir John will remain as Chairman to provide continuity of leadership to the Company and the Board pending the selection of a successor.

Board, Committee and Director effectiveness

During 2021, the effectiveness of the Board, its Committees and of individual Directors was assessed by means of an external evaluation. The Board considered the timing of the evaluation opportune as it followed closely on from the Board having led the Group through its most challenging period since the Company's listing and it was performed at a time when the business environment in which the Group is operating is changing due to customer behaviours, wider stakeholder expectations and rapid technological advancement.

The Company Chairman, in consultation with the Company Secretary and following discussions with several potential providers and receipt of recommendations from other FTSE 350 companies, selected Dr Sabine Dembkowski of Better Boards Limited to undertake the evaluation. Neither Dr Dembkowski nor Better Boards has any other connection with the Group.

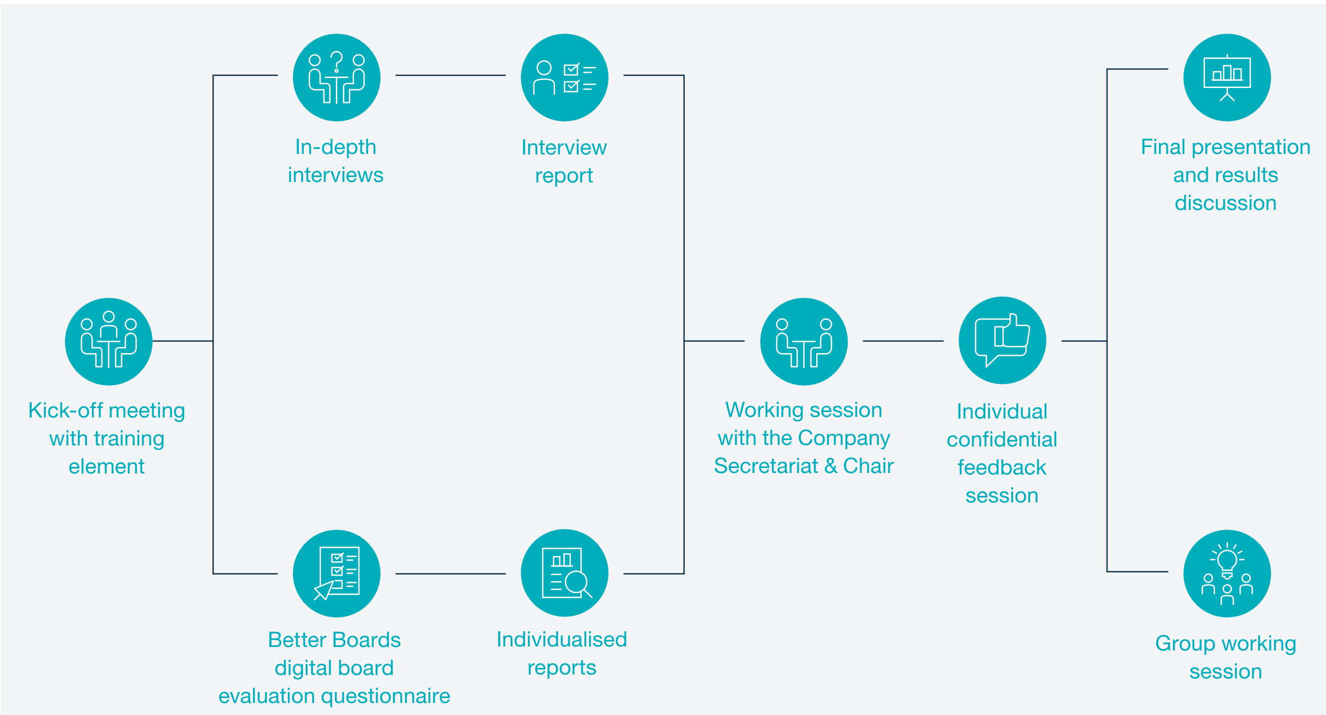
The evaluation was designed to assess how effectively the Board functions as a whole and how effectively its Committees function. It was also intended to provide individual Board members with insights about themselves to enable them to improve their personal contribution, in turn increasing the overall effectiveness of the Board and Committees of which they are members.

The evaluation process is illustrated by the diagram below. It included a kick-off session, the Directors completing a digital questionnaire designed around Better Board's peer-reviewed research on the 'seven hallmarks of Board effectiveness', one-on-one interviews with the Directors, analysis by Better Boards of the questionnaire answers and interview outcomes, and one-on-one confidential feedback sessions with Directors as well as a group Board follow-up session. The findings of the Board and Committee evaluation and actions to be taken in response to those findings are summarised in Appendix 2 to this Report.

Senior management succession planning

During 2021 and as planned, the Committee conducted its first formal 'deep dive' into senior management succession planning, undertaking a comprehensive assessment of the health of succession planning across the Group. Whereas previous Committee reviews of senior management succession plans focused on a shorter list of the most senior roles within the operating divisions and central functions over a short to medium term time horizon, this assessment extended to 87 management roles and considered the succession pipeline for all such roles over four different time horizons. It also considered the diversity within that pipeline and the talent identification and development programmes in place that support the maintenance of that pipeline. The assessment was sponsored by the Group CEO who, with the support of HR teams across the Group, held multiple discussions with current senior managers and high potential colleagues to understand their respective capabilities and ambitions and link these to the Group's organisational needs in delivering its strategy.

As a result of the assessment, the Committee is satisfied there are succession plans and talented individuals in the pipeline for a number of the roles over some of the time horizons but has observed that there is more work to do to identify successors for all the roles and over all the relevant time horizons. Identifying the gaps has laid the necessary groundwork for that further work. In addition, whereas the Group has developed and implemented a number of talent development initiatives in prior years, the assessment



Nominations Committee Report continued

identified the need for more consistency and so for a Group-wide talent programme to be implemented based on combining the best of existing programmes and other best practice. The Committee is keen to see the output of this further work and creation of the Group-wide talent development programme, and will continue to conduct 'deep dives' in future years to assess progress.

Towards the end of 2021 the Company welcomed Karen Myers as the new Group HR & Communications Director. Karen brings a wealth of experience from her previous executive and current non-executive experience across the HR and corporate communications fields in listed UK PLCs. She will bring her experience to bear to support this Committee in its continued review of senior management succession plans and also to support the Remuneration Committee in the discharge of its responsibilities.

Board and Company commitment to diversity and inclusion

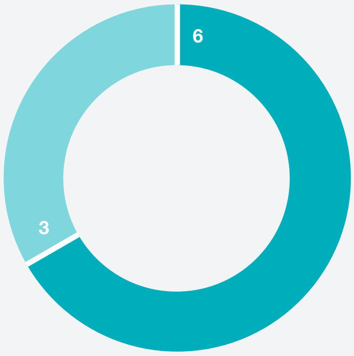
The Board and Company remain committed to enhancing diversity at all levels of the Group's organisation, from the Board and senior management team to those working in front-line roles. The reasons for this commitment are those cited previously, as set out in the box below. They in turn help support the delivery of our Evolve strategy by contributing directly to our desired outcome to be the employer of choice. They also contribute indirectly to other desired outcomes, such as to be the safest and most reliable operator and have the most satisfied customers, as having the best people in our business making the best decisions will help us to achieve those outcomes.

The Company is committed to ensuring diversity in all its forms among, and inclusion of, its colleagues as these can:

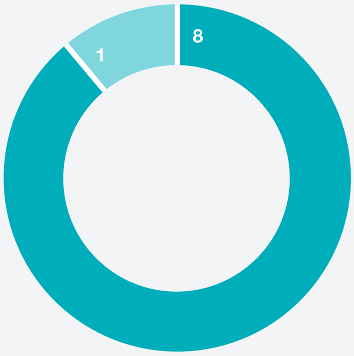
- improve decision-making at all levels of business by ensuring that diverse perspectives are brought to bear in those decisions;
- attract, retain and promote the best talent by developing a culture of inclusion where all individuals are respected and supported to reach their full potential; and
- better 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.

Board (in numbers)

Gender



Ethnicity



The Board's own diversity policy is set out in the box below and, following review, the Committee believes this remains the right policy by specifically promoting gender and ethnic diversity among Board members as well as diversity of thought and inclusiveness within the context of ensuring all Board members have the right experience and skills.

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.

The gender and ethnic diversity of the Board as at the date of publication of this Report is shown by the Board pie charts above.

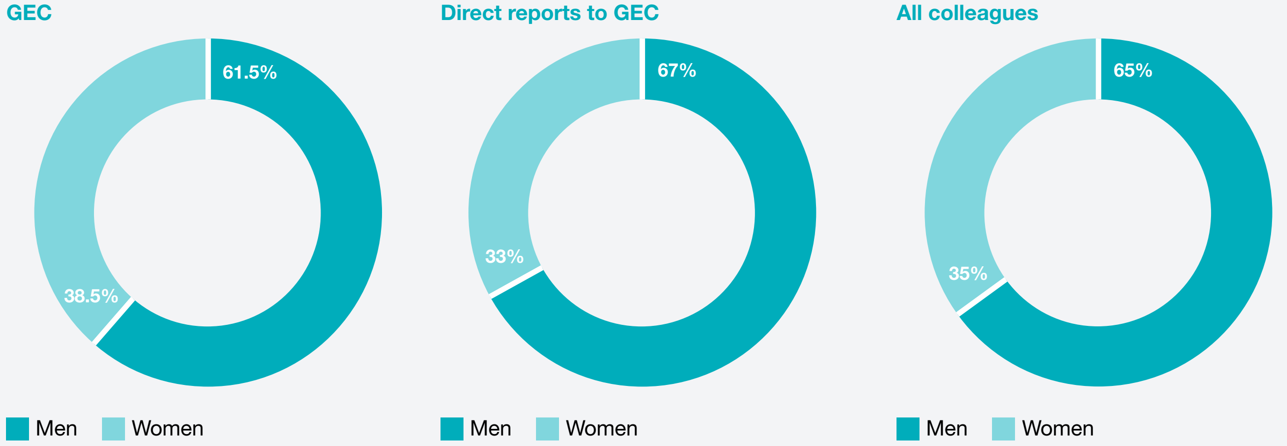
Diversity is also a key consideration in senior management succession planning and, as noted before, diversity within the current senior management team and the talent pipeline was considered as part of the 'deep dive' review. One of the key objectives of a new Group-wide talent development programme will be to continue to promote diversity in the senior management succession pipeline.

The gender diversity of the Group Executive Committee (GEC) and its direct reports as at 31 October 2021, as well as the gender diversity across our whole workforce, are illustrated by the pie charts shown on the next page. We have made year-on-year progress in promoting female diversity in our senior management teams, and gender diversity also remains strong across our workforce as a whole. We do not currently collect ethnicity data on our senior management teams or across our workforce as a whole due to legal restrictions but, empirically, we believe we have good ethnic diversity across the workforce as we operate in many countries and ethnically diverse cities across the world and our workforce is drawn from these vibrant communities.

Over recent years, this Committee has reported on the creation of the Company's Global Diversity & Inclusion Council and its three strategic ambitions:

1. **Reflecting the communities we serve** by increasing those in under-represented groups at all levels of the workforce, with a key emphasis on those in management roles, in order that we better reflect the communities we operate in.

Gender (in percentages)



2. **Creating inclusive and accessible working environments,** free of racism or any other form of discrimination, where people respect and value each other's diversity and the contribution they make.

3. **Driving a culture of empowerment** by empowering leaders at all levels to take effective ownership of diversity and inclusion and deliver demonstrable change.

During 2021, each of the Group's business divisions made progress against these three strategic aims by building on the foundations set in 2020:

Strategic Aim 1: Reflecting the communities we serve

The Group has focused on embedding selection practices which are free from bias by:

- Providing unconscious bias training throughout the leadership population and offering 14 specific diversity and inclusion e-learning courses, with thousands of colleagues completing these in 2021.
- Creating 'Guidelines for an inclusive language' for all recruiters in ALSA to ensure inclusive language is used in job offers and overall communications.
- Conducting programmes targeted at high potential female colleagues to increase the number of women applying to lead teams and internal projects.

Strategic Aim 2: Creating inclusive and accessible working environments

The Group's divisions celebrated the diverse backgrounds of their colleagues by sponsoring events and activities:

- The UK business celebrated Black History Month by colleagues sharing stories via video clips as well as NX West Midlands inspectors wearing ties to show support for the celebrations.
- The NX Pride Bus was part of the Birmingham Pride Parade.
- The North America business celebrated National Observance of Hispanic Heritage Month by sharing the positive employment experiences of many of its employees of Hispanic descent on internal and external social media channels.
- ALSA celebrated gender diversity by holding a week long 'Women's Week' as part of International Women's Day, with activities such as expert briefings, webinars and roundtable events.

Strategic Aim 3: Driving a culture of empowerment

The Group's leadership has driven ownership of strategic ambitions at local level by:

- Creating Diversity & Inclusion Councils within each of the three principal divisions which meet regularly with divisional leadership to proactively work on solutions together.
- The UK Diversity & Inclusion Council running a 'Stronger Together' Campaign to encourage colleagues to report inappropriate behaviours via an internal portal.

Proposed re-election and election of Directors

Having regard to the outcome of the Board, Committee and Director external evaluation, and in particular its finding that Board members have, between them, highly relevant knowledge and experience, a broad range of skills and a collective deep understanding of passenger transport, the Committee is satisfied that the Board and its Committees function effectively and that each Director contributes well to the Company.

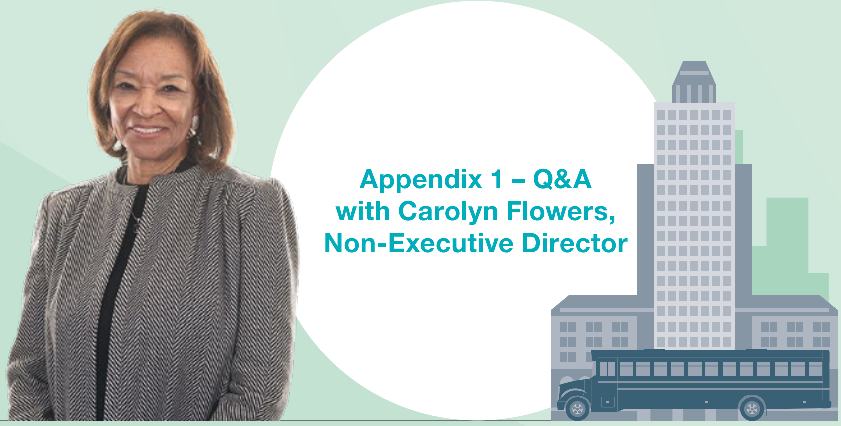
The Committee has also considered the independence of each individual Director and the overall independent balance of the Board and its Committees. The Board, on the Committee's advice, is satisfied that there is an appropriate balance of independence on the Board and all its Committees and that each Director who is identified as being independent on pages 52 to 54 is so independent.

The Committee further considered each individual Director's commitment to the Company, their external commitments and any actual and potential conflicts of interest in line with the refreshed policies adopted by the Board during the year, as referred to on page 70. The Board, on the Committee's advice, is also satisfied that each Director has dedicated, and is able to dedicate, sufficient time and attention to their duties to the Company.

Accordingly, the Board, on the Committee's advice, is recommending that shareholders re-elect, or elect, all the current Directors of the Company at the 2022 AGM.

Jorge Cosmen
Nominations Committee Chair
9 March 2022

Nominations Committee Report continued



Appendix 1 – Q&A with Carolyn Flowers, Non-Executive Director

Q How was your induction?

It was very professional and comprehensive, and gave me a really good overview of the business, its governance and my duties as a director of a UK listed company. I had one-to-one meetings (online due to Covid-19 restrictions at the time) with each of the Executive and Non-Executive Directors to hear their views on being a National Express Board member and I had sessions with both internal and external legal teams to make sure I was clear on the UK regulatory framework and my UK legal responsibilities. When Covid-19 restrictions eased, I was able to visit sites in North America and the UK to see some of our businesses in operation, which was a real highlight. Further details of these site visits are on pages 63 and 65.

Q You participated in a workforce engagement event. Did this give you a good insight into the views of members of the workforce?

Yes, I had the opportunity to speak with colleagues from across our global operations, which gave me good insight into the work they are doing on the ground day-to-day and how our decisions in the Boardroom can affect them. It was also a great networking opportunity for colleagues, so something that should be continued in the future.

Q What do you think of National Express' approach to safety?

I've been really impressed; there is a comprehensive programme of policies which translate into actions being taken at every level to prevent incidents. There is also a detailed review of root causes where incidents do happen and any appropriate adjustments are made following such review. Safety really is the number one priority here.

Q You have valuable experience in the US transit industry, including as a customer. From what you've seen of National Express in your first six months, what do you think we do well and where do we have more to do?

I've been inspired by the people and their dedication to providing the best service. Our people have really stepped up during the pandemic to meet the needs of customers and the wider community, having to respond quickly and adjust their ways of working to accommodate changes to customer requirements.

In my experience as a customer, it is all about service; the key is providing the best service at a price the customer can afford. National Express knows this – 'most satisfied customer' is one of the outcomes of the Evolve strategy – and, from my site visits, I can see how the teams are constantly driven to find ways to provide the best service. However, I think technology has more of a role to play, and in particular how we transition to using technology to further improve the rider and employee experience. This should be a focus for the future.

Q What do you think of National Express' zero emission fleet ambitions? What opportunities and challenges do you think they present?

The transport industry has a responsibility for reducing emissions. It will be a long pathway for the whole industry to be zero emission, but it is a pathway National Express is already on, as I experienced first-hand having just travelled on one of our zero emission vehicles and having had the opportunity to see our electric and hydrogen buses at our Coventry depot. I can see it is a journey National Express is committed to, which in itself presents an opportunity for us to lead the way for the passenger transport industry.

But there will be challenges; zero emission vehicles are new technologies which mean new ways of working for our drivers, our engineers and our operations. They also import new types of risk that we are updating our safety programme to deal with. I also think a major challenge will be around charging infrastructure and associated costs. However, these challenges can be overcome. National Express is already identifying and resolving challenges and governments worldwide are aligned on making resources available. In the USA, the Biden administration recently passed the Infrastructure Investment and Jobs Act, which includes significant resources for electrification and zero emission technology.

Q Within the USA, are the labour shortages an issue for all industries or only affecting the transport industry, and are the shortages country-wide or only impacting specific regions?

There has been a major shift in the US labour market during Covid-19 which is impacting other industries such as retail and hospitality, but is mainly affecting transit, para transit and school transport and is a country-wide issue.

We are transporting the most vulnerable in society – the most precious cargo – and the number of checks that we need to complete to ensure we have suitable drivers means that the recruitment process takes longer for us, and it is harder for candidates to meet the criteria, which means we can lose drivers to other industries. It will be challenging; we have very high standards in a difficult market, but we have a plan.

Q You will have experienced the Black Lives Matter movement in the USA. What do you think employers should learn from this?

The BLM movement is a clear call for inclusion and recognition of diversity – we need to be constantly aware of and supportive in recognising and embracing the values of everyone contributing to an organisation and society.

Appendix 2 – Board and Committee Evaluation

As explained on page 73, an external evaluation of the Board and its Committees was undertaken during 2021. The table below summarises the key findings of the evaluation, as well the actions to be taken to follow up on them:

Key strengths	Areas for continued focus	Follow up actions
A highly experienced, knowledgeable and diverse Board with, among its members, a broad range of skills and a collective deep understanding of passenger transport, benefitting also from strong diversity in both members' backgrounds and thoughts	Ensure individual Directors' experience and knowledge is leveraged to the best benefit of the Company Enhance the Board's skills and experience in areas such as digital, cyber and Environment, Social and Governance (ESG) Ensure there are protocols and procedures to ensure Board decision-making is as efficient and effective as possible in view of the increasing Board agenda	– Continue to closely monitor Board and Committee composition to assess if Board members' collective experience and skills are continuing to meet the Company's needs, having particular regard to transformation in the industry, the Group's international reach and its entrepreneurial spirit – Provide more Board training and bring in external advisers or specialist speakers to enhance Board skills and inspire thinking – Create Board meeting protocols to facilitate more efficient decision-making, and clarify the actions required of the Board in executive summaries in Board papers
Open and collegiate style of Board discussions, enabled by the Chair's and CEO's approach	Ensure all discussions are goal-orientated and achieve a better balance between key Board discussions on strategy, risks and opportunities vs all other business	– Follow new Board meeting protocols to ensure decision-making is as efficient as possible – Dedicate more Board time to tracking progress against strategy and incorporate a strategy KPI dashboard into Board papers to facilitate this
Appropriate attention given to succession planning, with the focus in recent years on CEO and Chair succession planning	Focus more on below Board level succession planning, including by reviewing the talent pipeline deeper down in the organisation	– Nominations Committee 'deep dives' into senior management succession planning, initiated in 2021, to continue going forwards and to be expanded to cover more middle management roles and provide more detailed assessments of the Group's talent identification and development programmes
Excellent established programme of Board visits to the Group's operations and workforce engagement opportunities for Board members	Strengthen other stakeholder relations, through more Chair and Non-Executive Director shareholder engagement and through new ways of hearing from other stakeholders	– Engage more with shareholders at appropriate opportunities – Identify new opportunities for the Board to hear directly from more customer, supplier, regulator and other key stakeholders
Effective Board Committees discharging their extensive duties	Each Committee to dedicate appropriate time to both core and non-core matters within their remits and seek specialist management or external views where appropriate	– Ensure Committee meeting agendas dedicate sufficient time to both core and non-core matters – Bring more specialist and external views into Committee meetings
Continued strong focus on the Group's health & safety agenda and increasing focus on the Group's wider ESG agenda and culture	Create more opportunity to monitor the continued development and delivery of the Group's environment strategy and the effectiveness of the Group's people initiatives, including particularly those that underpin and support the Group's culture	– Consider whether the existing Safety & Environment Committee should be restructured into a Committee with a wider ESG remit, ensuring sufficient time is given to these matters but that the focus on safety is also maintained – Identify further ways to monitor the Group's culture, including by a review of the outcome of the first Group-wide staff engagement survey to be conducted in 2022

Audit Committee Report

Mike McKeon
Committee Chair

The Committee has championed the continued reinforcement of the Group's controls and compliance, positioning it well for a return to growth"

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 system of internal control and management of risk and the adequacy and effectiveness of the internal audit function and external audit

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 as appropriate any significant financial judgements 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 management of risk, in terms of identifying, managing and mitigating principal risks and identifying and mitigating where possible emerging risks
- Review the Group's policies, processes and controls for the detection and prevention of fraud, and for compliance with applicable laws, regulations and internal policies, including relating to anti-bribery, anti-slavery and data protection
- Approve the activities, review the findings and assess the effectiveness of the Company's internal audit function
- Monitor the activities, consider the opinions and assess the independence and effectiveness of the external auditor
- Review the Company's Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy

Activity highlights

- Reviewed and satisfied itself as to the integrity and fairness of the Group's half and full year financial statements and the appropriateness of their being prepared on a going concern basis
- Assessed and challenged the appropriateness of the Company's viability statement
- Assessed and challenged management's approach to key accounting judgements and estimates
- Reviewed the findings and monitored the effectiveness of the internal audit function, including changes in its composition and the evolution of its approach since its last external quality assessment
- Reviewed the opinions and monitored the independence and effectiveness of the external auditor, including changes in its working practices agreed as part of the audit tender
- Supported the Board in its management of risk by its continued programme of 'deep dive' reviews into divisional risk and its ongoing review of cyber risk
- Reviewed the framework of the Group's compliance programme and the corporate policies comprised within it
- Considered compliance with the terms of Covid-19 related grants and subsidies claimed during the year

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Mike McKeon (Chair)[1]	03.07.15	–	5/5
Ana de Pro Gonzalo[1]	01.10.19	–	5/5
Carolyn Flowers[1,2]	04.12.21	–	0/5
Dr Ashley Steel[1,3]	01.01.16	03.12.21	5/5

*** The Committee thanks Dr Steel for her significant contribution to the Committee and welcomes Ms Flowers to the Committee**

1 Independent Non-Executive Director
2 Carolyn Flowers joined the Committee on 4 December 2021 but did not attend any meetings of the Committee in the year as none were held after the date she was appointed *
3 Dr Ashley Steel stood down from the Committee on 3 December 2021 when she stood down from the Board. She attended all the meetings of the Committee in the year as they were all held before the date she stood down *

Other attendees: Company Secretary and, by invitation, Company Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit, Group Legal Counsel, Group Head of Compliance & Risk and representatives of the external auditor, Deloitte LLP

Further information about the Committee members is set out on pages 52 to 54

Dear fellow shareholder

I am pleased to present the Audit Committee Report for 2021. During the year under review, the Audit Committee has ensured continued focus on and challenge of the going concern and viability assessments and management of risk as the Group began its recovery from the Covid-19 pandemic, and has championed the continued reinforcement of the Group's controls and compliance, positioning it well for a return to growth.

Financial reporting

The Committee is responsible for considering and satisfying itself, after consultation with the Company's external auditor, that the Company and its Group have adopted suitable accounting policies and appropriately applied the same, that management has made appropriate accounting judgements and estimates, that the adoption by the Company of the going concern basis of accounting is appropriate and that its viability statement is reasonable.

Key accounting matters

Details of the key accounting matters addressed by management when preparing the Consolidated Financial Statements, together with information about how the Committee assessed, challenged where appropriate and satisfied itself that the judgements and estimates made by management in relation to them were reasonable, are set out in Appendix 1 to this Report.

Going concern assessment

The Committee reviewed and robustly challenged management's assessment that the Group's financial statements for the six-month period ended 30 June 2021 and for the financial year ended 31 December 2021 should be prepared on a going concern basis.
Management developed both base case and reasonable worst case financial scenarios over a 12-month look forward period using assumptions about trading drawn from the Group's strategic plan, budget and latest financial projections. They then applied stress tests to both those scenarios to determine whether the Company would be able to meet its liabilities as they fell due, having regard to the Group's access to cash and other committed facilities and the covenant tests in such facilities, to which the Group has now secured further amendments through December 2022. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group would have sufficient liquidity and be able to comply with its amended debt covenants and there was no more than a remote possibility that it would not be able to do so even after the application of the further stress tests. Accordingly, the Committee recommended to the Board that the Company's and its Group's financial statements at the half and full year be prepared on a going concern basis.

Viability assessment

The Committee also carefully considered management's view of the Company's viability for the three-year period ending 31 December 2024, including the rationale for assessing viability over a three-year period. The testing of viability involved the analysis of base case and reasonable worst case scenarios projected forwards over this three-year period by reference to trading assumptions drawn from the Group's strategic plan, and factored in the impact of risks including known and likely future climate risks that could materialise over this three-year period, offset by reasonable mitigations. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group should be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Committee recommended to the Board that the Company make its viability statement as set out on page 48 of the Strategic Report.

FRC review of 2020 accounts

The FRC conducts a review programme of FTSE 350 companies' annual reports and accounts. During 2021 the FRC conducted such a review of the Company's 2020 accounts and enquired into three specific areas of the Company's reporting.

The first sought clarification on whether any of the Group's Covid support grant or subsidy arrangements gave compensation for any of the Covid-related costs presented within separately disclosed items. Management responded that, correctly, they did not.

The second enquired why the Group recognised booking fees at the point of sale and treated them as consideration for a separate performance obligation to the corresponding ticket revenue. Although there is a separate legal obligation, management agreed prospectively to amend the Group's accounting policy to recognise booking fees in the period in which the related travel occurs as the amounts concerned are immaterial.

The third enquired about the Group's factoring of advance subsidy payments. The Group has a number of contracts with public bodies where the future cash flows are contracted. For some of these, where the cash flows are back ended, the Group enters into factoring arrangements with a bank to factor the future cash flows in advance of invoicing the customer, thus aligning better the cash inflows with the costs of operations. The amounts drawn down on such arrangements have historically been accounted for in a similar fashion to receivables factoring and the Group has, as for receivables factoring, clearly disclosed the amounts drawn down. Having regard to recent clarifications regarding the presentation of financial liabilities within trade payables, management proposed that it would be more appropriate for the resultant liability with the bank to be recorded within borrowings rather than trade payables as it does not relate to goods or services, nor does it represent amounts invoiced or formerly agreed with a supplier.

The Committee reviewed management's assessment of the accounting treatment of both booking fees and factoring of advance subsidy payments, including by seeking the view of the external auditor. While the Committee understood, and supported the rationale for, the accounting treatments previously adopted, on the basis of the new arguments presented it agreed with management's proposals to amend the accounting policies. The amendment to policy on booking fee recognition will be made prospectively and the amendment to the policy on factoring advance subsidy payments will take effect retrospectively and therefore the Balance Sheet and associated cash flows have been restated accordingly.

Following management's proposals and their review and acceptance by the Committee, the FRC has confirmed it has closed its enquiries.

Risk management

The Board has overall responsible for risk management. The Committee supports the Board by conducting 'deep dive' reviews into the Group's divisions' risk management activities as well as certain specific Group-wide risks, and by reviewing the Group's compliance programme.

Group risk appetite and principal and emerging risk review

The Board's risk appetite and assessment of the Group's principal and emerging risks, as well as a description of how the Group manages risk, are set out on pages 42 to 47 of the Strategic Report. The Group's climate-related risks and opportunities are considered in more detail in the TCFD disclosures on pages 35 to 39.

Audit Committee Report continued

Divisional risk reviews

During 2021, the Committee reviewed the Group's divisions' principal and emerging risks and their management of such risks. Additional dedicated meetings of the Committee were held at which risk and senior managers from each of the divisions presented their principal and emerging risk registers and explained how they were managing and where possible mitigating risk. Mirroring the Company's approved approach to Group-wide risk, the divisions record their risks in the form of heat maps which categorise both their likelihood and potential severity according to Group developed guidance. Each risk is then assigned a business owner who develops and oversees the delivery of mitigating actions, which actions are tracked at regular divisional management meetings.

The Committee observed that the Group's divisions had included both current and emerging strategic, financial, operational and reputational risks in their registers and had developed action plans to manage such risks over the different time profiles over which such risks could materialise. It was also pleased to note that certain matters identified as risks were also viewed as opportunities and that, following the exercise to identify climate-related risks and opportunities as described on pages 37 to 39, environmental risks had been identified and classified in all divisions' risk registers. Using insights gained from the Board's work on overseeing Group-wide risks and the Committee's work on reviewing divisional risks, the Committee was able to challenge each division on whether it had identified and appropriately classified its risks and whether it was adopting the most effective mitigation plans, and share best practices the Committee had observed within each division.

Through its reviews, the Committee has been assured that each of the divisions has a robust risk identification and management process and was pleased to see that risk management has become embedded in the day-to-day business activities and culture of the divisions. Such reviews also have served to deepen Committee members' understanding of the risks the Group's different businesses face and, through the Committee sharing this understanding with the wider Board, they have informed the Board's ability to appropriately set the Group's risk appetite, assess the Group's principal and emerging risks and weigh up risks with opportunities when taking key business decisions.

Cyber risk review

Cyber risk remained a standing item on the Committee's agenda in 2021, with the Group's ongoing cyber security programme, and the progress being made against the specific deliverables comprised in such programme, assessed at each of the regularly scheduled Committee meetings.

These assessments were made against the backdrop of a significant growth in the number of cyber attacks being experienced by companies generally. Indeed, the Company was subject to a specific cyber attack during 2021 but, thanks to the particular actions the Company had taken in 2020 under its cyber security programme, this attack was detected and neutralised without any loss of data or compromise to operational systems. However, it prompted management and, in turn, the Committee to review the aptness of the Group's cyber security programme. This review validated that such programme remained fit for purpose but that the timetable for certain deliverables under it should be accelerated, including the implementation of more standardised access controls across the Group's server estate and its internet facing software systems, and the roll-out of a new cyber security Group standard on cyber incident response, which were completed in the year.

Compliance risk

The Group has a range of existing policies and procedures for ensuring compliance with applicable laws and regulations and relevant codes of conduct, including Group-wide policies on business ethics, anti-bribery and corruption, modern slavery and whistleblowing, and divisional policies and procedures which either implement or supplement the Group policies having regard to local laws, regulations and best practice. The Group's whistleblowing procedures include access to an independently managed whistleblowing hotline via which the Group's stakeholders, including employees, can raise concerns, anonymously if they so wish. Reported concerns are duly investigated and acted upon by management or the functional support teams as appropriate, with serious cases and their outcomes reported to the Board.

Looking ahead to the reforms the UK Government is expected to make to audit practices and corporate governance following its consultation on restoring trust in audit and corporate governance, in 2021 the Group engaged a new dedicated Group Head of Compliance who has hands-on experience of developing and implementing compliance programmes in multi-national organisations. The Group Head of Compliance, working with the Group Chief Financial Officer and Group General Counsel and their teams, will keep the proposed reforms on audit and corporate governance under review and will lead the work and make recommendations to the Committee on how to comply with new legal requirements or implement new best practice recommendations.

Internal control

The Committee is responsible for monitoring the adequacy and effectiveness of the Company's system of internal control and reporting to the Board on the same.

System of internal control

The Company's system of internal control is based on a three lines of defence model, with a number of component controls operating at each of those lines, as illustrated in Appendix 2 to this Report.

Internal audit

The internal audit function acts as the third line of defence and provides the Committee with assurance on the effectiveness of the Company's first and second line internal controls, including financial controls and controls designed to prevent incidents of fraud. It does this through the independent observation and objective assessment of such controls via a programme of audits undertaken throughout the year against a plan reviewed and approved by the Committee.

During 2021, the Company enhanced its internal audit resources by engaging new team members in North America and by using more external resource in the UK, Spain and Morocco. The audit plan included: audits of standard divisional financial controls; audits of key safety and operational controls; audits of particular operational initiatives including the driver recruitment process in North America; and audits on core Group-wide controls and initiatives such as the delivery of the Group's cyber security programme and the effectiveness of the operation of the Group's whistleblowing procedures. In addition, in view of the growing importance of environmental reporting to investors, the internal audit team conducted an audit of the Group's controls around the collection and reporting of environmental data. Internal audit reported all the findings from its audits and recommendations for follow-up management actions to the Committee.

At the Committee's specific request, internal audit also conducted audits of the Group's claims for Covid-19 related subsidies and grants, which were supplemented by reviews by an independent accounting firm of certain aspects of such claims. The Committee was conscious of the reputational risk that could attach to making errors in such claims so assured itself that the Group's operating subsidiaries who submitted such claims were eligible to do so, had calculated their claims correctly and, where relevant, were complying with the conditions attached to the grants and subsidies.

Internal audit effectiveness

The Committee is responsible for monitoring the effectiveness of the internal audit function. In respect of its work in 2021, the Committee monitored this effectiveness by reviewing the scores colleagues, whose work or controls were subject to internal audit, awarded to the function on a 'value scorecard' and by making its own assessment of the quality of that work. The Committee is satisfied that the Company's internal audit function continues to be effective.

Significant weaknesses or control failures

Following its review of and conclusions from all elements of internal and external assurance, the Committee is satisfied that there are no significant weaknesses or control failures to report in respect of the Company's financial year ended 31 December 2021.

In respect of the Company's financial year ended 31 December 2020, the Committee reviewed the need to address some control findings in its North America finance function which were identified as a result of small manual calculation errors made in the 2020 financial close process. While these did not give rise to any material accounting errors in that year, management nonetheless instigated a review of the financial control environment in the North America division with the assistance of an independent accounting firm. This review identified that there was a generally good financial control environment and compliance culture in North America but that there were opportunities to formalise the operation or documentation of certain financial controls to mitigate ad hoc manual errors. The Committee considered these findings together with the recommended actions to address them and tracked the progress made by the North America finance function in implementing such actions during the year ended 31 December 2021. The Committee has satisfied itself that good progress has been made in improving financial controls in North America.

External audit

Deloitte LLP is the Company's auditor. Deloitte was first appointed as auditor in 2011 and, following its selection in the Company's audit tender conducted in 2020 and shareholders' approval given at the Company's 2021 AGM, was re-appointed in 2021. Deloitte's continued appointment will be subject to shareholders' annual approval at prospective Company AGMs. Jane Whitlock is the Company's new audit partner following the mandatory rotation of the Deloitte audit partner in 2021. The Company has therefore complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External audit plan and fee

The 2021 external audit plan, which was prepared by Deloitte and reviewed and approved by the Committee, comprised full scope audit procedures for the Group's UK & Germany, ALSA (including enhanced procedures in Morocco) and North America divisions. It included: the review by Deloitte of the Consolidated Financial Statements; its challenge of management's significant judgements and estimates; its review of certain of the Group's key financial and fraud controls and of the risk of management override of controls; and its consideration of certain aspects of the Group's non-financial reporting, including the Group's TCFD disclosures. Deloitte's fee for undertaking the 2021 audit, of £2.0 million, proposed as part of its tender for re-appointment, was also approved by the Committee.

External audit effectiveness

The Committee is responsible for reviewing the effectiveness of the Company's external audit. The Committee did so by considering the outcome of colleagues' evaluation of the quality and efficiency of Deloitte's work and its own evaluation of that work. In addition, the Committee considered how Deloitte had performed against the tender commitments it made to the Company to develop and achieve more effective and efficient ways of workings with the Company. These included conducting earlier planning and ensuring prompt communications, using technology solutions to conduct aspects of the audit, and developing audit quality indicators. Having regard to the outcome of these evaluations and progress against its tender commitments, the Committee is satisfied that Deloitte performed its work to a high standard.

External auditor provision of non-audit services and independence

The Committee is also responsible for reviewing the auditor's independence and objectivity. The Company operates a non-audit services policy which sets out the permitted and prohibited non-audit services its auditor may be engaged to provide, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and determined it remained fit for purpose. It also reviewed the Company's compliance with the policy, which was confirmed as Deloitte performed only permitted non-audit services during 2021 for which its fees totalled £0.2 million, representing 10% of the total audit fee.

Having regard to the operation of the non-audit services policy during 2021, together with Deloitte's reports to the Committee confirming its independence at the half and full year and the rotation of the Deloitte audit partner in 2021, the Committee assured itself of Deloitte's ongoing independence.

Board assessment of effectiveness

Taking account of the Committee's work on assessing the effectiveness of the Company's system of internal control, and both the Committee's and its own work on assessing the Group's management of risk, the Board is satisfied that these are effective.

Fair, balanced and understandable

Having carefully reviewed the Company's 2021 Annual Report, and considered management's approach to its preparation, including in compliance with applicable laws and having regard to the UK Corporate Governance Code, the TCFD recommendations and the FRC's best practice guidance, and having heard the views of its auditor, the Committee recommended, and in turn the Board confirmed, that this 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.

M McKeon

Mike McKeon
Audit Committee Chair
9 March 2022

Audit Committee Report continued

Appendix 1 – Key accounting matters

The Committee considered the following key accounting matters as part of its review of the Consolidated Financial Statements:

	Key accounting matter	Committee action and conclusion
Impairment of goodwill (see note 14 to the Consolidated Financial Statements)	In determining whether assets are impaired, management is required to make a number of estimations and assumptions, including on future cash flow projections, discount rates and perpetual growth rates.	The Committee carefully considered management's work on the impairment analysis and testing of the value of the Group's goodwill balances, applying particular focus to the value of its ALSA division's goodwill in view of the lower level of headroom. These impairment assessments were based on modelled 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). Management refined its methodology for deriving the WACC during the year in order to bring it more in line with common practice, although this had limited impact on the resulting WACC. After considering the assumptions made by management in forecasting cash flows and its rationale for the WACC and PGR, and taking into account the auditor's views on these matters, the Committee concurred with management's view that goodwill is not impaired as at the balance sheet date.
Insurance and other claims provisions (see note 26 to the Consolidated Financial Statements)	The adequacy of the provisions associated with claims arising predominantly from traffic accidents and employee incidents in North America is subject to estimation based on an assessment of the expected settlement value of known claims together with an estimate of settlement values that could be made in respect of incidents that have occurred but not yet given rise to a claim at the balance sheet date. 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.	The Committee considered the information provided by management on the status of the North America and other material open claims made against members of the Group together with advice from external actuaries, legal counsel and insurance brokers, on the likely outcome of such claims, as well as management's explanation of the methodology used to determine the value of provisions for such claims. After challenging whether management had considered all material open claims and incidents that could give rise to claims and the external advice given in connection with them, the Committee concluded that management's estimation of the value of such claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.
WeDriveU put option liability (see note 25 to the Consolidated Financial Statements)	The value of the liability of the put option over the shares in WeDriveU Holdings Inc. not already owned by the Group is subject to estimation of future earnings performance.	The Committee considered management's valuation of the put option liability. This took account of the fact that the option over 10% of the shares had been exercised during 2021, the option over a further 10% will be exercised during 2022, and the option over the remaining 20% shares is expected to be exercised in early 2023. The valuation also made assumptions about WeDriveU Inc.'s projected 2022 EBITDA performance and net debt position, together with the external auditor's views on that estimate. Following this review, the Committee concluded that management's valuation was reasonable.
Separately disclosed items (see note 5 to the Consolidated Financial Statements)	The Group presents profits and earnings per share measures before separately disclosed items to provide more meaningful information to shareholders on the Group's underlying performance. The classification of separately disclosed items requires management judgement having regard to the nature and intention of the transactions to which they relate.	The Committee considered the nature and extent of the separately disclosed items identified by management and its rationale for why they did not form part of the Group's Underlying Operating Profit (a key APM). The Committee noted that this was the second year that certain Covid-19 related incremental costs were separately disclosed, but satisfied itself that these represented either the re-assessment of estimations in respect of items recorded as separately disclosed items in the prior year, or that they represented the finalisation of activities such as restructuring programmes that commenced in 2020 and concluded in 2021. After discussion with management and the external auditor, the Committee concurred with the approach taken.
Onerous contract provisions (see note 26 to the Consolidated Financial Statements)	The Committee reviewed the approach taken by management in recognising £23.1 million as an onerous contract provision in respect of its RRX German rail concession.	The Committee reviewed management's assessment and concurred with the onerous contract provision recorded.
Pension liabilities (see note 34 to the Consolidated Financial Statements)	The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions. In particular, a key area of estimation uncertainty is in respect of the discount rate.	The Committee reviewed the assumptions made by management in determining the defined benefit obligation, including considering the advice from independent qualified actuaries, and concluded that they were appropriate.

Appendix 2 – System of internal control

Third line of defence

Board of Directors
Sets and monitors delivery of Group strategy, sets Group risk appetite, assesses the Group's principal and emerging risks and approves significant matters reserved to it

Audit Committee
Assists the Board in assessing risk management and reviews the effectiveness of the internal audit function and the external audit

Internal Audit Function
Audits the effectiveness of the Company's first and second line internal controls through the independent observation and objective assessment of such controls

Second line of defence

Group Executive Committee
which monitors the frameworks, policies & procedures and effectiveness of the functions referred to below

Group Compliance Framework
under which corporate policies, such as those on anti-bribery and anti-slavery, are created and enforced

Group Whistleblowing Procedures
by which internal and external stakeholders can raise concerns about wrongdoing

Group Safety Policies
set minimum expectations for safety outcomes, such as speeding and driver risk monitoring

Group Standard Operating Procedures
set minimum standards for operations, such as vehicle maintenance and driver rostering

Group Risk Management Reporting Guidelines & Group Risk Director
which help track the management and, where possible, mitigation of risks and calibrate the severity and likelihood of risks

Group Cyber Security Programme & Group Cyber Security Team
which set cyber security strategy and control and monitor progress against that strategy and compliance with those controls

Group Environmental Data Reporting Guidelines & Group Sustainability Director
which help track delivery of environment strategy and ensure the integrity and consistency of environmental data collection and its reporting

Group Consolidated Financial Reporting & Group Finance Team
which consolidate and review Group financial results

Group Treasury & Tax Functions
which centrally manage Group treasury activities and set Group tax strategy and review tax compliance

Group Legal Reporting & Group General Counsel
which monitor, report and provide legal advice on Group legal risks

First line of defence

Divisional Executive Committees
which monitor the policies and procedures and the effectiveness of the functions referred to below

Divisional Safety, Operational, Cyber and Environmental policies and/or procedures
which implement Group policies and/or procedures

Divisional Risk Registers & Management
which track divisional risks and develop mitigations

Divisional Budgets & Forecasting
which set divisional financial expectations and monitor delivery

Divisional Finance Teams
maintain the financial ledgers and prepare divisional accounts

Divisional Legal Teams
provide legal advice and assistance on divisional legal risks

Safety & Environment Committee Report

Sir John Armitt CBE
Committee Chair

Safety, where we believe we are already an industry leader, remains our priority. Our zero emission fleet transition strategy and ambitious net zero and zero emission fleet targets demonstrate our desire to become an industry leader in combating climate change and poor air quality"

Primary role

To oversee the effectiveness of the Group's safety, health & wellbeing and environment strategies, standards, policies, initiatives and targets, to assess the Group's delivery 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 & wellbeing and environment leadership, performance and culture
- Review the Group's strategy and framework of standards, policies, targets and initiatives for managing safety
- Review the Group's strategy, policies, targets and initiatives for managing its impact on the environment
- Review the Group's performance against these matters and the external reporting of that performance

Activity highlights

- Monitored the Group's performance against its safety standards, policies and targets, including consideration of new safety risks and measures being taken to mitigate them
- Reviewed major accidents and incidents and the action plans developed or lessons learned in response to them
- Reviewed the Group's strategy to transition its global businesses' fleets to zero emission and the new fleet zero emission targets set to drive delivery against this strategy
- Assessed the Group's performance against its 7-year environmental KPIs
- Reviewed the Group's TCFD disclosures included in this Annual Report

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Sir John Armitt CBE (Chair)[1]	01.01.13	–	3/3
Jorge Cosmen	01.12.05	–	3/3
Matthew Crummack[2]	06.05.15	–	3/3
Mike McKeon[2]	03.07.15	–	3/3
Karen Geary[2]	01.10.19	–	3/3
Ana de Pro Gonzalo[2]	01.10.19	–	3/3
Carolyn Flowers[2,3]	01.06.21	–	2/3
Dr Ashley Steel[2,4]	01.01.16	3.12.21	3/3
Chris Muntwyler[5]	01.06.11	31.12.21	3/3

*** The Committee thanks Dr Steel and Mr Muntwyler for their significant contributions to the Committee and welcomes Ms Flowers to the Committee**

1 Company Chairman, independent on appointment
2 Independent Non-Executive Director
3 Carolyn Flowers joined the Committee at the same time as her appointment to the Board on 1 June 2021. She participated in all the meetings of the Committee held in the year after she joined *
4 Dr Ashley Steel stood down from Committee when she stood down from the Board on 3 December 2021 but she attended all Committee meetings in the year prior to standing down *
5 Chris Muntwyler was co-opted as a non-Director member of the Committee throughout the year and stepped down from his role at the end of the year *

Other attendees: Company Secretary and, by invitation, Executive Directors, Group Safety Director and Group Sustainability Director

Further information about the Director Committee members is set out on pages 52 to 54

Dear fellow shareholder

I am pleased to present the Safety & Environment Committee Report for 2021. Safety, where we believe we are already an industry leader, remains our number one priority. Our zero emission fleet transition strategy and ambitious net zero and zero emission fleet targets, as described in this Report, demonstrate our desire to become an industry leader in combating climate change and poor air quality.

Safety

Safety governance

The Group CEO has overall responsibility for the Group's safety system and performance, supported by the Group Safety Director, Divisional CEOs and Divisional Safety Directors. The Committee's role is to review the effectiveness of the Group's safety system and report to the Board on the same.

Safety system

The Company has a well defined and developed safety system which operates 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 relating to speed management, driving evaluation, competence of driving evaluators, driver monitoring and driver performance management. These were fully implemented across the majority of the Group's operations by the end of 2020 but continue to be implemented in those cities and countries in which the Group has more recently commenced operations, such as Rabat and Casablanca in Morocco. The Committee is pleased with the progress made to date in these locations where the safety programme is already transforming the safety of passenger transport for the citizens of and visitors to such cities.

In response to the pandemic, the Group implemented a range of additional safety measures, focused on controlling the spread of Covid-19, which were summarised in last year's Committee Report. Some of these measures have become regular safety procedures, including the maintenance of protective screens between drivers and passengers, enhanced cleaning of vehicles and the fitment of enhanced air filtration systems on vehicles, which measures help to protect drivers and passengers alike from Covid-19 and other infectious diseases.

While we hope the worst of the pandemic is behind us and stronger government-imposed measures to control Covid-19 are not reintroduced, our operations have been adept at implementing new protective measures when and as the need has arisen. This has given the Committee and the Board assurance on how well the business is able to respond to changing safety risks and in turn we trust it will give our passengers confidence to either carry on, begin or return to using our services.

The Group also continues to be alert to the emergence of new safety risks and to devise appropriate plans to mitigate their effects. For example, during the year we have seen significant driver shortages across a number of our operations, but particularly those in North America due to the after-effects of the pandemic on the general labour market and Covid infection rates still causing higher than normal absence rates in our own workforce. As in other industries, staff shortages place more pressure and more responsibility on those staff who remain at work which, in our industry, could reduce their focus on safety. Having identified this risk, specific plans were put in place to mitigate it, including by reducing the non-safety related responsibilities of staff to ensure safety can remain their priority. The Committee reviewed and approved these plans.

Safety performance

The Committee assesses the Group's safety performance by reference to a number of KPIs which include:

- the Group's FWI Index score, which measures and weights according to severity all responsible major, minor and lost time injuries and any responsible fatalities;
- the Group's Preventable Accidents score, which counts the number of vehicle accidents that should, by compliance with the safety system, have been capable of being prevented; and
- the Group's DriveCam Driver Risk score, which counts the number of driver risk incidents recorded by the DriveCam technology on the Group's fleet.

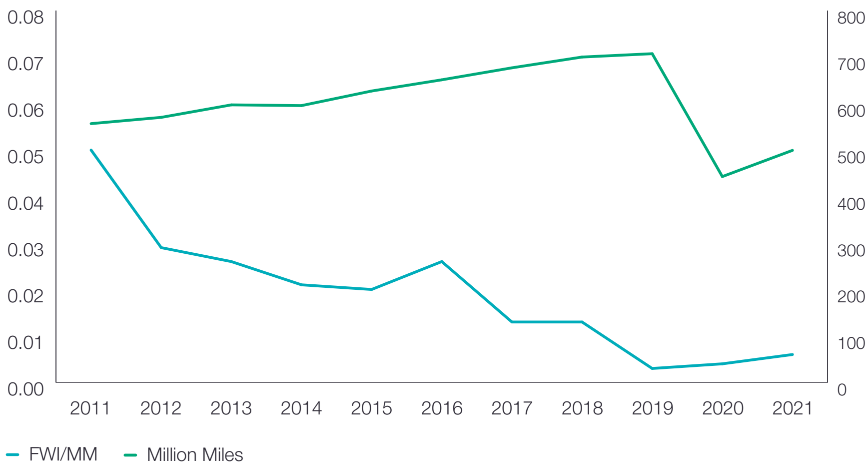
Both the target scores for these KPIs, which were set by reference to the Group's (best ever) 2019 FWI Index score and its 2019 (last normal year of operation pre-Covid-19) Preventable Accidents and DriveCam Driver Risk scores – which targets also comprised the safety targets in Executive Directors' and senior managers' 2021 bonuses – and the actual scores achieved in respect of 2021 are set out in the table below:

KPI Target and 2021 Bonus Target	Bonus Weighting	Target Score	Actual Score
Group FWI Index score (per million miles)	5%	0.003	0.006
Group Preventable Accidents score	5%	14.38[1]	13.62
Group DriveCam Driver Risk score	5%	2400.70	1504.78

[1] The 2021 target Group Preventable Accidents score has been restated from that reported in the Company's 2020 Annual Report to include the Casablanca operations to ensure a like-for-like basis of calculation with the 2021 actual score

Although clearly disappointing that the Group did not achieve its target Group FWI Index score, the actual 2021 Group FWI Index score still represented the Group's third best ever score in 11 years, reflecting the stretching nature of the target and the Group's continuous investment in, and relentless focus on, safety. The significant positive impact of that investment and focus over the last 11 years is illustrated by the graph below:

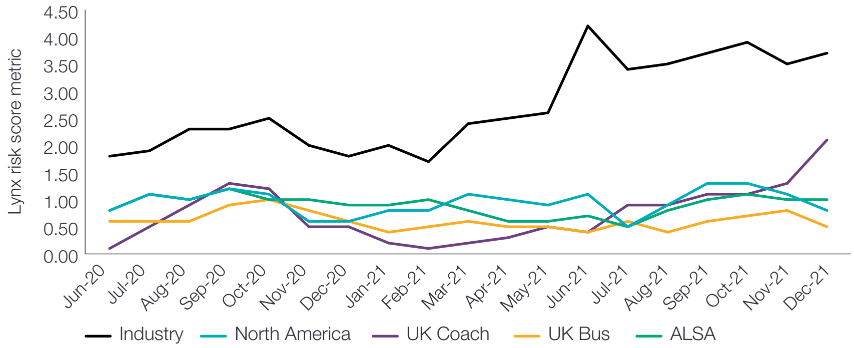
FWI per million miles operated



Safety & Environment Committee Report continued

The Committee was pleased to see achievement of the Group's Preventable Accidents target score and noted that the Group had in 2021 the lowest number of high severity incidents on record. The Committee was also impressed by the achievement of the target for, and significant year-on-year improvement in, the Group's DriveCam Driver Risk score, noting that Lytx (which owns and manages the DriveCam technology on behalf of its clients) advised that the Group is 52% less risky on average than the Lytx Transit Industry Network (comprised of more than 75,000 vehicles). The Group's divisions' impressive DriveCam Driver Risk performance, as compared with this Lytx Transit Industry Network, during the 18 months to the end of 2021 is illustrated by the graph below:

NX DriveCam Driver Risk vs Lytx Transit Industry Network



To demonstrate the Group's continued commitment to safety, its divisions will continue to include a range of safety targets in their divisional management bonus plans, including a divisional FWI metric which will be re-positioned as a gateway to payout of the whole safety element of divisional managers' bonuses. To enable the Company's Executive Directors to retain their focus on the Group's holistic safety performance, 15% of their 2022 bonuses will be based on the Group's FWI metric, with the threshold for payout only being met if there are no responsible fatalities in the year. The on-target payout has been set by reference to the Group's average FWI Index score over the last three years (excluding 2020 due to it being a year of unusually low operations due to Covid-19) and the maximum payout by reference to the Group's best ever FWI Index score achieved in 2019. The Executive Director bonus metrics are shown in the table below:

Executive Director 2022 Bonus Target	Weighting	Threshold	On-Target	Maximum
Group FWI Index score (per million miles)	15%	Zero responsible fatalities	0.006	0.003

Safety performance continued

While KPIs are valuable for assessing safety performance, they are not the only means the Committee uses.

During 2021 the Committee also reviewed all major safety incidents affecting the Group, their root causes and any lessons to be learned from them, together with the action plans implemented in response to them.

It also reviewed several specific ongoing and new aspects of the Group's safety system. For example:

- It was pleased to observe the Group's continued focus on driver fatigue management, including via the roll-out across the entire UK scheduled coach fleet of Guardian's Seeing Machines fatigue monitoring technology.
  This technology monitors in real-time for indicators of driver fatigue and alerts the driver. The data derived from the technology is also informing a better understanding of driver fatigue trends and the action plans to address those.
- It was also interested in the safety risk assessments being undertaken at the Group's depots and garages which are now using zero emission vehicles in connection with the operation of those vehicles. These encompassed risk assessments of the new activities of charging vehicle batteries and receiving supplies of, storing and using hydrogen gas at these sites.

Further, during 2021 the Committee was pleased to be able to resume its programme of safety tours with a visit by Chris Muntwyler to our German Rail operations, details of which can be found in the box below:

German Rail safety tour

In November 2021, Chris Muntwyler, accompanied by Tom Stables (UK & Germany CEO), visited Cologne where they travelled in the driver cab on one of our RRX services and held meetings with the NX German rail management and safety teams and with the German rail network controller, DeutscheBahn.

As Chris reported to the Committee, the meetings with management and DeutscheBahn served:

- to confirm the implementation of the Group's global safety policies as relevant to railway operations, representing a positive step-change in the German rail industry;
- as a forum for discussing with DeutscheBahn matters that were within its control that could give rise to safety risks, with a view to influencing those matters; and
- to deepen the understanding of the data privacy concerns held by the German works council that could affect the effective management of safety risks, with a view to addressing those concerns.

The Committee welcomed the insights gained and was assured that the German management team will continue to work with DeutscheBahn and the German works council in an effort to continuously improve the safety of the Group's German rail services for the passengers who use them and drivers who operate them.

Environment

Environment governance

The Company's Executive Directors are responsible for the delivery of the Group's environment strategy and the sponsors of the Group's environment ambitions, supported by the new Group Sustainability Director, the Group Procurement Director, Divisional CEOs and Divisional specialists. The Committee's role is to review the Group's environment strategy and its environment ambitions in the context of its broader strategy, to monitor the Group's progress on delivering this strategy and achieving these ambitions and to report to the Board on the same. It also plays a key role in overseeing the Group's environment reporting, as referred to below.

Environment reporting

The Company's mandatory disclosures on energy consumption and carbon emissions, including under the Streamlined Energy and Carbon Reporting Regulations, can be found on pages 221 to 223 of this Annual Report. In addition, 2021 marks the first year in respect of which the Company is reporting on climate-related risks and opportunities in line with the recommendations of the Financial Stablility Board's Task Force on Climate-related Financial Disclosures, which disclosures can be found on pages 35 to 39 of this Annual Report.

Environment strategy and targets

The Group's environment strategy is centred around transitioning the fleet across its operating subsidiaries to zero emission vehicles (ZEVs). 95% of the Group's carbon emissions originate from its fleet, so this transition will have the greatest influence in terms of the Group reducing its impact on the environment and improving air quality in the communities it operates in.

During 2021, the Committee reviewed and approved this strategy. The Committee noted that such strategy was developed after significant modelling of its expected financial impact and the timetable for its delivery, including having regard to the costs and expected investment returns on ZEVs and the life cycle of the existing fleet and anticipated advancement of ZEV technology over that cycle. The Committee observed that such strategy is as much about overcoming or managing the hurdles for investment in ZEVs as it is about making the right investment at the right time in ZEVs. For example, the Group intends to use its vehicle availability model to mitigate the capex and debt implications of the higher purchase cost of ZEVs vs diesel vehicles and the Group will work with its key customers and other stakeholders to shape tender requirements to incorporate ZEVs and to secure grant funding for ZEVs.

The Group's UK Bus and North American shuttle businesses are currently leading the way on the Group's zero emission fleet transition, as demonstrated by the case studies in the boxes below and overleaf.

A number of the Group's other businesses are piloting ZEV operations, but discussions with the key stakeholders of those businesses, such as the school boards in North America and the municipalities and transport authorities in Spain and Morocco, are the priority to create the conditions in which the Group can bid to win customer contracts with ZEV propositions.

Building on the Group's commitment to never buy another diesel bus in the UK and its ambitions to have zero emission fleets in UK Bus by 2030 and UK Coach by 2035, in 2021 the Group adopted wider ambitions to have zero emission fleets in Spain bus by 2035 and in each of Spain coach, Morocco bus and North America school bus and transit by 2040. While these remain ambitions as much depends on what our customers want and whether central and local governments will support green agendas over the years to come, they demonstrate the Group's desire to achieve these important goals.

UK Bus providing services using ZEVs

In addition to the 29 electric vehicles and 20 hydrogen vehicles the UK Bus business is already operating across the West Midlands, it made a commitment in 2021 to operate a further 176 electric vehicles.

These vehicles will be made available to the UK Bus business under its new vehicle availability contract by which charged vehicles, and the related charging infrastructure, are made available on a daily basis by a service provider in return for an availability fee.

The purchase of these vehicles by the service provider was assisted by grant funding awarded by the West Midlands Combined Authority to the UK Bus business in return for its commitment to the operate the vehicles as part of the Coventry Electric Bus City grant scheme.

With these investments, we are pleased to be able to not only reduce our own carbon emissions but also offer our passengers the opportunity to reduce their carbon footprints.

Safety & Environment Committee Report continued

North America shuttle partnering with corporate customers in using ZEVs

The WeDriveU shuttle business in North America has around 100 electric vehicles, which it is using to transport the employees of its corporate customers to and from their workplaces. These vehicles are owned by customers but operated and maintained by our drivers and technicians.

As cities around the world introduce more measures to combat climate change, improve air quality and reduce traffic congestion, including via clean air charging zones and restrictions on the number of parking spaces employers can provide, large employers located in these cities are looking for mobility solutions to enable their employees to get to and from work in a way which contributes to these aims and overcomes these issues.

We are proud to partner with customers who are finding innovative ways to reduce their own environmental impact and who offer their employees the opportunity to do so too.

Environment performance

As explained in previous Committee Reports, in 2019 the Group adopted six KPIs to track the Group's progress over the seven-year period 2019-2025 in reducing its impact on the environment. The KPIs include traction energy, traction carbon emission and total (scope 1 & 2) carbon reduction targets, as well as site carbon emission, water consumption and waste to landfill reduction targets. The Committee reviewed the Group's progress against these KPI targets at the end of 2021, as shown by the table on page 221.

The Committee notes that progress against the traction energy, traction carbon and total (scope 1 & 2) carbon emission reduction targets, which were set as intensity metrics, remains subdued as a result of both the Group's lower vehicle occupancy levels in 2020 and 2021 and the mix of passenger journeys shifting towards more short stop-start (so less fuel efficient) bus journeys rather than longer-distance coach journeys, in both cases due to changes in travel behaviours caused by the Covid-19 pandemic. It also notes that performance against these targets was worse in 2021 than 2020 as, during the second half of 2021 as Covid-19 restrictions were released, the Group started to build back its transport networks ahead of the return of passengers to enable that return.

The Committee is pleased to note the positive progress against the other targets but, as these were set as absolute metrics, is conscious that this progress is boosted by lower site occupancy, water usage and waste production in the first half of 2021 when Covid-19 restrictions remained, so when less site energy was being used, fewer vehicles were being washed and more office workers were working from home.

During 2021, the Committee engaged with management on whether the current environment KPIs should be re-set to better align them with the Paris Agreement accord of limiting global warming to no more than 1.5°C above pre-industrial levels, to be SBTi validated and to become milestones to track progress towards achievement of the Group's overall net zero and zero emission fleet targets. The Committee agreed with management that the Group needs a year of 'steady-state' operations to create a sound baseline for revised KPIs, so in 2022 will assess whether the Group's 2022 operations can form this baseline. Meantime, the Committee is pleased to note that the Group is refining its environmental data collection and verification processes to ensure the new baseline is as robust as possible.

As also explained in previous Committee Reports, environment performance metrics have been included in each of the last two LTIP awards made to Executive Directors and certain senior managers, the indicative vesting levels for which are referred to on page 103 of the Directors' Remuneration Report. The Committee notes that progress against the 2020 LTIP number of ZEVs performance metric is currently on track to be achieved at between on-target and maximum vesting level, but that both the 2020 and 2021 LTIP carbon emission reduction metrics are not on track due to being intensity metrics and the Covid pandemic impacting these in the same way as the environment KPIs.

To demonstrate the Group's ongoing commitment to reducing its carbon emissions and increasing its vehicle occupancy levels back to at least pre-pandemic levels, as well as achieving its zero emission fleet transition strategy, the Remuneration Committee intends to include further carbon reduction and ZEV increase metrics in Executive Directors' and senior managers' 2022 LTIP awards, weighted at 25% of the total awards. Further details of these metrics, including their threshold, on-target and maximum vesting levels, are shown on page 98 of the Directors' Remuneration Report.

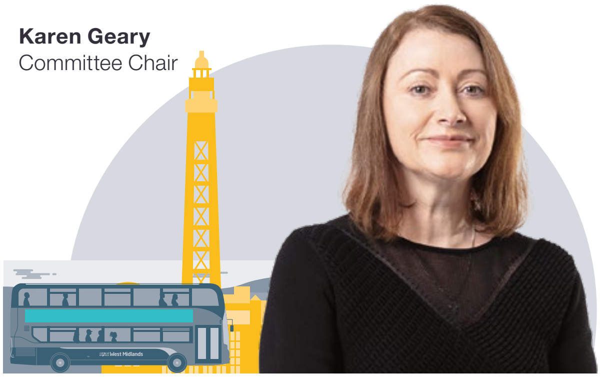
Evolution of the Committee to having a broader sustainability focus

As the environment and wider corporate sustainability matters become ever-more important to us and our stakeholders, ensuring we have the right governance of these matters, alongside our continued governance of safety matters, is equally important. To this end, and as referenced on page 77, we will look in 2022 to evolve this Safety & Environment Committee to reflect our broader sustainability focus.

Sir John Armitt CBE
Safety & Environment Committee Chair
9 March 2022

Annual Statement by the Remuneration Committee Chair

Karen Geary
Committee Chair



With an encouraging recovery in evidence amidst the ongoing impact of the pandemic in 2021, the Committee's focus has been twofold. Firstly, on listening to the views of our varied stakeholders, both internally and externally to ensure 2021 remuneration outcomes were fair, balanced and aligned to experience. Secondly, on ensuring 2022 remuneration decisions take account of those views and support the delivery of the Evolve strategy."

Primary role

To recommend to the Board the remuneration strategy and framework for Executive Directors and senior management[1] 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, which are 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

Activity highlights

- Understanding the views of the Company's stakeholders on executive remuneration matters. This included engaging with a large number of the Company's largest shareholders on the matters noted below
- Tracking the Company's financial results and remuneration outcomes for Executive Directors and senior management, taking into account the ongoing Covid-19 pandemic
- Reviewed and confirmed the 2021 annual bonus and 2019 LTIP award out-turns for Executive Directors and senior management
- Reviewed the Chairman's, Executive Directors' and senior managers' pay and benefits for 2022, in the context of their performance, the Company's performance and the Group's stakeholder experiences
- Considered and set targets and performance conditions for the 2022 annual bonus and the 2022 LTIP awards to be made to Executive Directors and senior management
- Ongoing review of wider executive remuneration environment and best practice governance
- Review of Remuneration Committee advisers
- Planning, review and assessment of implications associated with the potential combination of Stagecoach

1 The Company's senior management whose remuneration is determined by the Committee comprises 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

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Karen Geary[1,2]	01.10.19	–	7/7
Matthew Crummack[1]	01.05.16	–	7/7
Ana de Pro Gonzalo[1,3]	04.12. 21	–	0/7
Dr Ashley Steel[1,2]	29. 01.19	03.12. 21	7/7

1 Independent Non-Executive Director
2 Karen Geary, who was a member of the Committee throughout the year, became its Chair on 4 December 2021 after Dr Ashley Steel stood down from the Committee on 3 December 2021. Dr Steel stood down from the Committee at the same time as she stood down from the Board but she attended all the meetings of the Committee in the year as they were all held before she stood down.
3 Ana de Pro Gonzalo joined the Committee on 4 December 2021 but did not attend any meetings of the Committee in the year as none were held after she was appointed

Other attendees: Company Secretary and (by invitation to all meetings) Chairman, Group Human Resources and Communications Director and representatives of PwC and Korn Ferry (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

Letter from the Remuneration Committee Chair

Dear fellow Shareholder

On behalf of the Board and as Chair of the Remuneration Committee, I am pleased to present the 2021 Annual Report on Remuneration. The report aims to set out simply and transparently how remuneration has operated across the Group in 2021, including the decisions made by the Committee on Chairman, Executive Director and senior management remuneration, and the associated rationale, and how the Committee intends to operate the Directors' Remuneration Policy in the year ahead.

As this is my first report as Chair of the Committee, following my appointment on 3 December 2021, I would like to thank my predecessor, Dr Ashley Steel, for her leadership of the Committee during an exceptionally challenging period and for her support during my transition to Committee Chair.

Like 2020, 2021 remained a challenging year for the Group. The continued impact of the pandemic, and the associated government restrictions still in force across our geographies at different points of the year, restricted our ability to service our customers. Management reacted quickly and effectively to the onset of further restrictions, setting the business up for strong performance. We were pleased that these actions were reflected in increased shareholder value over the year.

During 2021, the Committee, through its oversight of wider workforce arrangements, feels that management effectively supported colleagues throughout the year. In addition to the ongoing commitment of National Express to be a Living Wage accredited employer in the UK, this was also demonstrated by:

- the decision to top up furlough payments to employees who received it to 100% of salary;
- the decision to award salary increases across the global workforce at an average of 2.5%; and
- the decision to pay employee bonuses without reduction. Bonus measures vary across each business division and levels of employee bonus payouts were between target and below maximum across the globe, reflecting the workforce's significant contribution to the Group's ongoing recovery.

Importantly, the Group's businesses did not reduce their capacity to operate in the future once the impact of the pandemic is behind us. This was reflected in a low level of redundancies in line with normal business-as-usual optimisation (e.g. redundancies linked to the pandemic being less than 0.2% of the global workforce).

The Company had previously repaid all UK Government Loans comprised of £300 million of UK Corporate Covid Finance Facility (CCFF) loans in 2020 with no further borrowings in 2021. The Committee and management are also appreciative of the support received from the Coronavirus Job Retention Scheme (CJRS) in the first half of the year, in respect of the UK Coach business only, which preserved employment within that business. The Company intends to repay the CJRS support received in respect of its financial year ended 31 December 2021 at the same time as it reinstates dividends. As the Chairman has said in his introduction to this Annual Report, it is the Board's current intention to reinstate a final dividend for the financial year ending 31 December 2022.

As a result of the actions taken by management and the wider workforce during the pandemic, the businesses are positioned well to continue their recovery in the coming years, demonstrated by the Group's 2021 financial performance.

2021 activity and remuneration outcomes

2021 AGM resolutions

Following the approval of the Directors' Remuneration Policy and Directors' Remuneration Report at the 2021 AGM, the Committee has engaged with shareholders to further understand the concerns that led to voting outcomes of 72.6% and 59.3% respectively.

Prior to last year's AGM we engaged with our largest shareholders and the main proxy voting agencies. Whilst most of these shareholders were supportive of our proposals and understood the complex circumstances that the business was facing, some investors and proxy voting agencies raised concerns, particularly in relation to the decisions to increase the base pay and potential LTIP quantum of our CFO, with additional comments around the LTIP performance targets. This lack of support was reflected in the voting decisions of many of our shareholders with whom we had not been able to engage. Whilst we believe that the approach was carefully thought through and taken in the best interests of the Company, we fully appreciate the concerns raised both last year and

2021 key performance metrics

Underlying Operating Profit

£87.0m

2020: £(50.8)m

Underlying Profit Before Tax

£39.7m

2020: £(106.1)m

Free cash flow

£123.4m

2020: £(196.0)m

CEO/CFO pay increase

0%

CEO/CFO bonus

47.5%

of maximum

2019 LTIP vesting

0%

Median CEO pay ratio

37:1

in this year's consultation (see below) and have reflected these in the remuneration decisions set out in this report. We are confident that the Remuneration Policy that was approved will support the business in its recovery over the next few years.

In early 2022, ahead of the publication of this report, I wrote to our Top 20 shareholders and the four major proxy voting agencies to gather views ahead of decision-making in respect of 2021 outcomes, and 2022 implementation. Given the complicated factors which the business is facing, we were keen to consult with shareholders on a number of options and potential approaches. I am extremely grateful for the responses I received and the level of engagement from shareholders, having personally met with 14 of our Top 20 and received responses from two more to my letter, in total accounting for c.57% of our share capital. These meetings have been invaluable in better understanding views from last year's AGM and shaping the Committee's decision-making set out in this report (in particular in relation to 2021 bonus decisions, as described later in this letter and in the report), as well as ensuring a productive and collaborative relationship regarding future decisions.

2021 results and remuneration outcomes

The business has performed very well in challenging market conditions. Our relationships with our public sector customers and stakeholders have been instrumental in maintaining the revenues of our businesses in all our geographies. Some of our concession contracts have been renegotiated so that the levels of revenue support and risk have changed in the Company's favour at times of maximum disruption. Management has been key to achieving this on behalf of the Company, preserving jobs, lengthening contracts and protecting the business.

The budgeting process at the start of the year anticipated some, but not all, of the challenges for 2021 and in the Committee's view at the time, robust targets were set. The Committee dedicated time throughout the year, and when determining annual bonus outcomes, carefully considered the associated impacts of the pandemic and other key elements of the 2021 business context. With this in mind, the Committee remained of the view that the targets set were robust and stretching.

Annual bonus

Following there being no bonuses payable in respect of 2020 and minimal vesting of the 2018 LTIP award, one of the key areas of discussion with shareholders was in relation to the annual bonus for 2021, having regard to there being no vesting on the 2019 LTIP award (see below).

The formulaic out-turn of the annual bonus was up to 95% of maximum for Executive Directors. The Committee is conscious that although the employee experience has been positive this year, the Company did receive support through the CJRS. As outlined above, the Board currently intends to repay the CJRS support received in respect of its financial year ended 31 December 2021 at the same time as it reinstates dividends. The Committee was also cognisant that whilst the business was profitable on an underlying basis in 2021 and the share price increased by 10% over the year (having recovered strongly from its low in 2020), we have not yet resumed dividend payments to shareholders.

During our recent consultation, it was clear that shareholders had a range of views but there were also a number of consistent themes that emerged. Firstly, all shareholders recognised that there were a number of complicating factors that needed to be considered when making decisions in respect of variable pay outcomes for FY21. Shareholders appreciated the progress management had made over the period, with a number noting no bonus had been paid in respect of 2020, in addition to the minimal levels of LTIP vesting last year and this year.

Taking these and other factors into account, there was broad appreciation from shareholders that paying a bonus in respect of 2021 was the correct decision. However, shareholders were keen that the Committee ensured that outcomes were reflective of the wider stakeholder experience, something about which the Committee also felt strongly. Based on this, the Committee determined that it was appropriate to apply downwards discretion of 50% to take account of a number of factors including the wider business context, in the level of bonus that Executive Directors should earn. This will result in a bonus of 47.5% of maximum being paid to the CEO and CFO.

It should be noted that reductions will not apply to the payment of bonuses paid to other employees.

The Committee determined that the whole bonus will be delivered in shares and subject to three-year deferral, by which point dividends should have resumed and CJRS receipts will have been repaid. This is over and above the 50% one-year deferral stated within Policy.

LTIP

As the targets under the 2019 LTIP were not achieved, no LTIP awards will vest in respect of performance to the end of 2021. Whilst there are many factors that could have been taken into account to adjust the formulaic outcome, the Committee did not feel it was right to make any such adjustments in light of the shareholder experience during this period. This will be the second year of little or no vesting, following the LTIP vesting last year at 6.5% of maximum.

2022 remuneration proposals

In addition to discussions regarding the FY21 annual bonus, the other main focus of shareholder discussions was in respect of the approach to remuneration in 2022. These discussions have also shaped the decision-making for the year ahead.

Base salary

No salary increases are proposed for 2022 for either Executive Director.

The Committee is cognisant that upon appointment Ignacio Garat's base salary was set below market levels, and £128,000 below his predecessor, whose base salary in the year of departure was £703,000. The salary (along with reduced bonus potential versus his predecessor) was structured to both recognise the operating environment at the time given the impact of Covid-19 and to allow development in the role, at which point the salary would be increased. Recognising this development, the Committee will be reviewing Ignacio Garat's base salary with the aim of phasing increases over several years if his strong performance achieved to date is continued. We will consult with shareholders to provide further detail of this review in next year's report.

Pension

Ignacio Garat's pension entitlement is 3% of salary, being the majority UK workforce pension contribution level, and as given from his appointment.

Chris Davies' pension entitlement, currently 25%, will be reduced from 1 January 2023 to also be aligned to the then prevailing majority UK workforce level.

Annual bonus

The annual bonus opportunity will be unchanged, with both the CEO and CFO having a maximum opportunity equal to 150% of salary. For the CEO, this is below the policy maximum of 200%, equal to the maximum opportunity for the CEO's predecessor.

Letter from the Remuneration Committee Chair continued

The Committee has set stretching performance targets against which the annual bonus will be measured. For 2022 the Committee has determined bonuses will be subject to the following weighted targets (all aligned to the Evolve strategy set out at the Capital Markets Day presentation in 2021):

- 50% Group Underlying Profit Before Tax
- 25% Group free cash flow
- 15% Group Safety – Fatality and Weighted Injuries (FWI) Index score, including an underpin such that this element will not pay out if there are any responsible fatalities
- Specific strategic and risk management targets, with an aggregate weighting of 10%

LTIP

Recognising shareholders' views, the LTIP opportunity for the CFO is to revert to 150% of salary from the 200% of salary award made on 2021. The CEO's award will remain at 200% of salary.

Following careful consideration, the Committee was of the view that the Company's LTIP and the performance measures attached to awards made under it achieve a good balance between incentivising Executive Directors and senior managers to deliver: (i) financial returns to shareholders; as well as (ii) the financial and ESG platforms that both incentivise and facilitate the delivery of Company strategy.

Following conversations with shareholders, we are keen to ensure that LTIP awards continue to be appropriately stretching and drive the long-term financial and non-financial performance of the business.

Therefore, the Committee determined that the 2022 LTIP awards will be subject to the same weighted performance measures as the 2021 awards (except there will be one rather than two TSR performance measures albeit with the same overall weighting – this approach was agreed unanimously in consultation with shareholders):

- an earnings per share measure, with a 25% weighting;
- a return on capital employed measure, with a 25% weighting;
- a single total shareholder return measure relative to the FTSE 250, with a 25% weighting; and
- an environmental measure with a 25% weighting, split equally between the Group's global carbon emissions per million passenger kilometres (consistent with the 2021 LTIP) and a new measure around the transition of our road fleet to carbon neutral vehicles.

The evolution of ESG measures versus 2021 reflects the business' commitment to ensuring the delivery of our ESG strategy, which is vital to the sustainability and long-term success of the business. The Committee is also aware of the general concerns which some investors have with respect to ESG measures not being sufficiently stretching. The Committee is confident that, having been validated by external third parties, the measures and associated targets are robust and stretching. The LTIP measures and targets have been set to align with the Evolve strategy, as set out at the Capital Markets Day on 18 October 2021, with achievement of those numbers designed to result in an on-target payout.

Full details of these performance criteria are set out on page 98.

Concluding thoughts

I and my fellow Committee members remain committed to engaging with you, our shareholders, and our colleagues where appropriate, on remuneration matters.

We also thank all our colleagues for their hard work and dedication during this last year in what have been exceptionally challenging circumstances.

Karen Geary
Remuneration Committee Chair
9 March 2022

Directors' Remuneration Policy for Executive Directors

Alignment to strategy and culture, ensuring risk mitigation and supporting clarity, simplicity, proportionality and predictability

Ensuring that our Directors' remuneration arrangements support the delivery of the Evolve strategy is important to the Committee, and this is achieved through aligning the performance measures and targets used in our incentive schemes with our key strategic priorities. The Committee also ensures that the right behaviours and actions are driven from the top of the organisation down by ensuring that the focus of these measures and targets is balanced across both financial and non-financial outcomes, for example the inclusion of employee, customer, and health, safety and environment metrics in both the personal element of the annual bonus and the LTIP. The Committee also takes into consideration the Group's financial and non-financial performance and environment when reviewing formulaic outcomes of metrics across all incentives, which is evidenced throughout this report.

The table below explains how the Directors' Remuneration Policy, and the Committee's practice in applying it over the year under review, address the factors set out in Provision 40 of the UK Corporate Governance Code, as well as how they are aligned with the Company's culture:

Clarity	Simplicity	Risk
– This report sets out a summary of the Remuneration Policy and how it has operated during the year. – 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. – The Remuneration Policy and its implementation look to support the wider National Express business strategy.	– 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 Director remuneration is composed of only four elements: base salary, pension and other benefits, annual bonus and LTIP. – The annual bonus and LTIP structure operated are market typical and are well understood by shareholders and executives alike.	– A range of features of Directors' remuneration assist in mitigating the risks of excessive rewards and inappropriate behaviour. – Executives are expected to build a material shareholding which must be maintained for a period following departure, which aligns them to the long-term interests of National Express. – Additionally, variable remuneration is subject to malus and clawback provisions, ensuring that there is long-term alignment of the executives to any risks the business may have been exposed to during their period as an executive.

Predictability	Proportionality	Alignment to culture
– Some of the same features of Directors' remuneration arrangements that mitigate risk also ensure that outcomes are within a predictable range. – Shareholders are provided with potential values which can be awarded to Executive Directors under the annual bonus and LTIP.	– Achieved through the use of variable remuneration arrangements which links remuneration outcomes and the financial and non-financial performance of National Express. – The Remuneration Committee has the ability to apply discretion to variable remuneration to ensure that outcomes are proportionate and reflects the performance of the business.	– Achieved through strong links between Directors' remuneration and the Company's values. – National Express' values are Safety, Excellence, Customers, People and Community & Environment. – Elements of the Remuneration Policy for executives are cascaded through the business.

Directors' Remuneration Policy for Executive Directors continued

Wider workforce context

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. 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, for both 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 UK 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.

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 participates in a bonus scheme which is broadly aligned with Executive Directors' annual bonuses, where 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.

Measures for bonus arrangements across the Group are based on different measures depending on the nature of the business unit, and typically outcomes were between target and maximum.

Directors' Remuneration Policy for Executive Directors

The table below sets out an abridged version of the Remuneration Policy for the Company which was approved by shareholders at the 2021 AGM. The Policy took effect from the date of approval and is intended to apply until the 2024 AGM.

The full Directors' Remuneration Policy can be found within the Governance section of the National Express website

Element and link to strategy	Operation	Maximum opportunity and performance conditions
Base salary – To recruit, reward and retain Executive Directors of a suitable calibre for the role and duties.	Salaries for Executive Directors are reviewed annually by the Remuneration Committee with effect from 1 January. Reviews cover individual performance, experience, development in the role and market comparisons.	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 will not normally exceed the general employee increase. Larger increases may be necessary in exceptional circumstances. 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.
Pension – To provide fair benefits, in line with the wider workforce, to allow individuals to work towards savings for retirement.	Executive Directors receive a cash allowance in lieu of a pension provision. Executive Directors' pensions are aligned with those of the majority of the UK workforce (which is currently 3% of salary), with the exception of the incumbent CFO, whose pension entitlement will reduce to be aligned with the then prevailing majority UK workforce pension contribution level from 1 January 2023.	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. After this date, and for any new Executive Directors appointed from 1 November 2020, the annual cash allowance payable in lieu of a pension will be equal to the wider workforce pension contribution rate.
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.
Annual bonus – To incentivise delivery of near-term performance objectives which are directly linked to the financial, strategic delivery and risk management priorities of the Group.	Performance conditions are a combination of financial and non-financial objectives (including strategic delivery, risk management and personal) set at the beginning of each year. Performance conditions will not be disclosed in advance (except for any numerical safety performance conditions) as the Committee considers this information commercially sensitive. Performance outcomes will be reported retrospectively. 50% of the bonus earned is subject to mandatory deferral into shares for one year from award. The annual bonus includes the ability for the Committee to use its discretion to adjust the bonus outcome if outcomes are not reflective of overall corporate performance and/or individual performance. Malus and clawback provisions also apply during the two-year period post award, including following cessation of employment. Bonus payments are paid following announcement of the Company's audited year end results and are not pensionable.	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. 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. 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 underlying profit, but the Committee has discretion to vary this in appropriate circumstances.

Directors' Remuneration Policy for Executive Directors continued

Element and link to strategy	Operation	Maximum opportunity and performance conditions
Long-Term Incentive Plan – to encourage strong and sustained improvements in financial performance, in line with the Company's strategy to align executives to the long-term interest of shareholders.	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. An additional two-year holding period for vested shares exists post vesting for the Executive Directors. Dividend equivalents and dividends can be paid on vested shares, in shares, in respect of both the performance and holding periods. Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances. The LTIP includes the ability for the Committee to use its discretion to adjust the LTIP outcomes if such outcome is not reflective of overall corporate performance and/or individual performance. Malus and clawback provisions also apply during the two-year period post vesting, including following cessation of employment.	The maximum LTIP award is equal to 200% of base salary, per annum, for all Executive Directors. For FY22 the LTIP awards will have performance conditions relating to EPS, ROCE, TSR and ESG measures. 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. 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. 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.

1.1 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 2021 AGM or their date of appointment. 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 for two years after the cessation of employment.

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 will not be included.

1.2 Performance conditions under the annual bonus and LTIP

Performance measures for the annual bonus are selected annually to align with the business goals for the year. 'Target' performance is typically set in line with the business plan for the year. 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.

1.3 Malus and clawback provisions

Executive Directors' annual bonus awards and LTIP awards are subject to malus and clawback provision and will be applied 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.

1.4 Previous arrangements

For the avoidance of doubt, the Committee holds the authority 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.

1.5 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	12 months	6 months
Chris Davies	17.01.17	10.05.17	12 months	6 months

As stated in the 2020 Annual Report, Ignacio Garat's notice was extended from 6 months to 12 months effective from 1 May 2021. 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.

1.6 Approach to the remuneration of newly appointed Executive Directors

When determining the remuneration arrangements for a newly appointed Executive Director, 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.

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 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. 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.

Annual Report on Remuneration

Statement of implementation of current Directors' Remuneration Policy in 2022

(a) Executive Directors' fixed remuneration

Base salaries are to remain the same for the year commencing 1 January 2022.

Ignacio Garat, Group Chief Executive Officer	£575,000
Chris Davies, Group Chief Financial Officer	£425,000

Pension and benefits will operate in line with the Directors' Remuneration Policy.

(b) Executive Directors' annual bonus

Executive Directors' annual bonuses for the 2022 financial year will provide a maximum opportunity of 150% of salary for the CEO and CFO.

For the CEO, this is below the policy maximum of 200%, equal to the maximum opportunity for the CEO's predecessor.

Performance will be assessed by reference to the following performance measures, with weightings indicated in brackets:

- Financial, Group Underlying Profit Before Tax (50%)
- Financial, Group free cash flow (25%)
- Group Safety, Fatalities Weighted (FWI) Index score (15%)
- Personal Objectives, Strategic & Risk (10%)

A zero responsible fatality underpin will also apply to the full 15% safety element.

When considering the bonus structure and setting the bonus targets for 2022, the Committee has taken the following into account:

- The need to fully align to the Evolve strategy set out at the Capital Markets Day (CMD) on 18 October 2021.
- That both Group Underlying Profit Before Tax and free cash flow are key financial measures of the overall financial performance of the business and linked directly to our financial KPIs – see pages 28 to 29. The Committee is keen to ensure that Executive Directors are focused on driving growth in 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.
- The importance of safety to the Group and all its stakeholders. On-target FWI performance has been set as equal to or better than the normalised three-year average FWI score in the last three years, with maximum payout requiring performance that is equal or better than the best normalised FWI score in the last three years.
- Personal objectives have been specifically selected in order to drive recovery following the impact of the pandemic, drive delivery of the Evolve strategy and position the business for future growth.

The Committee will disclose the exact 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.

(c) Executive Directors' 2022 Long-Term Incentive Plan (LTIP) awards

Executive Directors' LTIP grants for the 2022 financial year will provide a maximum opportunity of 200% of salary for the CEO and 150% of salary for the CFO. For the CFO, this is a reduction from the 200% of salary grant level in 2021.

Performance will be assessed against the following measures:

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for others)	Target (50% vesting)	Maximum (100% vesting)
TSR[1] vs. FTSE 250 Index	25%	Median	–	Upper quintile
EPS[2,3]	25%	21.7p	24.9p	26.5p
ROCE[2,4]	25%	9%	10.5%	12%
tCO_2e/million passenger km – reduction in tCO_2e/million passenger km by 2024 relative to 2019 base year[5]	12.5%	8.4%	9%	9.6%
Fleet transition – number of additional zero emission vehicles in service or on order by 31 December 2024	12.5%	400	600	1,000

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 EPS is fully diluted underlying earnings per share in 2024
4 ROCE is return on capital employed in 2024
5 2019 is the baseline used for the sectoral decarbonisation target-setting methodology

As with the annual bonus, a key objective for the Committee is to ensure remuneration arrangements align to the strategic priorities set out in the Evolve strategy at the CMD. 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.

The 2022 LTIP award will be subject to a single TSR condition, relative to the FTSE 250 Index only. The decision to remove the bespoke group TSR performance condition reflects the expected shrinking of the peer group due developments with both Stagecoach and Go-Ahead. The Committee will again review this approach ahead of the next LTIP grant in 2023.

The EPS performance range is fully aligned with the targets set out at the CMD. Achieving these targets will result in this element of the LTIP awards paying out at the on-target level. More specifically, the EPS on-target level for 2024 is set on the basis of a) growing revenue on a straight-line basis to £1 billion of incremental revenue by 2027 and b) achieving the 9% margin targeted.

The ROCE performance range has increased from that set out in recent LTIPs awards where both the 2020 and 2021 LTIP awards adopted a threshold of 8%, on-target of 9% and maximum at 11%. This reflects the ambitions of the Evolve strategy to grow profit and cash whilst also containing the Balance Sheet impact from the ambitious zero emission fleet transition targets.

Recognising the 'Environmental leader' outcome of Evolve, the Committee revisited the ESG measures to ensure they are appropriate. During consultation with shareholders, many highlighted their desire for ESG measures to remain a key part of Executive Directors' overall remuneration but also emphasised a desire that any metrics remain objective, measurable and stretching. The Committee concluded that although the overall weighting of the ESG element, 25% of the total award, was appropriate, it should also measure fleet transition rather than solely tCO_2 per million passenger km (as had been the case before 2021). This will provide additional focus on fleet transition, which is an area that is a particular long-term focus for both shareholders and many of our wider stakeholders.

The Committee will continue to review best practice in this area and evolve the incorporation of ESG measures into variable remuneration arrangements.

The performance conditions will be measured over the three-year financial period ending 31 December 2024, 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.

(d) Chairman's and Non-Executive Directors' 2022 fees

Non-Executive Director fees will operate in line with the Directors' Remuneration Policy.

With effect from 1 January 2022, the Committee determined for the Chairman, and the Board determined for the Non-Executive Directors, that there would be no change to fee levels, which would remain as follows:

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

Non-Executive Directors' dates of appointment and notice periods

The current Chairman'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[1]	01.01.16	1
Karen Geary	01.10.19	1
Ana de Pro Gonzalo	01.10.19	1
Carolyn Flowers	01.06.21	1

[1] Dr Ashley Steel stood down from the Board on 3 December 2021 with immediate effect

The letters of appointment for the Chairman and the Non-Executive Directors, together with the service agreements for the Executive Directors, are available for inspection at the Company's registered office.

Annual Report on Remuneration (Audited Information)

1. 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 2021 (with comparative figures provided for 2020). The subsequent information and tables in this section give more detail on various elements of the Executive Directors' remuneration.

£'000		Base salary[1]	Benefits[2]	Pension allowance	Total fixed remuneration	Annual bonus[3]	Vested LTIPs[4]	Total variable remuneration	Total
Ignacio Garat	**2021**	**575**	**48**	**17**	**640**	**410**	**0**	**410**	**1,050**
	2020	96	38	3	137	–	–	0	137
Chris Davies	**2021**	**425**	**13**	**106**	**544**	**303**	**0**	**303**	**847**
	2020	366	44	95	505	–	32	32	537

1 The 2020 base salary of Mr Garat reflects that he served as a Director for only part of the 2020 year

2 Benefits comprise the gross of the tax value of car allowance and private medical insurance. 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 2021 was £1,495 (2020: £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 2021 was £12,215 (2020: £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, the cost of which in 2021 was £2,150 (2020: £3,000); and (iv) the reimbursement of legal advice obtained by Mr Garat in connection with his employment contract, the cost of which in 2021 was £925 (2020: £4,823). The tax due on the taxable benefits in 2021 was £19,255 (2020: £14,452), paid in the following tax year. (2020 figures updated to reflect updated taxable values)

3 Full disclosure of the annual bonus amounts and delivery mechanism are set out in section 1 Annual bonus below

4 Mr Garat did not receive a 2019 LTIP award as he joined the Company in 2020. The 2019 LTIP awarded to Mr Davies will vest at 0% with full details set out in section 1(i) LTIP awards vesting in 2022 below. As the value of LTIP shares which vested to Mr Davies in 2021 in respect of his award granted in 2018 which was subject to performance conditions over the three-year performance period ended on 31 December 2020 was estimated in last year's report, the figure shown for 2020 in the table above has been adjusted to reflect the actual vesting date value for Mr Davies based on the Company's share price at vesting of 329.4p. The difference in value is £11,664

(a) Annual bonus

The table below summarises the 2021 bonus potential for the Executive Directors that the Remuneration Committee set for 2021:

	Weighting	At threshold performance (% of salary)	At target performance (% of salary)	At maximum performance (% of salary)
Potential bonus in respect of financial objectives	75%	0%	56.25%	112.5%
Potential bonus in respect of safety objectives	15%	0%	11.25%	22.5%
Potential bonus in respect of personal objectives	10%	0%	7.5%	15%
Bonus potential for 2021	**100%**	**0%**	**75%**	**150%**

A pre-condition to the award of any element of the 2021 bonus is that there have been no significant negative events that have 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'). In addition, 50% of the bonus earned is subject to mandatory deferral into shares for one year from award.

(i) 2021 bonus out-turn

The formulaic out-turn of Executive Directors' bonuses, as set out in section 1(ii) – 2021 bonus performance conditions below, was 95% of maximum. As outlined in the Committee Chair's annual statement, although the Committee recognised the encouraging financial and non-financial performance which was achieved during the year, in the context of a challenging business environment for the transport sector, as well as the ongoing impact of the pandemic and government restrictions, the Committee felt that the formulaic outcome did not appropriately reflect the overall business context.

The Committee acknowledged that the Group's wider employee experience over 2021 had generally been positive despite the ongoing impacts of the pandemic. In addition to the ongoing commitment of National Express to be a Living Wage accredited employer in the UK, this was also demonstrated by the decision to top up CJRS payments to those employees who received them to 100% of salary, the decision to award salary increases across the workforce at an average of 2.5% and to play employee bonuses to all eligible employees without reduction. Bonus measures vary across each business division and the level of employee, but overall bonus payments were between target and maximum reflecting their significant contribution to the Group's ongoing recovery.

However, the Committee also acknowledged that the Group did receive support through the CJRS in 2021 for its UK Coach business only (in the amount of £8.9 million). As outlined in the Committee Chair's annual statement, the Company intends to repay this CJRS support at the same time as dividends have been reinstated (having already repaid all UK government borrowings). The Chairman has stated in the introduction to this Annual Report that it is the Board's intention to reinstate a final dividend for the 2022 financial year.

The Committee was also cognisant that whilst the Group returned to underlying profitability and the share price increased by c.10% over the year (having recovered strongly from its low in 2020), the Company has not yet resumed dividend payments to shareholders. As such, the Committee was keen to engage with shareholders on a range of options in order to best take account of shareholder experience in determining final outcomes. All shareholders recognised that there were a number of complicating factors that needed to be considered when making decisions in respect of variable pay outcomes for 2021. Shareholders appreciated the progress management had made over the period, with a number noting no bonus had been paid in 2020, in addition to the minimal levels of LTIP vesting last year and this year (see below).

Taking these and other factors into account, there was broad appreciation from shareholders that paying a bonus in respect of 2021 was the correct decision. However, shareholders were appreciative that the Committee felt strongly about ensuring outcomes were reflective of the wider stakeholder experience.

As a result, the Committee assessed a number of factors and determined that downwards discretion should be applied. This resulted in the formulaic outcome being halved to 47.5% of maximum for both the CEO and CFO. In addition, the whole of the bonus will be delivered in shares and subject to a three-year deferral period. To facilitate this within the parameters of the Remuneration Policy, the following approach will be applied to 2021 bonus awards:

- once the 50% of the award deferred into shares has vested after one year (in line with the Remuneration Policy), the net of tax number will be retained for a minimum of a further two years, to total three years; and
- the other 50% of the bonus earned will, after tax has been deducted, be invested in shares which will be retained for a minimum of three years.

Further, these shares will then also be subject to the shareholding guidelines stated within the Remuneration Policy.

	2021 salary	Bonus opportunity (% of salary)	Formulaic outcome (% of max)	Formulaic outcome (£)	Determined outcome (% of max)	Determined outcome (£)
CEO	£575,000	150%	95%	£819,375	47.5%	£409,688
CFO	£425,000	150%	95%	£605,625	47.5%	£302,813

(ii) 2021 bonus performance conditions

The following table sets out performance conditions that were attached to Executive Directors' 2021 bonus and the associated outcomes.

Category	Measure	Threshold	Target	Max	Weighting	Outcome achieved	Bonus achieved
Financial	Group Underlying Profit Before Tax	5.3	20.8[1]	36.3	50%	39.7	50%
	Free cash flow	81.9	91.0[1]	100.1	25%	123.4	25%
Safety	FWI			0.0030	5%	0.0055	0%
	Driver risk			2,400.7	5%	1,504.78	5%
	Preventable Vehicle Accidents			14.38	5%	13.62	5%
Personal					10%	10%	10%
Formulaic 2021 bonus outcome (% of maximum)							95%
2021 bonus outcome following the application of downwards discretion							47.5%

1 Consistent with previous years and associated disclosures, the Group Underlying Profit Before Tax and free cash flow targets are adjusted to align the method of calculation to the basis on which the performance out-turn is calculated. The original Group Underlying Profit Before Tax target was set at £25.5m. After adjustment to reflect foreign exchange movements and variances in acquisition investment (compared to budgeted levels), the revised target was £20.8m, with the threshold and maximum amounts adjusted accordingly. The original Group free cash flow target was £119.0m. After adjustment to reflect foreign exchange movements and timing of capital expenditure payments (to align with the budgeted assumptions), the revised target was £91.0m, with the threshold and maximum amounts (set at -/+ 10% of the target) adjusted accordingly

Personal objectives

	Personal performance objectives (10% of maximum total weighting)	Performance against objective	
CEO	– Develop and present strategic priorities to meet Board and stakeholder objectives	– Met in full – Evolve strategy and key business priorities launched at CMD on 18 October 2021	2%
	– Agree digital strategy for next three years, including the main technology drivers to support delivery of strategy	– Met in full – roadmap identified to deliver key customer propositions set out with Evolve strategy	2%
	– Ensure flawless and on time execution of Driving Excellence Programme in North America and deliver budgeted results for year 1	– Met in full – Driving Excellence programme embedded within North America, with operational improvements and budgeted results achieved	2%
	– Build strong relationships with key global governmental parties and institutions	– Met in full – relationships with key individuals and bodies further strengthened throughout 2021	2%
	– Evolve and improve continuous improvement culture across the Group to deliver process improvements	– Met in full – embedded Operate policies, process and culture with training and mindset improvements delivered across business divisions to all leaders	2%
CEO bonus achieved (out of 10% of maximum)			10%
CFO	– Develop and present strategic priorities to meet Board and stakeholder objectives	– Met in full – Evolve strategy and key business priorities launched at CMD on 18 October 2021	2%
	– Establish pilot external "LeaseCo" operations in one or both of NA and UK to materially improve ROCE (annualised capex saving > £50m) and speed the transition to ZEVs	– Met in full – established with capex savings of £75m	2%
	– Put in place the people, processes and technology to sustain level of cyber security in all divisions across the Group	– Met in full – full suite of training launched across the Group in addition to programmes of pen testing, phishing, test alerts and ongoing awareness)	2%
	– Design and lead a full climate risk assessment to underpin the case for modal shift	– Met in full – assessment completed and roadmap identified. See ESG section on pages 30 to 34	2%
	– Design and lead a cost reduction programme to reduce permanent fixed cost from the business	– Met in full – £100m of cost savings achieved	
CFO bonus achieved (out of 10% of maximum)			10%

Annual Report on Remuneration (Audited Information) continued

(b) LTIP vesting and awards

(i) LTIP awards vesting in 2022

The three-year LTIP awards granted to Executive Directors in 2019 (which have not already lapsed) are scheduled to vest in April 2022 as the measurement period relating to them ended on 31 December 2021. Following a formulaic approach, this LTIP award will vest in 2022 at nil, as the threshold vesting level has not been achieved in respect of any of the four performance measures. Whilst there are many factors that could have been taken into account to adjust the formulaic outcome, the Committee did not feel it was appropriate to make any such adjustments in light of the shareholder experience during this period.

Details of the performance conditions attaching to the 2019 LTIP awards, which were granted as nil cost options, and the extent to which they have been met, are set out in the table below:

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for ROCE)	Target (50% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR[1] vs. FTSE 250 Index	16.66%	Median	–	Upper Quintile	Below Median 191 out of 218 companies	0%
TSR[1] vs. Bespoke Index[2]	16.66%	Equal to Index	–	≥ Index + 10% p.a.	Below Index	0%
EPS[3, 4]	33.33%	35.3p	37.4p	39.0p	0.1p	0%
ROCE[3, 4]	33.33%	8%	9%	11%	3.4%	0%
Total vesting						0%

1 For TSR performance measures, straight-line vesting occurs between threshold and maximum performance
2 The Bespoke Index comprises three other UK-based passenger transport groups: FirstGroup plc; Stagecoach Group plc; and Go-Ahead Group plc
3 For EPS and ROCE performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance
4 Actual EPS is the fully diluted underlying earnings per share in the last year of the performance period. 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 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. However, this did not affect the outcome which was nil vesting, as explained above.

(ii) Vesting details

The table below shows details of the 2019 LTIP nil cost option award:

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 attributed to share price appreciation	Cash dividend payable on vesting
Chris Davies	133,624	0	0	0	0

(iii) LTIP awards granted in 2021

Details of LTIP awards granted to Executive Directors in 2021 are set out in the table below:

Executive Director	Grant date	Number of shares awarded	Award type	Award amount	Face value of award £'000	Performance period	Performance conditions
Ignacio Garat	22.03.2021	366,943	Nil cost option	200% of base salary	1150	01.01.21–31.12.23	See below
Chris Davies	22.03.2021	271,218	Nil cost option	200% of base salary	850	01.01.21–31.12.23	

1 The number of shares subject to the LTIP awards was determined by dividing the award amount, being the relevant multiple of Executive Directors' base salaries, by the Company's closing share price on the last business day preceding the date of grant, being 313.40p on 19 March 2021

(iv) Performance conditions attaching to 2021 LTIP awards

Performance condition	Weighting	Threshold (25% vesting EPS and TSR, 0% vesting ROCE and ESG)	Target (50% vesting)	Maximum (100% vesting)
TSR[1] vs. Bespoke Index[2]	12.5%	Equal to Index	–	≥ Index +10% p.a.
TSR[1] vs. FTSE 250 Index	12.5%	Median	–	Upper Quintile
EPS[3]	25%	25.1	25.6	26.3
ROCE[3]	25%	8%	9%	11%
tCO_2e/million passenger km	25%	6% reduction in tCO_2e/million passenger km by 2023 relative to 2019 base year	7% reduction in tCO_2e/million passenger km by 2023 relative to 2019 base year	8% reduction in tCO_2e/million passenger km by 2023 relative to 2019 base year

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 were considered by the Remuneration Committee. Based on performance measures, achievement to date, and appropriate assumptions, the 2020 LTIP estimated vesting is between 10% and 15%, while the estimated vesting for the 2021 LTIP is between 35% and 50%.

(vi) Executive Deferred Bonus Plan (EDBP)

The table below sets out the awards under the 2020 EDBP in the form of forfeitable shares in the Company. These awards vested on 18 March 2021 and relate to the one-year deferred element of the bonus for the financial year ended 31 December 2019. No awards were made under the EDBP in 2021, as no bonus was paid to Executive Directors in respect of the financial year ended 31 December 2020.

Executive Director	As at 1 January 2021	Vested 18 March 2021	Granted March 2021	Lapsed	As at 31 December 2021	Market price at date of vesting	Date of grant	Date of vesting
Ignacio Garat	–	–	–	–	–	–	–	–
Chris Davies	39,847	39,847				311.00p	09.03.20	18.03.21

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, but no dividends were paid on the award included in the table as the Company did not pay dividends during the relevant period. Such shares were held in the EBT

2. 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 2021 (with comparative figures provided for 2020):

Non-Executive Director	2021 fees £'000	2020 fees[1] £'000
Sir John Armitt (Chairman and Nominations Committee Chair until 4 November 2020)[2]	**259**	238
Jorge Cosmen (Deputy Chairman and Nominations Committee Chair from 4 November 2020)[2]	**68**	54
Matthew Crummack (Senior Independent Director from 3 April 2020)[3]	**67**	62
Mike McKeon (Audit Committee Chair)	**68**	66
Dr Ashley Steel (Remuneration Committee Chair until 3 December 2021)[4]	**63**	66
Ana de Pro Gonzalo (Independent Non-Executive Director)	**56**	54
Carolyn Flowers (Independent Non-Executive Director from 1 June 2021)[5]	**35**	–
Karen Geary (Remuneration Committee Chair from 3 December 2021)	**57**	54

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. Conversely, 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 Dr Ashley Steel stepped down as a Board Director and as Remuneration Committee Chair on 3 December 2021. Karen Geary assumed the role of Remuneration Committee Chair on 4 December 2021 and therefore both received a pro-rated proportion of the Remuneration Committee Chair fee for the year

5 Carolyn Flowers joined the Board on 1 June 2021, so her fee reflects the pro-rated proportion of her annual base fee for the year. A travel allowance is also paid to Carolyn Flowers for each Board meeting or other Board-related matter she attends outside the North American continent, in an amount per such meeting or matter of £1,000. For 2021, Ms Flowers received £2,000 in respect of this allowance in addition to her base fee

3. Payments to past Directors and payments for loss of office

(a) Payments to past Directors

No payments were made to past Directors during or in respect of the financial year ended 31 December 2021.

(b) Payments for loss of office

No payments were made to any former Directors for loss of office during or in respect of the financial year ended 31 December 2021.

Annual Report on Remuneration (Audited Information) continued

4. Statement of Directors' shareholdings and share interests

(a) 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, as at 31 December 2021, are shown in the table below:

	Shares held directly			Other share interests	
Executive Director	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]	2.73%	6,100	0	366,943
Chris Davies	200%[3]	153.13%	253,031	0	567,835

1 The Company's closing share price of 257.20p as at 31 December 2021 has been used for the purposes of this calculation and has been applied to the beneficially owned shares in arriving at the shareholding value as at 31 December 2021
2 Mr Garat's current shareholding requirement applies to the five-year period commencing from the later of the approval of the Directors' Remuneration Policy and his date of appointment and therefore Mr Garat has until 12 May 2026 to reach his shareholding requirement
3 Mr Davies' pre-existing shareholding guideline of 150% applied to the five-year period commencing from his date of appointment on 10 May 2017. Mr Davies has until 12 May 2026, being the five-year period commencing from the date of the approval of the Directors' Remuneration Policy, to reach his incremental increased requirement to 200%

The table below provides more information about Executive Directors' interests in the Company's shares under outstanding LTIP awards.

Share interests

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 2021 or remain outstanding as at 31 December 2021:

				Exercised				
LTIP award year/type	Date of grant	Awards held at 01.01.21	Granted	Exercised/ Eligible for exercise	Lapsed	Awards held at 31.12.21	Vesting date	Latest exercise date[1]
Ignacio Garat								
LTIP 3-year	22.03.21	–	366,943	–	–	366,94[3]	22.03.24	22.03.26
LTIP 3-year (Approved CSOP)[2]	22.03.21	–	9,572[3]	–	–	9,572[3]	22.03.24	22.03.26
		–	366,943[3]	–	–	366,943[3]		
Chris Davies								
LTIP 2-year (RIA)	10.05.17	61,366	–	61,366[4]	–	–	10.05.19	–
LTIP 3-year	03.04.18	139,050	–	9,061[5]	129,989	–	03.04.21	–
LTIP 3-year	15.04.19	133,624	–	–	–	133,624	15.04.22	15.04.24
LTIP 3-year	12.03.20	162,993	–	–	–	162,993	12.03.23	12.03.25
LTIP 3-year	22.03.21	–	271,218	–	–	271,218	22.03.24	22.03.26
LTIP 3-year (Approved CSOP)[2]	22.03.21	–	9,572[3]	–	–	9,572[3]	22.03.24	22.03.26
		497,033	271,218[3]	70,427	129,989	567,835[3]		

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 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 Garat's and Mr Davies' 2021 CSOP award were granted with an exercise price of 313.4p per share. 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
3 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
4 Mr Davies' 2017 two-year LTIP (Recruitment Incentive) award vested on 10 May 2019 and was exercised on 18 March 2021. Mr Davies sold sufficient shares to satisfy his tax liabilities arising on such exercise and these shares were not subject to any compulsory holding period. The share price on exercise was 303.51p per share
5 Mr Davies' 2018 three-year LTIP award vested on 3 April 2021 and was exercised on 6 April 2021. Mr Davies sold sufficient shares to satisfy his tax liabilities arising on such exercise and he continues to hold the remaining vested shares beneficially in accordance with the two-year mandatory holding period. The share price on exercise was 329.4p per share

(b) 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 2021 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	18,844
Carolyn Flowers	–
Karen Geary	14,347
Ana de Pro Gonzalo	4,347
Mike McKeon	20,869
Dr Ashley Steel[2]	32,870

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 111) for such family companies' shareholdings to be considered his or his connected persons' interests in Company shares

2 Dr Ashley Steel stepped down from the Board on 3 December 2021 and her shareholding above is correct as at that date

(c) 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 2021 was 257.20p (2020: 237.40p) and the range during the year ended 31 December 2021 was highest 328.20p to lowest 213.60p per share.

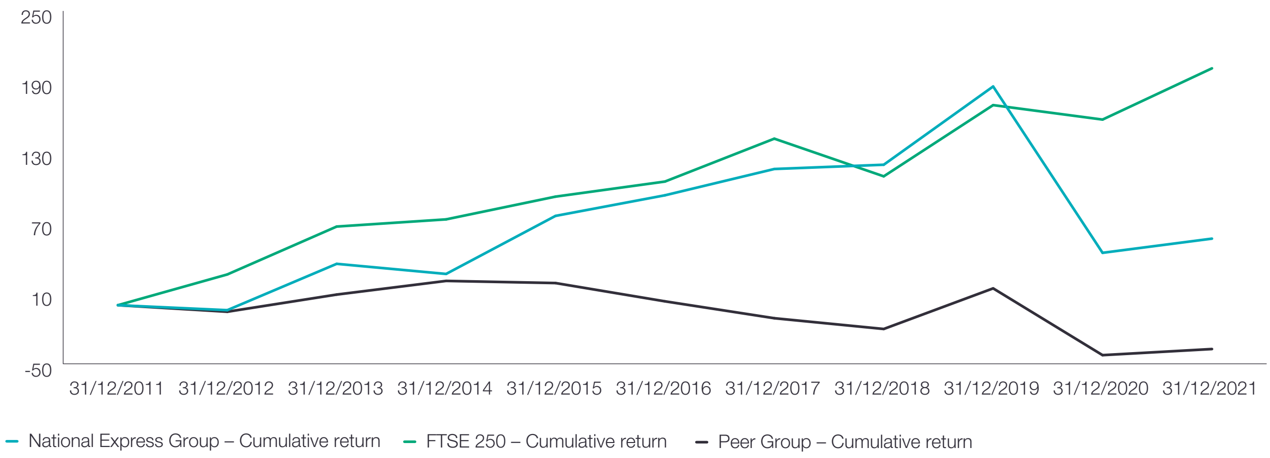
(d) Changes since year end

There have been no changes in current Directors' shareholdings between 31 December 2021 and the date of this report.

5. 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.

Shareholder returns – 10-year history



Annual Report on Remuneration (Audited Information) continued

6. Context of Directors' pay

The following table sets out the actual percentage change from 2020 to 2021 in certain elements of the remuneration paid (where applicable) to each of the persons who served as Directors during 2021, compared with the average percentage change from 2020 to 2021 in those same elements of remuneration for the Group's employees. It also sets out, by way of voluntary disclosure, a comparison with the 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 100. 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 103.

	Actual/Average percentage increase/ (decrease) from 2019 to 2020			Actual/Average percentage increase/ (decrease) from 2020 to 2021		
Director or comparator group	**Base salary/ fees**	**Benefits[1]**	**Performance-related bonus[2]**	**Base salary/ fees**	**Benefits[1]**	**Performance-related bonus[2]**
Ignacio Garat, current CEO	–	–	–	499.0%[1]	200.0%[1]	100.0%[2]
Chris Davies, current CFO	(0.8)%[4]	0.0%	(100)%[4]	16.1%[3]	0.0%	100.0%[2]
Sir John Armitt, Chairman	(5.9)%	–	–	8.8%[4]	–	–
Jorge Cosmen, Deputy Chairman	0.0%	–	–	25.9%[4,5]	–	–
Matthew Crummack, Senior Independent Director (SID)	14.8%	–	–	8.1%[4]	–	–
Mike McKeon, Non-Executive Director	1.5%	–	–	3.0%[4]	–	–
Karen Geary, Non-Executive Director	315.4%[7]	–	–	(5.9)%[4,6]	–	–
Ana de Pro Gonzalo, Non-Executive Director	315.4%[7]	–	–	(5.9)%[4,6]	–	–
Carolyn Flowers, Non-Executive Director	–	–	–	100.0%[8]	–	–
Dr Ashley Steel, Non-Executive Director	6.5%	–	–	4.5%[9]	–	–
Company employees	5.7%	(0.09)%	(100)%	4.4%[10]	(8.2%)[11]	100.0%[2]
Company Group UK employees	1.7%	(0.09)%	(100)%	2.3%[10]	(17.0%)[12]	100.0%[2]

1 Mr Garat joined in November 2020 and the % increase reflects 2020 figure started from join date. No increase in base salary was given for 2021
2 No bonuses were awarded for 2020
3 Reflects the salary increase to £425,000 from 1 January 2021 and the salary sacrifice made in April and May 2020, in light of the pandemic
4 The year-on-year increase reflects salary sacrifices made in April and May 2020 in the light of the pandemic
5 Received an additional £12,000 chair fee from 2021
6 Appointed Chair of the Remuneration Committee on 3 December 2021
7 The significant year-on-year percentage increases in the fees payable to Karen Geary and Ana de Pro Gonzalo reflect that they both joined the Company in October 2019 so only received fees for 3 months of the 2019 year
8 Appointed on 1 June 2021
9 Resigned on 3 December 2021
10 No general pay rise in 2020, so increase reflective of some employees taking on additional responsibilities during the year and some impact of salary sacrifices in 2020
11 Driven by the net impact of the cost to the Company of providing certain benefits decreasing and the cost of providing others increasing
12 Driven by the net impact of the cost to the Company of providing certain benefits decreasing and the cost of providing others increasing, and the impact of job role changes and promotions

7. 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	2012	2013	2014	2015	2016	2017	2018	2019	**2020[1]**	**2020[2]**	**2021**
Chief Executive Officer	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	**D Finch**	**I Garat**	**I Garat**
Single figure total remuneration (£'000)	1,701	1,553	1,562	3,661	3,887	4,225	4,318	3,048	**531**	**137**	**1,050**
Annual bonus payment (as % of maximum opportunity)	100%	95%	93%	96%	83.5%	95%	90%	100%	**0%**	**n/a[3]**	**47.5%**
LTIP vesting level achieved (as % of maximum opportunity)	32.5%	0%	0%	73.4%	80.8%	86.9%	96%	91.53%	**0%**	**n/a[3]**	**n/a[4]**

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 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
4 In 2021, Mr Garat was not entitled to any LTIP award subject to performance conditions whose final year of performance ended during that year

8. CEO pay ratios

The Committee reviewed the Company's CEO pay ratios and the 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.

The following table sets out ratios which compare the CEO's total remuneration in the Company's financial year ended 31 December 2021 to that of the 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 Group's UK employees (together with that data for the Company's previous financial year):

Year	Methodology	25th percentile (lower quartile) pay ratio	50% percentile (median) pay ratio	75th percentile (upper quartile) pay ratio
2021	**Option A**	**43:1**	**37:1**	**31:1**
2020	Option A	31:1	26:1	23:1
2019	Option A	156:1	136:1	110:1

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 2021 and their full time equivalent total remuneration was calculated in respect of the 12 months ended 31 December 2021 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 for 2020 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 100 and aggregating that sum with the proportion of Mr Davies' total remuneration as derived from the single total figure of remuneration table on page 100 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 that capacity).

The CEO's remuneration for 2021 was calculated as per the single total figure, shown earlier.

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 and benefits grossed up to the full time equivalent salary for their role; 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 table below shows the 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 2021 (together with that data for the previous year which is calculated on a combined basis):

Year	Pay data	Group Chief Executive	25th (lower quartile) percentile	50th (median) percentile	75th (upper quartile) percentile
2021	**Salary**	**£575,000**	**£23,768**	**£25,907**	**£31,598**
2021	**Total pay**	**£1,050,106**	**£24,179**	**£28,023**	**£33,707**

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 comprises 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 2021 (vs. 2020), reflecting that the CEO's pay was 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.

Annual Report on Remuneration (Audited Information) continued

9. Relative importance of spend on pay

The table below sets out the total spend on pay in 2021 compared with distributions made to shareholders in 2021 and the figures for such values in 2020 for further comparison:

Measure	2021 £m	2020 £m	% increase from 2020 to 2021
Overall Group spend on pay including Directors[1]	**1,156.4**	1,138.8	1.55%
Profit distributed by way of dividend[2]			0.00%

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 £54.3 million, so the overall Group spend on pay net of such refunds was £1,150.2 million

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 2021 and 2020, this amount was zero as no interim or final dividends were paid in either year

10. Historical results of shareholder voting on remuneration matters

The votes cast on the resolution seeking approval of the Annual Report on Remuneration at the 2021 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld
To approve the Annual Report on Remuneration for the year ended 31 December 2020 (advisory vote only)	59.35	40.66	23,473,868

The votes cast on the resolution seeking approval of the current Policy at the 2021 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld
To approve the Directors' Remuneration Policy (binding vote)	72.57	27.43	27,540,836

1 A vote withheld is not a vote in law and is not counted in the calculation of votes For or Against a resolution

11. Retained advisers to the Committee

During the year, the Committee appointed Korn Ferry as its external remuneration consultants following a review of potential advisers by the Committee. Korn Ferry replaced PwC as advisers, who stepped down to avoid any potential conflicts of interest following appointment to advise in relation to the potential combination with Stagecoach.

Korn Ferry did not provide any services other than in relation to advising the Remuneration Committee during the year and the Committee is satisfied that no conflict of interest can arise as a result of these services. Korn Ferry 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 Korn Ferry is objective and independent. For the year under review, Korn Ferry received fees of £32,632, and PwC received fees of £75,900 in connection with its work for the Committee, which were charged on a time cost basis.

12. Dilution

The Company has permitted share dilution authority reserved to it under the rules of its 2015 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.

By Order of the Board

Remuneration Committee Chair
9 March 2022

Karen Geary
Independent Non-Executive Director

Directors' Report

The information set out on pages 109 to 113 (inclusive), together with the information referred to below which is incorporated by reference, comprises the Directors' Report for the Company's financial year ended 31 December 2021.

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	6 to 11
Principal risks and uncertainties	Strategic Report	42 to 47
Fostering relationships with suppliers, customers and others[1]	Strategic Report Corporate Governance Report	40 and 41 56 to 59, 62 and 66
Engagement with and other matters relating to employees[2]	Strategic Report Corporate Governance Report	34 and 40 63 to 65
Financial instruments	Consolidated Financial Statements	179 to 184
Governance matters, including Corporate Governance Statement[3] and a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees	Corporate Governance Report	50 to 108
Description of diversity policies, objectives, implementation and results	Nominations Committee Report	74 and 75
Internal control and risk management arrangements for financial reporting	Audit Committee Report	78 to 83
Streamlined Energy and Carbon Reporting (SECR)[4]	Additional Information	223

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 because the Company, as 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 2021 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 Part 7 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by 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 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(12)	Dividend waivers by shareholders	Directors' Report, page 110

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 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, save that one of the Company's Spanish subsidiaries, NEX Continental Holdings, S.L.U., set up a branch in Portugal, NEX Continental Holdings S.L, Sucursal Em Portugal, during the year in review.

Results and dividends

The Company's and the Group's results for the year ended 31 December 2021 are set out in the Company financial statements and the Consolidated Financial Statements on pages 123 to 219.

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 2021, save for those disclosed in note 41 to the Consolidated Financial Statements.

Dividends

The Board has determined not to recommend a final dividend in respect of its financial year ended 31 December 2021 as the Company remains restricted from declaring or paying dividends in accordance with the terms on which it has obtained amendments to its debt covenants to assist it in managing the financial impact of the Covid-19 pandemic (2020: 0.0p). As the Board also did not pay an interim dividend in respect of its financial year ended 31 December 2021, the total dividend for the 2021 year is 0.0 pence per share (2020: 0.0p).

Directors' Report continued

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 2021, 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: https://www.nationalexpressgroup.com/about-us/corporate-governance/corporate-governance-framework/.

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 2021 Annual General Meeting to allot new shares in the Company up to a nominal value of £10,234,772 representing one third of its issued share capital or, in the case of a rights issue only, new shares up to a nominal value of £20,469,545 representing two thirds of its issued share capital. The Directors were further authorised to disapply pre-emption rights on the issue of shares of up to a nominal value £1,535,215, representing approximately 5% of its issued share capital. No new shares were issued by Directors under the authorities granted to them at the Company's 2021 Annual General Meeting during the year ended 31 December 2021 or up to 9 March 2022, being the date this Directors' Report was approved. Such authorities remain valid until the Company's 2022 Annual General Meeting or 30 June 2022, 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 2022 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 2021 Annual General Meeting to make market purchases of up to 61,408,637 of its own shares, representing approximately 10% of its issued share capital. No shares were purchased under this authority during the year ended 31 December 2021 or up to 9 March 2022, being the date this Directors' Report was approved. Such authority remains valid until the Company's 2022 Annual General Meeting or 30 June 2022, whichever is earlier. The Directors propose to renew this authority at the 2022 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 1,013,976 shares in the market during the year ended 31 December 2021 for an aggregate consideration of £2.59 million (including dealing costs) and released 402,244 shares to satisfy vested share plan awards.

As at 31 December 2021, the EBT held 1,489,069 Company shares in trust (representing 0.24% 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 receives the dividends on such shares and passes them through to such employees.

Major shareholdings

As at 31 December 2021, 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%
Liontrust Investment Partners PLC	39,306,348	6.40%
JP Morgan Asset Management Holdings Limited[2]	30,512,643	4.97%
Newton Investment Management Limited	29,583,062	4.82%
J O Hambro Capital Management Limited[3]	25,165,433	4.10%
Nortrust Noms Limited re Greater Manchester Pension Fund	19,016,950	3.10%

1 The total number of voting rights attaching to the issued share capital of the Company on 31 December 2021 was 614,086,377.
2 The last notification under DTR 5 received from JP Morgan Asset Management Holdings Limited (JP Morgan) on 8 December 2021 notes that it has gone “below the minimum threshold”. From further correspondence with JP Morgan, the Company understands that: JP Morgan benefits from the higher disclosure thresholds specified in DTR 5.1.5R and therefore the “minimum threshold” referred to in the latest DTR notification is 5%; and as at 31 December 2021, JP Morgan held 30,512,643 ordinary shares representing 4.97% of the total voting rights of the Company, which has been reflected in the table above.
3 The last notification received under DTR 5 from J O Hambro Capital Management Limited (J O Hambro) on 23 October 2018 stated that it held 25,165,433 ordinary shares which, at that time, equated to 4.92% of the total voting rights but which at 31 December 2021 equated to 4.10% of the total voting rights, as shown in the table above. However, from further correspondence with J O Hambro during 2021, the Company understands that it holds under 3% of the total voting rights in the Company but was not required to notify the Company under DTR 5 because it benefits from the higher 5% disclosure threshold specified in DTR 5.1.5R.

It should be noted that these holdings may have changed since the Company was notified of them as notification of any change is not required until the next notifiable threshold is crossed.

The Company received no further notifications in accordance with DTR 5, by way of change to the above information or otherwise, between 31 December 2021 and 9 March 2022, being the period from the end of the Company’s last financial year to the date on which 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 2022 AGM).

Directors

The names of the persons who were Directors of the Company at any time during the Company’s financial year ended 31 December 2021, together with the periods during which they served as Directors, are:

Director	Period served during 2021
Sir John Armitt CBE	1.01.2021 – 31.12.2021
Jorge Cosmen	1.01.2021 – 31.12.2021
Ignacio Garat	1.01.2021 – 31.12.2021
Chris Davies	1.01.2021 – 31.12.2021
Matthew Crummack	1.01.2021 – 31.12.2021
Carolyn Flowers	1.06.2021 – 31.12.2021
Karen Geary	1.01.2021 – 31.12.2021
Mike McKeon	1.01.2021 – 31.12.2021
Ana de Pro Gonzalo	1.01.2021 – 31.12.2021
Dr Ashley Steel	1.01.2021 – 03.12.2021

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 2021 and 9 March 2022, 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 2022 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 2021 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 a rolling service term subject to the giving by the Company or relevant 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 fixed term of appointment 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 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 https://www.nationalexpressgroup.com/about-us/corporate-governance/remuneration/.

Directors' Report continued

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 below.

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 incumbent 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 2022 Annual General Meeting and offer themselves for election or re-election. The Board is satisfied that each of the Directors is qualified for election or re-election to office by their contribution and commitment to the Board, their key strengths in support of the Company's strategy as set out on pages 52 to 54 and for the reasons given on page 75 of the Nominations Committee 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 2021 and remain in force as at 9 March 2022, 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 last 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 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 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

Pages 34 and 40 of this Annual Report set out how the Company: engages with its workforce and takes their views into account; involves employees in Company performance; promotes common awareness among employees of financial and economic factors affecting the Company performance; and summarises how the Company is an equal opportunities employer.

Political donations, contributions and expenditure

The Company did not make any political donations or contributions or incur any political expenditure during the year ended 31 December 2021 (2020: nil political donations, contributions and political expenditure). The Company's policy is that neither it nor its subsidiaries make what are commonly regarded as donations or contributions to political parties. 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 or contributions, 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 2022 Annual General Meeting to authorise political donations, contributions 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 9 March 2022, 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

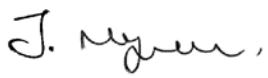
The Company's 2022 Annual General Meeting (AGM or Meeting) will be held in the Banqueting Hall at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD at 2.00pm on Wednesday, 11 May 2022. A separate circular, comprising a letter from the Chairman, Notice of the Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Both documents can also be found on the Company's website at: www.nationalexpressgroup.com.

As at 9 March 2022, being the date on which this Directors' Report was approved, the Company is intending to conduct its 2022 AGM as an in-person meeting to give shareholders (or their proxies or corporate representatives) the opportunity to meet with the Board, ask questions on the business before the Meeting and vote on that business either in person (or by proxy or corporate representative). However, the Company will be observing any UK Government requirements or guidelines on travel and in-person meetings which are current at the time of the AGM which may mean that we need to change the time, date and/or venue of the Meeting or the methods by which shareholders can vote their shares, or it may mean that we need to restrict some or all shareholders from attending the Meeting physically and/or ask those who do to observe additional health & safety measures, such as social distancing and/or mask wearing where not exempt. The Company will advise shareholders about any changes to the Meeting arrangements via the Company's website: https://www.nationalexpressgroup.com/investors/agm and by market announcement.

Approval

The Directors' Report was approved by the Board on 9 March 2022.

By Order of the Board



Jennifer Myram
Group Company Secretary
National Express Group PLC
Company number 2590560

Directors' responsibilities

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), adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 international accounting standards in conformity with the requirements of the Companies Act 2006, 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

Ignacio Garat
Group Chief Executive Officer
9 March 2022

Chris Davies

Chris Davies
Group Chief Financial Officer
9 March 2022

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 2021 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with 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, United Kingdom adopted international accounting standards and IFRSs 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".

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. The non-audit services provided to the Group for the year are disclosed in note 7 to the Financial Statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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.

Report on the audit of the Financial Statements continued

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Impairment of goodwill; and – North American insurance and other claims provisions. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group Financial Statements was £11 million which was determined based on consideration of three key metrics: EBITDA before separately disclosed items, net assets and revenue. This approach is consistent with the prior year.
Scoping	The Group is organised into four operating divisions, each of which has multiple trading entities ("Components"), plus the head office function. Six Components were subject to full scope audits and one Component was subject to an audit of specified account balances. These Components account for 95% of the Group's revenue, 84% of Underlying Operating Profit and 90% of net assets.
Significant changes in our approach	We have removed classification and disclosure of separately disclosed items as a key audit matter for the current year. In the prior year, the uncertainty around the pandemic had given rise to new separately disclosed items that required management judgement around the classification and presentation. Whilst there is still judgement in this area of work, the effort and volume of audit work has reduced substantially given the recovery from pandemic. We have removed going concern as a key audit matter for the current year. This reflects the Group's improved trading performance, forecast levels of headroom over debt covenants and improved economic and social data relating to Covid-19, compared to last year. Our approach to scoping has been refined in the current year. Whereas previously we scoped in each of the sub-consolidated divisions for a full scope audit, we have identified components at a lower level in the current year and scoped the audit with reference to the trading entities that exist within each division.

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 included:

- assessing underlying assumptions which support management's analysis of its cost base and the levels of inherent risk in its revenue streams;
- challenging the recovery assumptions in the forecast against external economic forecasts from the IMF and OECD, as well as other relevant information about respective markets that may contradict management's assessment;
- assessing the level of headroom available to the Group from its loan facilities and assessing the risk of breaching the related covenants;
- obtaining signed copies of financial facilities and covenant waivers and agreeing the terms and conditions of the waivers against the forecast 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; and
- assessing the disclosures made by the Group around its going concern assumptions.

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 12 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

Key audit matter description	Total goodwill at 31 December 2021 was £1,507 million (2020: £1,525 million). The balances relate to the Spanish (ALSA), UK and the North America divisions which are £785 million (2020: £820 million), £52 million (2020: £53 million) and £670 million (2020: £653 million), respectively. There is a risk surrounding the recoverability of these balances, as assessed by management as part of their impairment review, using discounted cash flows on a value in use basis. Further details are outlined in notes 2, 5, and 14 to the Financial Statements. Estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate, perpetual growth rate and long-term cash flow assumptions. As the majority of the value in use resides in the terminal value, the assessment is particularly sensitive to the perpetual growth rate and long-term operating margin and cash flows for each business, which are considered to be the areas of key judgement. In the current year this has required consideration of the business and economic recovery from Covid-19, as well as the long-term implications of climate change on the business, including long-term operating and capital expenditure costs of zero emission vehicles, relative to the current fleet. Certain key assumptions are outlined in note 14 to the Financial Statements. Despite these key areas of estimation and judgement, the level of headroom calculated in the current year means that management have not considered this to give rise to any key sources of estimation uncertainty which reflects a reduced level of risk year-on-year. However, it remains a key audit matter due to the impact it has on our overall audit strategy, the allocation of resources and the overall efforts of the engagement team. The Audit Committee Report on page 78 refers to goodwill impairment as an audit focus area. Note 2 to the Financial Statements sets out the Group's accounting policy for testing 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 impairment test is sensitive to changes in the key inputs.
How the scope of our audit responded to the key audit matter	Our procedures for challenging management's methodology and assumptions included: – 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 evaluating 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 long-term margin assumptions as well as the potential impact of climate change on cash flows. This challenge was informed through the involvement of subject matter experts and the review and challenge of cost estimates for zero emission vehicles; – 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 impairment model; and – assessing the appropriateness of the disclosure included in the Financial Statements including the sensitivity analysis provided.
Key observations	We determined that there is currently sufficient headroom for all groups of cash generating units such that we concur with management that no impairment is required to goodwill. We have also concluded that the related disclosures are appropriate.

Report on the audit of the Financial Statements continued

5.2. North American insurance and other claims provision

Key audit matter description	The Group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £84.4 million at 31 December 2021 (2020: £80.7 million), £70.4 million (2020: £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 outlined in notes 2 and 5 of the Financial Statements. 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. 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. 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, including those relating to Covid-19, determined by management in conjunction with Willis Towers Watson ("WTW") as independent actuaries as noted above; and assessment of the provision for historical acquisition provisions and larger individual claims. There were no acquired provisions in the year. There has been an overall reduction of the level of inherent risk within the portfolio of claims in the current year, including in relation to Covid-19. As such, the overall risk level has reduced. However, it remains a key audit matter due to the impact it has on our overall audit strategy, the allocation of resources and the overall efforts of the engagement team. The Audit Committee Report on page 78 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 source of estimation uncertainty in note 2 to the Financial Statements.
How the scope of our audit responded to the key audit matter	Our procedures performed for challenging management's methodology and assumptions included: – 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, 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 the historical accuracy of forecasting and settlements entered into. Additionally, we have assessed the competence of management's expert and considered their capability 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. – We have assessed the appropriateness of assumptions specifically relating to Covid-19 reserve and any the related reversals through separately disclosed items; and – 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	As part of our detailed audit work testing the various aspects of the provision and Income Statement charge for the year, we did not identify any material exceptions. 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.

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	£11.0m (2020: £10.0m)	£8.3m (2020: £8.6m)
Basis for determining materiality	In determining materiality, we considered EBITDA before separately disclosed items, net assets, and revenue. This materiality level equates to 0.8% (2020: 0.7%) of net assets, 3.7% (2020: 5.4%) of EBITDA before separately disclosed items and 0.5% (2020: 0.5%) of revenue.	The parent Company materiality has been set at 1.0% (2020: 0.5%) of the parent Company's net assets and capped at 76% (2020: 86%) of Group materiality.
Rationale for the benchmark applied	Consistent with the prior year, 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 metrics, including those most relevant to covenant compliance.	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	65% (2020: 70%) of Group materiality	70% (2020: 70%) of parent Company materiality
Basis and rationale for determining performance materiality	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: – the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit; – relevant factors about the Group's control environment, specifically the control deficiencies identified and reported on in the prior year relating to the North American division, as outlined in Section 7.2; and – the continued impact of Covid-19 on the business and the whether it would affect our ability to forecast misstatements and its impact on management bias. The North American control deficiencies mentioned above only impact the Group Financial Statements and hence the Performance materiality for the parent Company Financial Statements has not been impacted by this and 70% was sufficient for current year.	

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.55 million (2020: £0.5 million), 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 approach to scoping has been refined in the current year. In the prior year we focused our Group audit scope at the divisional level and primarily on the four operating divisions, each with its own sub consolidation, which were all subject to a full scope audit. In the current year we performed a more granular scoping assessment at a trading entity level within each division ("Component"), considering components on the basis of their contribution to Group revenue and operating profit as well as those requiring statutory audits in their jurisdiction. As a result, we determined that six Component were subject to full scope audits, and one Component was subject to audits of specified account balances. These were performed by Deloitte Touche Tohmatsu Limited member firms. Component materiality levels were determined to be between £3.1 million and £8.3 million (2020: between £3.1 million and £8.6 million). The Group head office work was performed to a Component materiality level of £8.3 million (2020: £8.6 million). 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 seven Components subject to audit procedures account for 95% of group's revenue, 84% of underlying operating profit and 90% of net assets. In the prior year we reported coverage relative to the scoping approach we had used, which reflected that the four operating divisions subject to full scope audits, when taken together with the work performed at a Group-level, accounted for 100% of the key Group metrics.

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 new Group-level OneStream consolidation system as relevant for which we engaged IT specialists as part of our planned audit procedures in relation to the IT control environment. We obtained an understanding of the IT controls over the OneStream consolidation system during the period, including a review of management's reconciliation of closing/opening balances in migrating the data.

During the course of our audit, we placed reliance on controls relevant to the recording of certain revenue streams in the UK division and the Spanish 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 or Germany.

Report on the audit of the Financial Statements continued

Following on from the control deficiencies identified and reported on in the prior year relating to the North American division, management engaged a third party to perform a base financial control assessment in that division during 2021. We reconsidered our risk assessment and modified the nature and extent of our testing for the in-scope Component in North America.

7.3. Our consideration of climate-related risks

Throughout 2021 management has undertaken a number of steps to formalise compliance with requirements as a means to drive change, progress actions and adopt the Taskforce on Climate related Financial disclosures ("TCFD") recommendations for the first time in the FY21 Annual Report. Management have performed a climate-related risk assessment which has been reviewed by the Board. As a result, climate change is both a new strategic and macro/external risk this year under Principal Risks and Uncertainties section in the Annual Report, page 42. Management also engaged with third parties to review climate risk templates for completeness of items before instructing divisions to perform their own assessment. As stated on page 35 of the Strategic Report, management's view is that in any climate scenario the upside is potentially very material, whilst the net financial impact of climate-related risks is low and mitigated by the Group's geographical diversity. As disclosed in note 14 of the Financial Statements, there are assumptions relating to climate risks that have an impact to the terminal value of the impairment assessments.

We have assessed the climate risks and opportunities throughout the disclosures and involved sustainability specialists in challenging management's disclosures on TCFD. As noted in Section 5 above under Impairment considerations, we recommend management to continue to focus on updating their risk assessment and reflecting any changes in their disclosures given this is an evolving area. We also read the disclosures in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit.

7.4. 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 and ongoing social distancing measures this has been replaced with virtual communications and oversight. In relation to the current year audit the Senior Statutory Auditor has maintained oversight through virtual meetings 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/auditorsresponsibilities. 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 inquiries 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 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 occurrence of certain revenue streams in ALSA and the completeness and accuracy of deferred revenue in the UK.

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, and tax legislation.

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, regulations from the Traffic Commissioners and environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud.

Our procedures to respond to the risks that were 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;
- inquiring 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;
- assessing the deferred revenue balance at the year end in the UK division by recalculating the deferred income based on journeys paid for compared to travelled by the year end, and tested the occurrence of certain revenue streams in Spain through reconciling the revenue system to the general ledger system and agreeing to supporting evidence;
- 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.

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 20;
- 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 48;
- the Directors' statement on fair, balanced and understandable set out on page 114;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 42 to 47;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 79 and 80; and
- the section describing the work of the audit committee set out on pages 78 to 83.

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

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors 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 11 years, covering periods from our initial appointment through to the period ending 31 December 2021.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these Financial Statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jane Whitlock (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
9 March 2022

Group Income Statement
For the year ended 31 December 2021

	Note	Underlying result 2021 £m	Separately disclosed items (note 5) 2021 £m	Total 2021 £m	Underlying result 2020 £m	Separately disclosed items (note 5) 2020 £m	Total 2020 £m
Revenue	4	**2,170.3**	**–**	**2,170.3**	1,955.9	–	1,955.9
Operating costs	5, 6	**(2,083.3)**	**(123.2)**	**(2,206.5)**	(2,006.7)	(330.6)	(2,337.3)
Group operating profit/(loss)		**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)
Share of results from associates and joint ventures	18	**(1.0)**	**–**	**(1.0)**	(2.1)	–	(2.1)
Finance income	10	**3.2**	**–**	**3.2**	3.3	–	3.3
Finance costs	10	**(49.5)**	**(1.4)**	**(50.9)**	(56.5)	(8.0)	(64.5)
Profit/(loss) before tax		**39.7**	**(124.6)**	**(84.9)**	(106.1)	(338.6)	(444.7)
Tax (charge)/credit	11	**(12.8)**	**19.8**	**7.0**	29.3	88.7	118.0
Profit/(loss) for the year		**26.9**	**(104.8)**	**(77.9)**	(76.8)	(249.9)	(326.7)
Profit/(loss) attributable to equity shareholders		**21.6**	**(103.2)**	**(81.6)**	(82.1)	(249.6)	(331.7)
Profit/(loss) attributable to non-controlling interests		**5.3**	**(1.6)**	**3.7**	5.3	(0.3)	5.0
		26.9	**(104.8)**	**(77.9)**	(76.8)	(249.9)	(326.7)
Earnings per share:	13						
– basic earnings per share				**(16.8)p**			(57.9)p
– diluted earnings per share				**(16.8)p**			(57.9)p

Details relating to separately disclosed items are provided in note 5.

Group Statement of Comprehensive Income For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Loss for the year		**(77.9)**	(326.7)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	34	**41.9**	(48.4)
Deferred tax (charge)/credit on actuarial movements	11	**(2.7)**	10.8
Gains/(losses) on equity instruments classified as fair value through Other Comprehensive Income	17	**1.2**	(1.6)
		40.4	(39.2)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations	33	**(55.7)**	34.5
Exchange differences on retranslation of non-controlling interests		**(1.3)**	0.7
Gains/(losses) on net investment hedges	33	**26.5**	(10.0)
Gains/(losses) on cash flow hedges	33	**52.5**	(50.3)
Cost of hedging	33	**0.1**	0.2
Hedging (gains)/losses reclassified to Income Statement	33	**(3.3)**	34.8
Tax on exchange differences	11	**0.5**	1.6
Deferred tax on cash flow hedges	11	**(9.5)**	3.8
		9.8	15.3
Comprehensive income/(expenditure) for the year		**50.2**	(23.9)
Total comprehensive expenditure for the year		**(27.7)**	(350.6)
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders		**(30.1)**	(356.3)
Non-controlling interests		**2.4**	5.7
		(27.7)	(350.6)

Group Balance Sheet
At 31 December 2021

	Note	2021 £m	(Restated) 2020[1,2] £m	(Restated) 2019[1,2] £m
Non-current assets				
Intangible assets	14	**1,778.5**	1,851.8	1,901.8
Property, plant and equipment	15	**1,129.6**	1,233.2	1,348.2
Non-current financial assets	17	**32.6**	14.3	24.9
Investments accounted for using the equity method	18	**13.7**	15.6	17.9
Trade and other receivables	20	**147.1**	91.7	9.6
Finance lease receivable	35	**12.7**	10.6	3.6
Deferred tax assets	27	**150.6**	140.5	31.8
Defined benefit pension assets	34	**3.8**	12.3	14.2
Total non-current assets		**3,268.6**	3,370.0	3,352.0
Current assets				
Inventories	21	**28.8**	27.0	29.4
Trade and other receivables	22	**428.3**	391.7	496.8
Finance lease receivable	35	**4.1**	4.3	1.4
Derivative financial instruments	17	**31.0**	44.9	44.5
Current tax assets		**3.3**	2.6	1.6
Cash and cash equivalents	23	**508.4**	629.8	715.8
Total current assets		**1,003.9**	1,100.3	1,289.5
Assets classified as held for sale	19	**18.6**	18.8	4.3
Total assets		**4,291.1**	4,489.1	4,645.8
Non-current liabilities				
Borrowings	28	**(1,294.3)**	(1,313.0)	(1,091.0)
Derivative financial instruments	28	**(11.1)**	(10.6)	(9.6)
Deferred tax liability	27	**(39.2)**	(40.7)	(56.4)
Other non-current liabilities	25	**(123.8)**	(202.7)	(178.2)
Defined benefit pension liabilities	34	**(99.2)**	(147.4)	(104.2)
Provisions	26	**(68.8)**	(54.8)	(43.1)
Total non-current liabilities		**(1,636.4)**	(1,769.2)	(1,482.5)
Current liabilities				
Trade and other payables	24	**(787.7)**	(783.0)	(998.4)
Borrowings	28	**(302.3)**	(354.6)	(944.8)
Derivative financial instruments	28	**(24.5)**	(23.0)	(37.8)
Current tax liabilities		**(3.0)**	(2.2)	(8.8)
Provisions	26	**(89.0)**	(81.1)	(61.0)
Total current liabilities		**(1,206.5)**	(1,243.9)	(2,050.8)
Total liabilities		**(2,842.9)**	(3,013.1)	(3,533.3)
Net assets		**1,448.2**	1,476.0	1,112.5
Shareholders' equity				
Called-up share capital	32	**30.7**	30.7	25.6
Share premium account		**533.6**	533.6	532.7
Own shares		**(4.5)**	(3.5)	(6.0)
Hybrid reserve		**513.0**	497.6	–
Other reserves	33	**380.1**	367.8	130.7
Retained earnings		**(45.8)**	9.6	391.4
Total shareholders' equity		**1,407.1**	1,435.8	1,074.4
Non-controlling interests in equity		**41.1**	40.2	38.1
Total equity		**1,448.2**	1,476.0	1,112.5

1 Restated for a change in accounting policy where amounts outstanding in relation to advance subsidy factoring arrangements have been reclassified from trade and other payables to borrowings. See note 2 for further information

2 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information

I Garat
Group Chief Executive
9 March 2022

C Davies
Group Chief Financial Officer

Group Statement of Changes in Equity For the year ended 31 December 2021

	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 2021	30.7	533.6	(3.5)	497.6	367.8	9.6	1,435.8	40.2	1,476.0
(Loss)/profit for the year	–	–	–	–	–	(81.6)	(81.6)	3.7	(77.9)
Comprehensive income/(expense) for the year	–	–	–	–	12.3	39.2	51.5	(1.3)	50.2
Total comprehensive income/(expense)	–	–	–	–	12.3	(42.4)	(30.1)	2.4	(27.7)
Shares purchased	–	–	(2.5)	–	–	–	(2.5)	–	(2.5)
Own shares released to satisfy employee share schemes	–	–	1.5	–	–	(1.5)	–	–	–
Share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Tax on share-based payments	–	–	–	–	–	0.3	0.3	–	0.3
Transaction costs on issuance of hybrid instrument	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Accrued payments on hybrid instrument	–	–	–	21.2	–	(21.2)	–	–	–
Payments on hybrid instrument	–	–	–	(5.3)	–	–	(5.3)	–	(5.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	4.4	4.4	–	4.4
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	4.0	4.0	(4.6)	(0.6)
Other movements with non-controlling interests	–	–	–	–	–	–	–	3.1	3.1
At 31 December 2021	**30.7**	**533.6**	**(4.5)**	**513.0**	**380.1**	**(45.8)**	**1,407.1**	**41.1**	**1,448.2**

	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 was credited to a merger reserve rather than the share premium account. 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 were 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 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 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.

Group Statement of Cash Flows For the year ended 31 December 2021

	Note	2021 £m	(Restated) 2020[1] £m
Cash generated from operations	39	**231.1**	(48.3)
Tax paid		**(19.2)**	(8.1)
Interest paid		**(45.0)**	(64.7)
Interest received		**4.0**	7.1
Net cash flow from operating activities		**170.9**	(114.0)
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19	**(20.8)**	(9.6)
Deferred consideration for businesses acquired	19	**(13.0)**	(27.3)
Proceeds from the disposal of business, net of cash disposed	19	**(0.9)**	4.4
Purchase of property, plant and equipment		**(168.5)**	(215.3)
(Costs)/Proceeds from disposal of property, plant and equipment		**13.7**	17.7
Payments to acquire intangible assets		**(44.4)**	(22.7)
Proceeds from disposal of intangible assets		**0.7**	2.3
Payments to settle net investment hedge derivative contracts		**–**	(15.7)
Receipts on settlement of net investment hedge derivative contracts		**35.1**	10.9
Receipts/(payments) relating to associates and investments		**0.9**	(0.1)
Net cash flow from investing activities		**(197.2)**	(255.4)
Cash flows from financing activities			
Share issue proceeds[2]		**–**	230.1
Issuance of hybrid instrument[3]		**(0.5)**	495.5
Dividends paid to holders of hybrid instrument		**(5.3)**	–
Principal lease payments		**(118.2)**	(97.7)
Increase in borrowings		**243.0**	858.3
Repayment of borrowings		**(220.1)**	(1,049.2)
Payments to settle foreign exchange forward contracts		**(11.9)**	(39.8)
Receipts on settlement of foreign exchange forward contracts		**20.7**	18.8
Purchase of own shares		**(2.5)**	(3.9)
Acquisition of non-controlling interests[4]		**(18.3)**	(4.0)
Dividends paid to non-controlling interests		**(0.4)**	(2.2)
Dividends paid to shareholders of the Company	12	**–**	–
Net cash flow from financing activities		**(113.5)**	405.9
Increase in net cash and cash equivalents		**(139.8)**	36.5
Opening net cash and cash equivalents		**520.5**	478.3
(Decrease)/Increase in net cash and cash equivalents		**(139.8)**	36.5
Foreign exchange		**(4.5)**	5.7
Closing net cash and cash equivalents	23	**376.2**	520.5

1 Prior year amounts have been restated with respect to advance subsidy factoring receipts and payments – see note 2 for further information
2 Prior year amounts are net of transaction fees totalling £5.3m
3 Net of transaction fees totalling £4.5m incurred during 2020. A further £0.5m of transaction costs were paid in 2021
4 Amounts in 2021 include £17.7m paid on exercise of 10% of the WeDriveU put liability

Notes to the Consolidated Accounts For the year ended 31 December 2021

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the Group) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 9 March 2022. 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 issued by the International Accounting Standards Board (IASB), 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

The Financial Statements have been prepared on a going concern basis (see the Group Chief Financial Officer's review (CFO's Review) on page 20) 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 42 to 47;
- 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 CFO's report within this Annual Report.

The Group has maintained its strong liquidity position throughout the Covid-19 pandemic. As at 31 December 2021, and also as of the date of publishing these Financial Statements, the Group had £1.9bn of debt capital and committed facilities, with none of these due to expire until November 2023 at the earliest. At 31 December 2021, the Group had £0.9bn in net cash and undrawn committed facilities available to it.

The Group has positive relationships and regular dialogue with its lenders. Certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. While amendments have previously been made to the interest cover covenants, these have reverted to original levels (a minimum of 3.5x EBITDA) for the 30 June 2022 and 31 December 2022 tests. The gearing covenants at 30 June 2022 and 31 December 2022 have been amended to a maximum of 5.0x. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250m minimum liquidity test (up to and including Q1 2023), a £1.6bn maximum net debt test as at 30 June 2022 and 31 December 2022 and a restriction on dividend payments until covenant amendments have expired (or until the Group has voluntarily relinquished them). All covenants are assessed on a pre IFRS 16 basis. At 31 December 2021, the gearing ratio was 3.6x (31 December 2020: 6.6x), although both covenants were waived. The interest cover ratio at 31 December 2021 was 6.3x (31 December 2020: 2.7x); this compares with an amended covenant of at least 2.5x (2020: at least 1.5x).

Since the onset of the pandemic, the Group has, along with the rest of the travel industry, been significantly impacted by the wide ranging mobility restrictions and social distancing guidance used by governments to contain and curtail the impact of the virus. Thanks to the success of vaccination programmes which, progressively, were rolled out to all adults in the Group's key markets over the course of 2021, new variants of the virus were able to be countered by much less severe restrictions than those utilised when the pandemic first emerged. As a result, 2021 has seen a marked decrease in the level of restrictions imposed, and a strong recovery in the Group's revenue, increasing by 15% relative to 2020 (on a constant currency basis). Encouragingly, Group revenue has rebounded quickly when restrictions have been rolled back, including in the UK following the easing, in late January 2022, of restrictions imposed in late 2021 in response to the emergence of the Omicron variant.

Additionally, the Directors continue to have a high degree of confidence in the Group's long-term prospects. New contracts continue to be won, with a strong pipeline of opportunities in multiple markets. Climate change is rising exponentially in the public conscience and on government agendas. In 2021 this was further demonstrated by the commitments made by world leaders at the COP26 conference to decelerate the pace of global warming, as well as making available up to £100tn of private capital to speed up progress towards net zero emissions. Clean, safe and efficient public transport is clearly part of the solution to reducing global emissions, and the Group is well placed to benefit from this; leading the modal shift from private car to public transport is the Group's defined purpose as set out in the launch of the Evolve strategy in 2021.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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. Throughout 2021 there have been a range of mobility and distancing restrictions imposed and then rolled back at various points in the year. These have slowed, but not undone, the Group's progress in revenue recovery towards pre-pandemic levels. Over the course of the year, revenue has recovered from 32% below 2019 levels in Q4 2020 to around 10% below 2019 levels in Q4 2021 at constant currency.

Overall, financial performance in 2021 tracked broadly in line with base case projections set out at the time of publishing the 2020 Financial Statements in March 2021. Revenue was lower than base case primarily due to lower passenger demand in the UK as a result of ongoing travel restrictions and in North America due to driver shortages. However, careful cost control, success in procuring additional government funding and the benefits of structural cost saving actions taken in 2020 delivered a favourable profit outcome compared with our base case.

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, which cover the period up to March 2023, 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:

- Throughout 2022 Group revenue steadily recovers towards, and then beyond, pre-pandemic levels as Covid-19 related restrictions are rolled back and confidence in public transport returns.
- In the UK, commercial passenger revenues recover steadily during the year and reach pre-pandemic levels by December 2022. No further lockdowns or mobility restrictions are assumed.
- In North America, all schools are assumed to be open for in-person teaching. Driver shortages impact the first half of the year, but full service levels are resumed in time for the new school year commencing in August 2022.
- In ALSA, there is a steady recovery in patronage on long haul franchises and the regional contracts on which we are exposed to demand risk, but long haul revenue is still expected to remain below 2019 by the end of 2022. Urban revenues are expected to grow strongly due to the impact of the now fully mobilised Casablanca contract which commenced in Morocco in late 2019 and the acquisition of Transportes Rober in Spain in June 2021.
- Covid-19 related government support continues to be available as follows:
  - The CERTS funding from the US Government was received in 2021 and is being recognised in the Income Statement over the 2021/22 school year. Further support is possible, but none is assumed in our base case.
  - Subsidies are received from local government authorities to compensate for revenues lost as a result of ongoing Covid-19 impacts on demand in ALSA. However the level of subsidies assumed in the base case is materially lower than those received in 2021.
  - UK Bus continues to benefit from government funding, specifically the Bus Recovery Grant in H1 of 2022 and then Bus Service Improvement Plan funding in the latter part of the year. This funding is for bus operators to continue to operate all, or substantially all, services whilst passenger levels recover.
- There is an ongoing benefit from substantial cost saving initiatives implemented during 2020 and 2021, including group-wide reductions in administrative and managerial headcount, as well as the benefit of process efficiency improvements.
- A working capital outflow results from the unwind of deferred income in relation to grant funding received in cash in 2021 but for which the Income Statement recognition is spread over 2021 and 2022.
- Projections for the latter part of the assessment period in Q1 2023 are based on the Group's strategic plan which assumes a continuation in revenue recovery across the underlying pre-pandemic business to surpass 2019 levels, as well as incremental growth from acquisitions and new contract wins that have taken place over 2020 and 2021.

The reasonable worst case scenario assumes significant reductions in revenue across the Group, compared with the base case, due to a combination of: a prolonged impact from mobility restrictions similar to those seen in recent weeks following emergence of the Omicron variant; customer reticence to travel; driver shortages; increased competition; and lower government support. This results in a slower recovery trajectory.

In particular, this scenario assumes that Q1 of 2022 is severely impacted by driver shortages and that customers in each of our main markets remain reticent to travel in the wake of the Omicron variant. Furthermore, we assume in the reasonable worst case that another variant of concern emerges in Q4 2022, resulting in a similar reaction from governments and passengers as seen in the response to the Omicron variant.

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 could 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. Additionally, cash flow mitigations in the form of reducing or deferring capital expenditure have also been considered in the reasonable worst case.

In the base case and reasonable worst case scenarios the Group maintains significant headroom against each of its revised covenant tests, as well as a strong liquidity position. In the reasonable worst case, the monthly cash outflow for the next 12 months averages less than £10m, compared with the £0.9bn of liquidity as at 31 December 2021.

2 Accounting policies continued

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 remote in likelihood.

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 travel restrictions, can have on short-term revenue. The Directors have therefore conducted in-depth stress testing on interest cover and gearing covenants at both June and December 2022, these being the only covenant tests during the going concern period that contain an EBITDA component. In doing so, the Directors have considered all cost mitigations that would be within their control, and indeed 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. Calculations indicate that in order to trigger a breach of any of these covenants, the revenue loss relative to 2019 levels on a like-for-like basis (at constant currency, excluding acquisitions and new contract wins over 2020 and 2021), would need to be greater than that experienced during both 2020 and 2021, whereby the Group's businesses were subject to significant restrictions imposed by governments to contain the impact of Covid-19.

Taking this into account the Directors concluded that the circumstances that would be necessary for covenants to be breached were remote in likelihood.

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; raising further equity; sale and leaseback of vehicles; disposal of properties; and disposal of investments or other assets. Furthermore, during the pandemic, customers, local authorities and governments have demonstrated a willingness to provide financial support to enable the provision of good quality, reliable transport services in the face of short-term reductions in demand. In the event that a further, more severe downside akin to that seen in 2020 were to materialise, it is probable that similar support would be made available.

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 2021.

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.

The following amendments and interpretations have been applied for the first time with effect from 1 January 2021:

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced by an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the Consolidated Financial Statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable, but none were needed to be applied during the year ended 31 December 2021.

From a hedge accounting perspective, the Group no longer holds any derivative financial instruments linked to IBOR rates such as LIBOR and EURIBOR, therefore no existing hedge relationships were affected as a result of adopting this amendment.

Finally the Group has amended its revolving credit facility ("RCF") and bilateral facilities to replace GBP LIBOR with SONIA and USD LIBOR with SOFR, effective from 30 November 2021. Interest will be calculated based on a daily, non-cumulative compounded rate with a five banking day look back. Similarly intercompany loan agreements have also been amended as above effective from 1 January 2022.

Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
This amendment did not have any impact on amounts recognised in prior periods and is not expected to significantly affect the current or future periods.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

2 Accounting policies continued

Presentation of advance subsidy factoring liabilities

The Group has a number of contracts with public bodies where the future cash flows are contracted. For some of these contracts, where the cash flows are back ended, the Group entered into factoring arrangements with a bank to factor certain future subsidy cash flows in advance of invoicing the relevant transport authority. Given the factoring is in advance of the contractual trigger to invoice the customer, there was no receivable asset to de-recognise on receipt of cash from the bank and so a liability was recorded in trade payables. This reflected the fact that the factoring arrangement was on a non-recourse basis i.e. all risks and rewards of default by the customer were transferred to the bank and the short term nature of amounts outstanding, with the majority of cash repaid to the banks within three months. Reference to this liability was provided in note 24 'trade and other payables' to the Financial Statements in all years impacted. On subsequent receipt of the cash from the customer this was then immediately repaid to the bank, and debited against the liability recorded.

The presentation of the cash flows within the Statement of Cash Flows mirrored the Balance Sheet treatment, with the receipt of proceeds from the bank recorded within operating cash, just as if it had been directly received from the customer.

During the year we received an enquiry from the Financial Reporting Council (FRC) regarding these arrangements. Following this enquiry and recent clarifications regarding the presentation of financial liabilities within trade payables, the Group concluded, in consultation with the Group's auditors, that it is more appropriate that the resultant liability with the bank is recorded within borrowings rather than trade payables. The rationale is that the liability does not relate to goods or services and does not represent amounts invoiced or formally agreed with a supplier. The Group has therefore changed its accounting policy accordingly. The presentation of the associated cash flows has also been adjusted. The initial receipt from the bank will be treated as a financing inflow. As the customer continues to pay the Group, this will be recorded as an operating cash inflow, with the subsequent repayment to the bank as a financing cash outflow.

This has been applied by restating the earliest comparative period within this report, with the Financial Statement line items impacted as follows:

Balance Sheet:	31 December 2020 (Reported)	31 December 2020 (Restated)	31 December 2019 (Reported)	31 December 2019 (Restated)	1 January 2019 (Reported)	1 January 2019 (Restated)
Trade and other payables (current)	(861.3)	(783.0)	(1,056.5)	(998.4)	(870.5)	(826.8)
Borrowings (current)	(167.0)	(245.3)	(649.2)	(707.3)	(59.3)	(103.0)
Net assets	–	–	–	–	–	–
Net debt	(941.6)	(1,019.9)	(1,224.0)	(1,282.2)	(1,165.2)	(1,208.9)
Statement of Cash Flows						
(Decrease)/increase in payables	(122.7)	(140.0)	53.4	36.2	–	–
Net cash flow from operating activities	(96.7)	(114.0)	356.2	339.0	–	–
Increase in borrowings	732.3	858.3	414.1	513.7	–	–
Repayment of borrowings	(940.5)	(1,049.2)	–	(82.4)	–	–
Net cash flow from financing activities	388.6	405.9	259.9	277.1	–	–
Increase in cash and cash equivalents	–	–	–	–	–	–

As this was a Balance Sheet reclassification, there is no impact to operating profit or earnings per share. Equally, the change has no impact on the Group's compliance with covenants as net debt for covenant purposes excludes non-recourse factoring arrangements.

Presentation of cash and cash equivalents and bank overdrafts

After the Group Financial Statements for the year ended 31 December 2020 were issued it was determined that the presentation of cash and cash equivalents and bank overdrafts did not meet the requirements for offsetting in accordance with 'IAS 32 Financial Instruments: Presentation'. This resulted in the incorrect presentation of the cash pooling arrangement on the balance sheet. The impact of this change is to increase both cash and cash equivalents and current borrowings as at 31 December 2020 by £109.3m (2019: £237.5m) on the Group's Balance Sheet. This has no impact on net assets, net debt or the Group's profit in any of the years impacted. Equally there is no change to the Statement of Cash Flows.

2 Accounting policies continued

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 and climate change.

During the year the following changes to critical judgements and keys sources of estimation uncertainty were identified:

- In the prior year, going concern was considered to be a critical judgement due to the level of uncertainty as to the future impact on the financial performance and cash flows of the Group as a result of Covid-19. This year, going concern is not considered to be a critical judgement reflecting the Group's improved financial performance, strong financial position and business prospects.
- Also in the prior year, the valuation of the WeDriveU put liability (over 40% of the equity) was considered to be a significant estimate. During 2021, the first tranche of put options, for 10% of the equity of WeDriveU was settled. The second tranche, for a further 10% of the equity has been exercised during 2021, and will be settled during 2022. The final tranche for 20%, will be exercised at the final opportunity on 31 December 2022 and therefore there is no longer any uncertainty over the timing of exercise. The Group has determined the sensitivity of the valuation to a reasonable change in the future forecasts and discount rate, however given the range was not considered material, the Directors no longer consider the valuation to be a significant estimate.
- Additionally, onerous contracts were considered to be a significant estimate in the prior year. This reflected the uncertainty over future forecasts, in particular the extent to which Covid-19 had a lasting impact on the Group's performance. The Group has updated its forecasts, including an estimate of the recovery from Covid-19 and together with the short term remaining on the majority contracts and/or the mitigating actions available to the Group to minimise losses, the Directors no longer consider a reasonable possible change in the assumptions could result in material change to their carrying value in the next 12 months.
- Finally, in the prior year the impairment of goodwill in ALSA was considered to be a significant estimate. Following an increase in the level of headroom and the projected recovery from Covid-19, we no longer consider a reasonable possible change in assumptions could result in an impairment of goodwill in the next 12 months, and accordingly no longer consider this to be a significant estimate.

(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 148. These definitions have been applied consistently year-on-year. 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.

(ii) Key sources of estimation uncertainty

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 31 December 2021 the claims provision was £84.4m (2020: £80.7m).

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

2 Accounting policies continued

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 31 December 2021 the UK defined benefit pension liability was £96.1m (2020: £141.6m). The key area of estimation uncertainty is in respect to the discount rate and rate of inflation. 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 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.

Consideration of climate change

In preparing the Financial Statements we have considered the impact of climate change, particularly in the context of the disclosures included in the Strategic Report this year. There has not been a material impact on the financial reporting judgements and estimates arising from our considerations, consistent with our assessment that climate change is not expected to have a meaningful financial impact on the Group in the medium term, and in the longer term is expected to be a net opportunity to the Group. This conclusion has been arrived at with reference to the climate risk assessment exercise carried out during the year – see the TCFD disclosures in the Strategic Report. We have specifically considered the impact of climate change on the carrying value of fixed assets (see note 15) and in our goodwill impairment assessment (see note 14).

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.

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.

2 Accounting policies continued

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 226.

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.

Passenger revenue is recognised in the Income Statement in the period in which the related travel occurs. Revenue from tickets that cover more than one day, for example monthly travelcards and season tickets, is initially deferred as a contract liability and released to the Income Statement on a straight-line basis over the applicable period of the ticket.

Contract liabilities are reduced when an eligible cancellation arises. Also, where applicable, contract liabilities are reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

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.

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

2 Accounting policies continued

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.

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, maintenance revenues in North America and advertising revenues. Other revenue also includes sub-leasing income where the Group acts as the lessor.

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. 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 or 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, it exceeds the amounts received or receivable from a customer at that time.

Contract liabilities are recognised when amounts are advanced by customers, however the Group has not yet met the performance obligation under the contract to allow the recognition of the balance as revenue. Contract liabilities are recognised as revenue when the Group performs such obligations under the contract.

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, Morocco and North America, 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.

2 Accounting policies continued

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 and North America, 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 135.

Infrastructure assets provided by the Group are either purchased or subject to a 'lease style' arrangement. Where the Group purchases the assets on its standard supplier terms (typically one year), the related liability is recorded in contract liabilities until it is settled. Where the assets are 'leased', the liability is recorded at the present value of the future payments in contract liabilities in accordance with IFRIC 12, as opposed to IFRS 16. Where lease payments on infrastructure assets are directly re-imbursed from the customer, 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.

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

2 Accounting policies continued

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 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.

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 136 for further details.

Contract costs
Contract costs include costs to obtain and costs to fulfil a contract. See page 136 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)

2 Accounting policies continued

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 are 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 its estimated useful life 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.

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

2 Accounting policies continued

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.

For some contracts where the cash flows are back ended, the Group enters into a non-recourse factoring arrangement with a bank to factor the future cash flows in advance of invoicing the customer, with the resultant liability with the bank recorded in loans and borrowings. On subsequent receipt of the cash from the customer this is then immediately repaid to the bank. Both the cash receipt and the repayment to the bank are recorded within cash flows from financing activities in the Statement of Cash Flows.

Put liabilties
Put liabilities are recognised when put options have been issued by the Group in a business combination. Liabilities are recorded at the present value of the purchase price upon acquisition. The present value of purchase price is re-measured at each reporting date, with subsequent changes recorded in the Income Statement. The related discount unwind is recognised as a finance cost.

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 principal 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, or 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. Bank overdrafts are included in cash and cash equivalents where a notional pooling arrangement exists and where they form an integral part of the Group's cash management. In the Consolidated Balance Sheet, cash and cash equivalents are presented net of bank overdrafts where there is an intention to exercise a legally enforceable right of offset, taking account of the Group's normal business practices, otherwise are presented within borrowings.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 claims
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. Provisions 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 as 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 2021 reporting periods and have not been early adopted by the Group:

- Onerous Contracts; Cost of Fulfilling a Contract – Amendments to IAS 37
- 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'
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

These standards are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

3 Exchange rates

The most significant exchange rates to UK Sterling for the Group are as follows:

	2021 Closing rate	**2021 Average rate**	2020 Closing rate	2020 Average rate
US Dollar	**1.35**	**1.38**	1.37	1.28
Canadian Dollar	**1.71**	**1.72**	1.74	1.72
Euro	**1.19**	**1.16**	1.12	1.13

If the results for the year to 31 December 2020 had been retranslated at the average exchange rates for the year to 31 December 2021, North America would have achieved underlying operating profit of £11.8m on revenue of £815.2m, compared with underlying operating profit of £12.4m on revenue of £869.2m as reported, and ALSA would have achieved a underlying operating profit of £6.4m on revenue of £540.9m, compared with underlying operating profit of £6.7m on revenue of £559.3m 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 the 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:

	2021					
Analysis by class and reportable segment:	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
UK	49.3	195.3	136.5	7.0	9.7	397.8
German Rail	–	45.2	136.7	–	0.2	182.1
ALSA	159.5	323.6	175.1	30.4	29.8	718.4
North America	831.3	–	–	33.4	7.3	872.0
Central functions	–	–	–	–	–	–
Total revenue	1,040.1	564.1	448.3	70.8	47.0	2,170.3
Analysis by major service type:						
Passenger transport	1,040.1	564.1	448.3	70.8	18.7	2,142.0
Other products and services	–	–	–	–	28.3	28.3
Total revenue	1,040.1	564.1	448.3	70.8	47.0	2,170.3

Included in grants and subsidies is £92.8m (2020: £84.7m) of grant income recognised in the UK in response to Covid-19. Up to 31 August 2021, £80.6m (2020: £83.2m) of revenue was recognised under the Covid Bus Services Support Grant (CBSSG) in England, in respect of the shortfall of revenue earned due to Covid-19 and the costs incurred whilst maintaining 100% of pre-Covid-19 service levels. Effective from 1 September 2021, CBSSG was replaced by the Bus Recovery Grant (BRG). The BRG is intended to compensate UK Bus operators for continuing bus services during the Covid-19 recovery period, and whereby funding has been allocated to the operators according to revenue and mileage operated. Up to 31 December 2021, a total of £12.2m (2020: £nil) has been recognised in respect of the BRG. Following the disposal of our Dundee operations in the prior year, no amounts have been recognised under the Covid Support Grant (CSG) in Scotland during the year (2020: £1.5m). The grant income has been recognised in the Income Statement in the same period that the related revenue shortfall occurred and to the extent that there is reasonable certainty that Group will comply with the conditions of the grant and that it will be received and retained (taking account of the potential adjustments to grant payments as a result of the review process).

Also included in grants and subsidies is £15.9m (2020: £15.6m) 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 £54.2m (2020: £15.3m) 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 ALSA, revenue of £10.8m (2020: £nil) has been recognised for additional services provided to a customer between 2015 and 2020. In previous years it was considered uncertain as to whether such amounts could be recovered, and therefore such amounts were constrained. Following an agreement with the customer during the year, the uncertainty has been resolved and the revenue recognised in full.

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 its estimate of the stage of completion. As a result of additional Covid-19 related subsidies and updates in the contract profitability the re-assessment resulted in the re-phasing of revenue from later years to the current year of £3.8m, whereas in 2020 £5.2m was reversed.

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 notes 24 and 25.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

4 Revenue and segmental analysis continued

	2020					
Analysis by class and reportable segment:	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
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

There are no material inter-segment sales between reportable segments.

(b) Operating profit/(loss)

Operating profit/(loss) is analysed by reportable segment as follows:

	Underlying operating profit/(loss) 2021 £m	**Separately disclosed items 2021 £m**	**Segment result 2021 £m**	Underlying operating (loss)/profit 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m
UK	**(22.6)**	**(23.8)**	**(46.4)**	(49.0)	(50.4)	(99.4)
German Rail	**5.0**	**(29.1)**	**(24.1)**	(4.9)	(19.1)	(24.0)
ALSA	**56.6**	**(26.4)**	**30.2**	6.7	(100.2)	(93.5)
North America	**74.4**	**(27.9)**	**46.5**	12.4	(188.4)	(176.0)
Central functions	**(26.4)**	**(16.0)**	**(42.4)**	(16.0)	27.5	11.5
Operating profit/(loss)	**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)
Share of results from associates and joint ventures	**(1.0)**	–	**(1.0)**	(2.1)	–	(2.1)
Net finance costs	**(46.3)**	**(1.4)**	**(47.7)**	(53.2)	(8.0)	(61.2)
Profit/(loss) before tax	**39.7**	**(124.6)**	**(84.9)**	(106.1)	(338.6)	(444.7)
Tax credit			**7.0**			118.0
Loss for the year			**(77.9)**			(326.7)

Further information on separately disclosed items is provided in note 5.

(c) Depreciation

Depreciation is analysed by reportable segment as follows:

	2021 £m	2020 £m
UK	**35.0**	40.8
German Rail	**3.9**	3.3
ALSA	**60.8**	66.1
North America	**99.3**	112.5
Central functions	**0.7**	0.9
	199.7	223.6

4 Revenue and segmental analysis continued

(d) Non-current assets

Non-current assets and additions are analysed by reportable segment as follows:

	Intangible assets 2021 £m	**Property, plant and equipment 2021 £m**	**Total non-current assets 2021 £m**	**Non-current asset additions 2021 £m**	Intangible assets 2020 £m	Property, plant and equipment 2020 £m	Total non-current assets 2020 £m	Non-current asset additions 2020 £m
UK	**54.7**	**249.9**	**304.6**	**21.3**	56.7	293.0	349.7	23.8
Central functions	**12.1**	**1.5**	**13.6**	**2.0**	10.8	2.0	12.8	2.3
Total UK	**66.8**	**251.4**	**318.2**	**23.3**	67.5	295.0	362.5	26.1
German Rail	**8.5**	**11.5**	**20.0**	**7.6**	13.6	10.1	23.7	12.4
ALSA	**910.3**	**336.7**	**1,247.0**	**52.7**	960.1	374.4	1,334.5	56.8
North America	**792.9**	**530.0**	**1,322.9**	**72.8**	810.6	553.7	1,364.3	137.4
Total overseas	**1,711.7**	**878.2**	**2,589.9**	**133.1**	1,784.3	938.2	2,722.5	206.6
Total	**1,778.5**	**1,129.6**	**2,908.1**	**156.4**	1,851.8	1,233.2	3,085.0	232.7

(e) Geographical information

	Revenue from external customers		Non-current assets	
	2021 £m	2020 £m	**2021 £m**	2020 £m
UK	**397.8**	388.2	**318.2**	362.5
Germany	**182.1**	139.2	**20.0**	23.7
Spain	**591.5**	458.5	**1,154.1**	1,233.3
Morocco	**115.1**	87.4	**80.9**	88.2
Switzerland	**11.8**	13.4	**12.0**	13.0
USA	**815.8**	807.0	**1,202.4**	1,238.0
Canada	**56.2**	62.2	**120.5**	126.3
	2,170.3	1,955.9	**2,908.1**	3,085.0

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 £124.6m (2020: £338.6m). The items excluded from the underlying result are:

	2021 £m	2020[1] £m
Intangible amortisation for acquired businesses (a)	38.8	52.6
Directly attributable gains and losses resulting from the Covid-19 pandemic (b)[1]	41.0	245.7
Restructuring costs (c)	12.3	14.0
Re-measurement of the Rhine-Ruhr onerous contract provision (d)[1]	27.9	16.8
Other separately disclosed items (e)	3.2	1.5
Separately disclosed operating cost items	**123.2**	330.6
Interest charges directly resulting from the Covid-19 pandemic (f)	1.4	8.0
Total separately disclosed items	**124.6**	338.6

1 Amounts in 2020 have been represented for consistency with the current year presentation of separately disclosed items

(a) Intangible amortisation for acquired businesses

Consistent with previous periods, the Group classifies the amortisation for acquired intangibles as a separately disclosed item by virtue of its size and nature. Its exclusion enables comparison and monitoring of divisional performance by the Group Executive Committee regardless of whether through acquisition or organic growth. Equally, it improves comparability of the Group's results with those of peer companies.

(b) Directly attributable gains and losses resulting from the Covid-19 pandemic

The pandemic continued to impact the Group throughout 2021 and therefore directly attributable gains and losses due to Covid-19 continue to be separately identified. The Group has identified a net expense of £41.0m (2020: £245.7m) 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:

	2021 £m	2020[1] £m
One-off costs, cancellation charges and compensation payments (i)	2.2	46.4
Discontinuation of fuel trades (ii)	–	17.3
Onerous contract provisions and associated impairment (iii)	10.3	116.6
Impairments and associated charges (iv)	17.0	99.3
Re-measurement of the WeDriveU put liability (v)	11.5	(33.9)
	41.0	245.7

These items are considered to be separately disclosed items as they meet the Group's definition, being significant in both nature and value to the results of the Group in the current period or reflect the finalisation of actions initiated during 2020, but completed in 2021. 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 not anticipated during 2022, other than changes to estimates that have been previously recorded in separately disclosed items.

(i) One-off costs, cancellation charges and compensation payments – £2.2m expense (2020: £46.4m expense)

Given the re-imposition of lockdowns at the beginning of the year and the scale back of our service offering, the Group continued to make a number of compensatory payments totalling £4.8m (2020: £12.7m) to third party operators in order to maintain and secure the Group's supply base for when demand picks up.

In addition, the Group incurred a further £1.4m (2020: £24.7m) of one-off charges relating to incremental health and safety costs and penalties whereby the pandemic prevented it from fulfilling certain contractual obligations.

A gain of £4.0m (2020: £9.0m expense) also arose following the re-measurement of the provision for employee compensation claims as a consequence of Covid-19.

(ii) Discontinuation of fuel trades – £nil (2020: £17.3m expense)

During the period, hedge accounting was discontinued for a small number of fuel derivatives where volumes were in excess of actual or expected consumption. The majority arose in the UK, ALSA and North America following more stringent lockdown measures being implemented in early 2021 and slower recovery. Overall expenses and gains recycled to the Income Statement from Other Comprehensive Income netted to £nil (2020: £17.3m expense).

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.

5 Separately disclosed items continued

(iii) Onerous contract provisions and associated impairment – £10.3m net expense (2020: £116.6m expense)
As a result of the pandemic, the Group undertook a review of its contracts with customers to firstly establish the re-measurement of previously recognised onerous contract provisions and secondly to identify any new ones. This resulted in a net exceptional expense of £8.9m reflecting some contracts performing better than anticipated at December 2020, mainly due to a quicker recovery in response to Covid-19 or additional government support, and some less well, where the recovery from the pandemic has been slower. In addition, some new onerous contracts were identified, typically where the contract length has been shortened (less time to recover contract losses due to the pandemic) or where recovery was slower than expected. In conjunction with the review, customer contract intangibles of £0.2m and property, plant and equipment totalling £1.2m were impaired.

(iv) Impairments and associated charges – £17.0m expense (2020: £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. During the period the Group has continued 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 contracts 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 £10.6m of customer contracts and property, plant and equipment of £6.4m.

(v) Remeasurement of the WeDriveU put liability – £11.5m expense (2020: £33.9m gain)
The put liability, resulting from the acquisition of WeDriveU, is required to be re-measured at each reporting date. During 2020 the put liability was reduced by £33.9m reflecting the lower short to medium term projections for WeDriveU, principally driven by the impact of Covid-19. At December 2021, the liability was reassessed resulting in a net expense of £11.5m principally reflecting improved profitability for both 2021 and 2022. The expense has been recorded in separately disclosed items due to its size and nature and consistent with the treatment in the prior year.

The most significant driver for the current year expense is the adjustment to the in-year and future earnings as a result of better customer support and a more optimistic view of new growth opportunities in response to the pandemic. Consequently the expense has been categorised as part of the overall impact due to Covid-19.

(c) Restructuring costs
During the period, the Group incurred £12.3m 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.

(d) Rhine-Ruhr Express onerous contract provision
During 2020, profitability of the Rhine-Ruhr Express contract was assessed in light of the launch of the third and final line, the impact of the pandemic over the short to medium term and an updated outlook on costs. This assessment resulted in the impairment of contract costs recorded within intangibles of £16.8m. During 2021 a reassessment of the contracts profitability was performed. This identified a further reduction in profitability, resulting in all remaining contract costs of £4.8m being impaired and an onerous contract of £23.1m being recognised. The reduction in profitability is driven by an increase in overhead costs, principally energy costs in response to the recent surge in energy prices and personnel costs following the first full year of operation of all lines. These amounts have been included as separately disclosed items given their material size and by virtue of their nature.

(e) Other separately disclosed items
Other separately disclosed items relate primarily to transaction fees in respect of the Group's potential combination with Stagecoach, totalling £3.5m at December 2021, with further costs expected in 2022. These one-off charges are not considered to be part of the day-to-day operational costs of the Group and therefore have been treated as separately disclosable on this basis.

Also included in other is a £0.3m credit for the finalisation of the Dundee disposal transaction that took place in December 2020 consistent with the treatment in the prior year.

(f) Interest charges
Interest charges of £1.4m primarily relate to fees associated with the gearing covenant waivers on the Group's US private placement and banking facilities. These costs are not considered to be a normal finance cost of the Group.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

6 Operating costs

		2021 £m	2020 £m
Cost of inventories recognised in expense		**78.6**	81.0
Staff costs		**1,156.4**	1,138.8
Depreciation	– owned assets	**133.8**	146.3
	– leased assets	**65.9**	77.3
Intangible asset amortisation		**54.2**	69.0
Gain on disposal of property, plant and equipment		**(8.0)**	(8.7)
Gain on disposal of intangible assets		**(0.6)**	(2.3)
Amortisation of fixed asset grants		**(3.2)**	(2.9)
Leases (note 35)	– variable lease payments not included in the measurement of lease liabilities	**0.1**	–
	– expenses relating to short-term leases	**4.3**	7.9
	– expenses relating to leases of low-value assets	**3.0**	5.2
	– Covid-19-related rent concessions	**–**	(0.7)
Separately disclosed items[1] (note 5)		**84.4**	278.0
Other charges		**637.6**	548.4
Total operating costs		**2,206.5**	2,337.3

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 been recognised in relation to staff costs totalling £18.3m (2020: £45.6m) 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 and the US CARES Act in North America. The amounts recognised reflect the grants receivable in respect of the year ended 31 December 2021 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.

In addition, on 12 August 2021 the Group was granted an award of £82.3m under the Coronavirus Economic Relief for Transportation Services (CERTS) scheme in North America. The programme is designed to provide relief to retain jobs, hire back employees previously laid off and cover applicable overhead and operational expenses. The grant is to be applied against future costs over a 12 month period up to 16 August 2022. The Group must submit quarterly claims to the US treasury and any unutilised amounts must be repaid at the end of the scheme. Up to 31 December 2021 the Group has recognised £45.7m of the award as a reduction in operating expenses (mostly staff costs) based on eligible costs incurred during the period. The remainder of the grant is held as deferred grant income within trade and other payables and will be utilised against eligible costs during the year ending 31 December 2022.

7 Auditor's remuneration

An analysis of fees paid to the Group's auditor is provided below:

	2021 £m	2020 £m
Audit of the financial statements	**1.5**	0.7
Audit of subsidiaries	**0.9**	0.9
Audit-related assurance services	**0.1**	0.4
	2.5	2.0

8 Employee benefit costs

(a) Staff costs

	2021 £m	2020 £m
Wages and salaries	**1,001.0**	987.8
Social security costs	**143.5**	139.6
Pension costs (note 34)	**10.9**	11.2
Share-based payment (note 9)	**1.0**	0.2
	1,156.4	1,138.8

The average number of employees, including Executive Directors, during the year was as follows:

	2021	2020
Managerial and administrative	**4,426**	5,150
Operational	**41,022**	46,603
	45,448	51,753

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:

	2021 £m	2020 £m
Basic salaries	**1.0**	0.9
Benefits	**0.2**	0.3
Performance-related bonuses	**0.7**	–
Share-based payment	**0.2**	(0.4)
	2.1	0.8

(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 2021	Number of share options 2020	Exercise price	Future exercise periods
Long-Term Incentive Plan	**6,181,699**	5,307,399	**nil**	**2022-2026**
West Midland Travel Long Service Option Scheme	**136,776**	160,859	**175p-412p**	**2022-2030**
Executive Deferred Bonus Plan	**–**	39,847	**nil**	**–**
	6,318,475	5,508,105		

(i) Long-Term Incentive Plan (LTIP)

The LTIP is open to Executive Directors and certain senior managers 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 or around the third anniversary of grant is subject to the Group's achievement of specific performance conditions set at the date of grant. These typically comprise underlying diluted earnings per share (EPS), average return on capital employed (ROCE), and the relative total shareholder return (TSR) of the Group against a relevant comparison. More recent grants have also included certain environmental targets. Please refer to the Director's Remuneration Report for details of the performance conditions which are attached to the awards which are in flight at the end of the year and vested during the year. All targets are measured over the three-year financial period commencing with the year of grant. Unvested shares automatically lapse.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

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, an accrual entitlement in respect of dividends is 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.

(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 was used to reward WMT employees who attained 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 2020, the WMT LSOS was closed to new participants, with exercises on previous awards possible until 2030.

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:

	2021 £m	2020 £m
Expense arising from share and share option plans	**1.0**	0.2

During the year ended 31 December 2021, 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:

	2021		2020	
	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	**160,859**	**283**	134,956	320
Granted during the year	**–**	**–**	45,000	175
Forfeited during the year	**(2,000)**	**175**	(1,000)	412
Exercised during the year	**(3,828)**	**224**	(5,351)	285
Expired during the year	**(18,255)**	**301**	(12,746)	269
Outstanding at 31 December	**136,776**	**283**	160,859	283
Exercisable at 31 December	**86,776**	**318**	81,859	295
Options with a nil exercise price:				
At 1 January	**5,347,246**	**nil**	6,536,357	nil
Granted during the year	**2,752,151**	**nil**	3,248,293	nil
Forfeited during the year	**(333,116)**	**nil**	(2,687,710)	nil
Exercised during the year	**(398,416)**	**nil**	(1,547,568)	nil
Expired during the year	**(1,186,166)**	**nil**	(202,126)	nil
Outstanding at 31 December	**6,181,699**	**nil**	5,347,246	nil
Exercisable at 31 December	**258,107**	**nil**	540,248	nil
Total outstanding at 31 December	**6,318,475**		5,508,105	
Total exercisable at 31 December	**344,883**		622,107	

9 Share-based payments continued

The options outstanding at 31 December 2021 had exercise prices that were between 175p and 412p (2020: between 175p and 412p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2021 Number	2020 Number
100-300	**71,772**	84,199
301-350	**29,604**	32,760
351-450	**35,400**	43,900
	136,776	160,859

The options have a weighted average contractual life of one year (2020: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 291p (2020: 210p). The aggregate gains of the Executive Directors arising from any exercise of options during the year totalled £0.2m (2020: £0.9m).

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. No share options without a nil exercise price were granted during the year, following the closure of WMT LSOS in 2020.

	Share options without nil exercise price		Share options with nil exercise price	
	2021	2020	**2021**	2020
Risk-free interest rate	**–**	0.15%	**0.12%**	0.22%
Expected volatility	**–**	23%	**66%**	23%
Peer group volatility	**–**	–	**36%-62%**	33%-44%
Expected option life in years	**–**	5 years	**3 years**	3 years
Expected dividend yield	**–**	3.62%	**0.00%**	0.00%
Weighted average share price at grant date	**–**	209p	**305p**	276p
Weighted average exercise price at grant date	**–**	175p	**nil**	nil
Weighted average fair value of options at grant date	**–**	38p	**281p**	231p

Experience to date has shown that approximately 24% (2020: 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

	2021 £m	2020 £m
Bond and bank interest payable	**32.0**	36.3
Lease interest payable (note 35)	**10.5**	12.6
Other interest payable	**2.7**	4.3
Unwind of discounting (note 26)	**2.5**	1.6
Net interest cost on defined benefit pension obligations (note 34)	**1.8**	1.7
Finance costs before separately disclosed items	**49.5**	56.5
Separately disclosed finance costs (note 5)	**1.4**	8.0
Total finance costs	**50.9**	64.5
Lease interest income (note 35)	**(0.7)**	(0.6)
Other financial income	**(2.5)**	(2.7)
Net finance costs	**47.7**	61.2
Of which, from financial instruments:		
Financial assets measured at amortised cost	**(1.5)**	(0.7)
Financial liabilities measured at amortised cost	**44.0**	51.3
Derivatives	**(1.8)**	(2.0)
Loan fee amortisation	**1.2**	1.7

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

11 Taxation

(a) Analysis of taxation credit in the year

	2021 £m	2020 £m
Current taxation:		
UK corporation tax	**2.8**	(8.4)
Overseas taxation	**16.3**	10.1
Current income tax charge	**19.1**	1.7
Adjustments with respect to prior years – UK and overseas	**0.2**	(1.8)
Total current income tax charge/(credit)	**19.3**	(0.1)
Deferred taxation (note 27):		
Origination and reversal of temporary differences	**(22.7)**	(119.6)
Adjustments with respect to prior years – UK and overseas	**(3.6)**	1.7
Deferred tax credit	**(26.3)**	(117.9)
Total tax credit for the Group	**(7.0)**	(118.0)

	2021 £m	2020 £m
The tax credit for the Group comprises:		
Tax charge/(credit) on profit before separately disclosed items	**12.8**	(29.3)
Tax credit on separately disclosed items	**(19.8)**	(88.7)
	(7.0)	(118.0)

In the current year, the tax credit on separately disclosed items of £19.8m (2020: £88.7m) comprises a £10.3m tax credit (2020: £11.5m) on intangibles, £14.9m (2020: £77.2m) tax credit on tax deductible expenditure on exceptional costs and a £5.4m charge (2020: £nil) of exceptional tax 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 USA (26%) and Spain (25%).

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2021 £m	2020 £m
Deferred taxation:		
Deferred tax charge/(credit) on actuarial (gains)/losses	**2.7**	(10.8)
Deferred tax charge/(credit) on cash flow hedges	**9.5**	(3.8)
Deferred tax credit on foreign exchange differences	**(0.5)**	(1.6)
Deferred tax credit on accrued hybrid instrument payments	**(4.4)**	(0.4)
Deferred tax (credit)/charge on share-based payments	**(0.3)**	1.6
	7.0	(15.0)

11 Taxation continued

(c) Reconciliation of the total tax charge/(credit)

	2021 £m	2020 £m
Loss before income tax	**(84.9)**	(444.7)
Notional credit at UK corporation tax rate of 19% (2020: 19%)	**(16.1)**	(84.5)
Recurring items:		
Non-deductible goodwill amortisation	**0.8**	1.5
Non-deductible intangible amortisation	**0.3**	0.3
Effect of overseas tax rates	**(1.1)**	(23.7)
Tax incentives	**(1.3)**	(0.6)
State taxes/Minimum tax	**3.7**	(0.6)
Non-recurring items:		
Adjustments to prior years within current and deferred tax (excluding significant items)	**0.2**	(0.1)
Prior year adjustment – write-off of deferred tax asset on German losses	**8.6**	–
Prior year adjustment – release of tax provisions	**(0.6)**	(8.4)
Prior year adjustment – effect of increase in UK tax rate	**(11.6)**	–
Non-creditable withholding tax on pension surplus	**2.6**	–
Effect of increase in UK tax rate on current year profits	**(2.0)**	–
Non-deductible income/expenditure	**5.6**	(0.8)
Overseas financing deductions	**(1.5)**	(1.7)
Non-taxable loss/(profit) on disposal of Investment	**0.2**	(6.5)
Current year losses not recognised	**5.2**	7.1
Total tax credit reported in the Income Statement (note 11(a))	**(7.0)**	(118.0)

Included within the tax reconciliation are a number of non-recurring items, the effect of a reduction in recognition of current year Spanish and German losses (£5.2m), derecognition of prior year German losses (£8.6m) and the increase of the UK tax rate effect on the deferred tax asset recognised (credit £11.6m). Items expected to recur in the tax reconciliation for 2021 include the difference in rates between the UK and our overseas markets and tax incentives on re-investment credits. During the year, a change in the UK corporation tax rate to 25%, effective from 1 April 2023, was substantially enacted in UK law. As at 31 December 2020 UK deferred tax was calculated at 19% therefore the current year tax charge includes a deferred tax credit of £11.6m reflecting the change in rates, as well as a £2.0m credit in relation to current year deferred tax assets. As at 31 December 2021 the UK deferred tax is held at 25%.

(d) Tax provisions

At 31 December 2021, the Group held tax provisions of £1.8m (2020: £2.4m), representing an uncertainty with respect to deferred tax on the pension scheme of a company no longer trading. All UK corporation tax returns up to 2019 have been submitted and agreed by HMRC. The net decrease of £0.6m in tax provisions during the year represents: the release of tax reserves where the statute of limitation has closed (£0.3m) and a decrease in the provision against the UK deferred tax asset on pensions (£0.3m). 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.

(e) Temporary differences associated with Group investments

No deferred tax (2020: £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 (2020: £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 £17.4m (2020: £6.3m), 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 German and Moroccan entities where it is uncertain when, or if, the losses will be utilised.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

11 Taxation continued

(g) Deferred tax included in the Income Statement

	2021 £m	2020 £m
Accelerated capital allowances	**23.5**	20.6
Other short-term temporary differences	**2.5**	(33.6)
Recognition of losses	**(52.3)**	(104.9)
Deferred tax credit (note 11(a))	**(26.3)**	(117.9)

Details on the Balance Sheet position of deferred tax are included in note 27.

12 Dividends paid and proposed

No interim or final dividend has been proposed for the current period (2020: £nil).

13 Earnings per share

	2021	2020
Basic earnings per share	**(16.8)p**	(57.9)p
Underlying basic earnings per share	**0.1p**	(14.6)p
Diluted earnings per share	**(16.8)p**	(57.9)p
Underlying diluted earnings per share	**0.1p**	(14.6)p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders, a loss of £102.8m (2020: £333.8m loss), 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 are calculated as follows:

	2021 £m	2020 £m
Loss attributable to equity shareholders	**(81.6)**	(331.7)
Accrued payments on hybrid instrument	**(21.2)**	(2.1)
Earnings attributable to equity shareholders	**(102.8)**	(333.8)

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:

	2021	2020
Basic weighted average shares	**613,117,132**	576,031,523
Adjustment for dilutive potential ordinary shares[1]	**345,497**	–
Diluted weighted average shares	**613,462,629**	576,031,523

[1] Potential ordinary shares have the effect of being anti-dilutive in 2021 and have been excluded from the calculation of diluted earnings per share. Whereas in 2020, both diluted earnings per share and underlying diluted earnings per share measures excluded potential ordinary shares as they had the effect of being anti-dilutive.

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:

	2021			2020		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Earnings attributable to equity shareholders	**(102.8)**	**(16.8)**	**(16.8)**	(333.8)	(57.9)	(57.9)
Separately disclosed items	**124.6**	**20.3**	**20.3**	338.6	58.8	58.8
Separately disclosed tax	**(19.8)**	**(3.2)**	**(3.2)**	(88.7)	(15.4)	(15.4)
Separately disclosed non-controlling interests	**(1.6)**	**(0.2)**	**(0.2)**	(0.3)	(0.1)	(0.1)
Underlying profit/(loss) attributable to equity shareholders[1]	**0.4**	**0.1**	**0.1**	(84.2)	(14.6)	(14.6)

[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 2021	**861.8**	**77.4**	**126.9**	**36.8**	**1,102.9**	**1,574.1**	**2,677.0**
Acquisitions	**7.1**	**–**	**–**	**–**	**7.1**	**23.1**	**30.2**
Additions	**1.4**	**3.2**	**8.9**	**1.6**	**15.1**	**–**	**15.1**
Disposals	**(0.1)**	**–**	**(4.7)**	**–**	**(4.8)**	**–**	**(4.8)**
Reclassifications	**–**	**–**	**0.2**	**(1.2)**	**(1.0)**	**(0.9)**	**(1.9)**
Foreign exchange	**(26.6)**	**(2.5)**	**(0.7)**	**(2.2)**	**(32.0)**	**(44.2)**	**(76.2)**
At 31 December 2021	**843.6**	**78.1**	**130.6**	**35.0**	**1,087.3**	**1,552.1**	**2,639.4**
Amortisation and impairment:							
At 1 January 2021	**662.8**	**4.8**	**85.2**	**23.7**	**776.5**	**48.7**	**825.2**
Charge for year	**35.4**	**4.7**	**13.0**	**1.1**	**54.2**	**–**	**54.2**
Disposals	**(0.1)**	**–**	**(4.6)**	**–**	**(4.7)**	**–**	**(4.7)**
Impairment	**10.8**	**–**	**–**	**4.8**	**15.6**	**–**	**15.6**
Reclassifications	**–**	**–**	**0.6**	**(0.5)**	**0.1**	**(0.9)**	**(0.8)**
Foreign exchange	**(24.0)**	**(0.2)**	**(0.5)**	**(1.5)**	**(26.2)**	**(2.4)**	**(28.6)**
At 31 December 2021	**684.9**	**9.3**	**93.7**	**27.6**	**815.5**	**45.4**	**860.9**
Net book value:							
At 31 December 2021	**158.7**	**68.8**	**36.9**	**7.4**	**271.8**	**1,506.7**	**1,778.5**
At 1 January 2021	199.0	72.6	41.7	13.1	326.4	1,525.4	1,851.8

Goodwill arising on acquisitions of £23.1m comprises £14.0m with respect to the in year acquisition of Transportes Rober Group (see note 19 for further details) and a correction to goodwill of £9.1m relating to deferred tax on acquisition in previous years (note 27). Since the correction was not material, this has been corrected in the current year with no change to previously reported comparatives.

The impairment charge includes £10.6m of customer contract intangibles (2020: £30.5m) which arose following strategic reviews in the North America and UK divisions, and with respect to onerous contracts, £0.2m (2020: £12.9m) of customer contract intangibles in ALSA and £4.8m (2020: £16.8m) 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 2021	Net book value at 31 December 2021 £m	Remaining useful economic life at 31 December 2020	Net book value at 31 December 2020 £m
North America	School bus and paratransit service contract in North America	**10 years**	**20.6**	11 years	22.4
North America	Employee shuttle contract in North America	**8 years**	**16.9**	9 years	19.0
North America	Paratransit bus service contract in North America	**11 years**	**12.1**	12 years	14.2
ALSA	Urban and charter bus service contract in Spain	**4 years**	**10.5**	5 years	13.8

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 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

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:

	2021 £m	2020 £m
UK	**52.4**	52.6
North America	**669.5**	652.7
ALSA	**784.8**	820.1
	1,506.7	1,525.4

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 five-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	
	2021	2020	**2021**	2020
UK	**7.9%**	7.7%	**2.4%**	2.5%
North America	**7.2%**	7.6%	**2.9%**	3.1%
ALSA	**7.8%**	8.3%	**2.9%**	3.0%

Discount rates in North America and ALSA have fallen during the year, but are higher than they were in 2019.

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 recovery from 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 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 £812.0m (2020: £633.6m).

The value in use of the ALSA division exceeds its carrying amount by £425.9m (2020: £266.8m).

14 Intangible assets continued

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 on page 48. 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. Whilst the pace of recovery from the pandemic in the next year 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 continue to assume there will not be any long-term net adverse impact from the pandemic based on the rapid recovery in demand for our services as restrictions have been lifted, the strength of our customer relationships and the revenue protections inherent in a significant proportion of the Group's contracts where we are not exposed to demand risk. Applying the downside scenarios used for going concern or viability assessments does not materially alter the headroom above the carrying value.

The assumptions behind the cash flow projections also take account of the climate change risk assessment exercise carried out during the year. The principal conclusions relevant for the impairment assessment are as follows:

- Whilst the global temperature rise above pre-industrial levels increases the likelihood of extreme weather events, the geographical diversity of the Group means that the risk to the Group as a whole is unlikely to be material.
- The Group's planning assumption is that input costs will not rise significantly above inflation on the basis that, for electric vehicles for example, supply will increase to match demand, and technological advances will also help decrease manufacture costs. Furthermore the Group assumes, based on its detailed modelling of electric vs diesel buses in the UK that the total cost of ownership of zero emission vehicles will be no worse than their diesel equivalents. This assessment is inclusive of the cost of new electric vehicle infrastructure and assumes no government funding. The Group expects to utilise hydrogen vehicles in the transition to zero emission fleet in long haul coach services and, whilst hydrogen vehicle technology is not currently as well developed as electric, the Group assumes that total cost of ownership for these vehicles will also be no worse than at parity with their diesel equivalents.
- The Group already has ambitious targets for the transition to zero emission fleets. These targets are expected to result in the Group having a zero emission fleet before any potential ban on diesel vehicles is imposed by governments. The Group has assessed a very low the risk of the current fleet having a net book value higher than their residual value at the Group's targeted transition dates and therefore no changes to the useful economic lives of the Group's current fleet are required, see note 15 for further details.
- The opportunity from modal shift from private cars to public transport is potentially very material as central governments, transport authorities and city councils introduce measures to tackle congestion, pollution and emissions. This opportunity has not currently been factored into the projections.

Sensitivities to key and other assumptions

The sensitivity analysis below has been presented in the interests of transparency only. It is not believed that any reasonably possible movement in key and other assumptions will lead to an impairment.

(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 250 basis points (2020: 210 basis points) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 270 basis points (2020: 220 basis points).

In addition, for North America, a reduction in operating profit margin of 360 basis points (2020: 280 basis points) will result in the value in use of the division being equal to its carrying amount.

(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 170 basis points (2020: 110 basis points) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 170 basis points (2020: 110 basis points).

A reduction in ALSA's operating profit margin of 250 basis points (2020: 160 basis points) will result in the value in use of the division being equal to its carrying amount.

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 2021	**313.6**	**2,194.3**	**187.3**	**2,695.2**
Acquisitions	**0.5**	**–**	**–**	**0.5**
Additions	**33.7**	**99.3**	**8.3**	**141.3**
Disposals	**(18.4)**	**(125.4)**	**(7.6)**	**(151.4)**
Assets transferred to held for sale	**–**	**(8.4)**	**–**	**(8.4)**
Reclassifications	**(4.2)**	**0.7**	**–**	**(3.5)**
Foreign exchange	**(4.6)**	**(25.3)**	**(4.1)**	**(34.0)**
At 31 December 2021	**320.6**	**2,135.2**	**183.9**	**2,639.7**
Depreciation:				
At 1 January 2021	**140.8**	**1,186.8**	**134.4**	**1,462.0**
Charge for the year	**31.9**	**155.0**	**12.8**	**199.7**
Disposals	**(13.9)**	**(108.4)**	**(7.2)**	**(129.5)**
Impairments	**1.2**	**6.4**	**–**	**7.6**
Assets transferred to held for sale	**–**	**(7.4)**	**–**	**(7.4)**
Reclassifications	**(4.5)**	**0.8**	**(0.9)**	**(4.6)**
Foreign exchange	**(2.0)**	**(12.0)**	**(3.7)**	**(17.7)**
At 31 December 2021	**153.5**	**1,221.2**	**135.4**	**1,510.1**
Net book value:				
At 31 December 2021	**167.1**	**914.0**	**48.5**	**1,129.6**
At 1 January 2021	172.8	1,007.5	52.9	1,233.2

Included in the carrying value of land and buildings are assets under construction of £3.9m (2020: £nil) in relation to the construction of a new bus depot in the UK.

The impairment charge includes £6.4m (2020: £67.5m) which arose following strategic reviews in the UK division and £1.2m (2020: £3.2m) with respect to assets relating to onerous contracts in the ALSA division. The total impairment charge of £7.6m is included in separately disclosed items in the Income Statement, see note 5 for further information.

Depreciation on public service vehicles is calculated using the straight-line method to write off the cost or fair value at acquisition of each asset to its residual value over its estimated useful life (or lease term, if shorter). The estimated useful lives for owned public service vehicles range from 8 to 20 years depending on the type of vehicle. The majority of the Group's public service vehicles are diesel powered, although the Group expects that over time, an increasing proportion of its vehicle fleet will be zero emission; likely to be a combination of electric and hydrogen powered vehicles. The actual useful lives of diesel powered vehicles could be affected by measures taken by governments to tackle climate change by restricting the use of such vehicles.

Whilst governments across the Group's geographical locations are consulting on a date after which the sale of new diesel powered vehicles will be prohibited, at this time there is no set date from which diesel vehicles are prohibited from being used. The estimated useful lives applied are consistent with the previous year and, taking account of the latest proposals from governments and our own internal targets (as described in the Strategic Report page x), the Directors consider that those estimates of useful lives remain appropriate.

Other than in UK Bus, the carrying value of vehicles in each of the Group's divisions at the targeted date of transition to a fully zero emission fleet is £nil. In UK Bus, where the target date is 1 January 2030, the remaining net book value of existing diesel vehicles at transition is estimated to be £35m, assuming no change to the useful lives. Considering that our transition target is significantly ahead of the earliest expected date that the UK government would ban the use of diesel vehicles and also that the vehicles impacted are Euro 6 diesel buses (the most environmentally friendly variant of diesel vehicles), the Directors consider that they will be able to recover such value through their sale. However in a more extreme scenario, assuming the vehicles were not able to be sold and that the residual value was nil at transition, a £4m increase in the annual depreciation charge would be required from 1 January 2022.

Also assuming a scenario whereby no diesel powered vehicle could be used by the Group after 31 December 2034, then the annual depreciation expense from 1 January 2022 would be £0.5m higher in addition to above.

Details of leased assets included within property, plant and equipment are provided in note 35.

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 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

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

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

	2021 £m	2020 £m
Financial assets at fair value through Other Comprehensive Income – unlisted ordinary shares	**13.9**	12.9
Derivative financial instruments – fuel derivatives	**9.1**	0.4
Derivative financial instruments – cross currency swaps	**9.6**	1.0
Derivative financial instruments included in non-current assets	**18.7**	1.4
Total non-current financial instruments	**32.6**	14.3
Derivative financial instruments – fuel derivatives	**20.3**	0.4
Derivative financial instruments – interest rate derivatives	**0.1**	1.5
Derivative financial instruments – cross currency swaps	**2.4**	2.2
Derivative financial instruments – foreign exchange derivatives	**8.2**	40.8
Derivative financial instruments included in current assets	**31.0**	44.9

Further information on the Group's use of derivatives is included in note 31.

Financial assets at fair value through Other Comprehensive Income

	2021 £m	2020 £m
Fair value:		
At 1 January	**12.9**	14.2
Additions in the year	**0.2**	–
Fair value movement in the year	**1.2**	(1.6)
Foreign exchange	**(0.4)**	0.3
At 31 December	**13.9**	12.9

The principal financial assets at fair value through Other Comprehensive Income are as follows:

Name	Segment	2021 Proportion held %	2020 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 is 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 £13.9m at 31 December 2021 (2020: £12.1m). For the first of these, the fair value was determined using recent earnings. A 10% increase/(decrease) in earnings would result in a £0.7m 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 inflation assumptions. A 2% increase in inflation would result in a £5.9m increase in fair value, and a 2% decrease in inflation would result in a £4.7m 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 2021 (2020: £nil).

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2021 £m	2020 £m
Joint ventures	**9.0**	9.9
Associates	**4.7**	5.7
Total investments accounted for under the equity method	**13.7**	15.6

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2021 £m	2020 £m
Share of joint venture's profit/(loss)	**0.1**	(0.5)
Share of associates' loss	**(1.1)**	(1.6)
Total share of results from associates and joint ventures	**(1.0)**	(2.1)

(a) Investments in joint ventures

The Group has one interest in a joint venture as follows:

Name	Country of registration	Activity	Proportion held % 2021	Proportion held % 2020
			2021	2020
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.	
Share of the joint venture's Balance Sheet and results	**2021 £m**	2020 £m
Non-current assets	**8.0**	11.1
Current assets	**5.4**	5.8
Share of gross assets	**13.4**	16.9
Non-current liabilities	**(0.8)**	(2.8)
Current liabilities	**(3.6)**	(4.2)
Share of gross liabilities	**(4.4)**	(7.0)
Net assets	**9.0**	9.9
Revenue	**5.0**	5.8
Operating profit	**0.5**	0.6
Profit/(loss) after tax	**0.1**	(0.5)
Profit/(loss) for the year and total comprehensive income	**0.1**	(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.	
	2021 £m	2020 £m
Group share of net assets of the joint venture	**9.0**	9.9
Carrying amount	**9.0**	9.9
Dividends received from the joint venture	**1.0**	–

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:

	2021 £m	2020 £m
Share of operating loss	**(1.1)**	(1.6)
Share of loss for the year and total comprehensive income and expenditure	**(1.1)**	(1.6)

19 Business combinations, disposals and assets held for sale

(a) Acquisitions – ALSA

During the period, the ALSA division acquired 100% control of Transportes Rober Group, a provider of urban bus services in Granada, Spain.

The provisional fair values of the assets and liabilities acquired were as follows:

	£m
Intangibles	**7.1**
Property, plant and equipment	**0.5**
Inventory	**0.4**
Trade and other receivables	**24.6**
Cash and cash equivalents	**0.2**
Borrowings	**(2.0)**
Trade and other payables	**(16.6)**
Deferred tax liability	**(1.0)**
Provisions	**(0.6)**
Net assets acquired	**12.6**
Goodwill	**14.0**
Total consideration	**26.6**
Represented by:	
Cash consideration	**21.0**
Deferred contingent consideration	**5.6**
	26.6

As permitted by IFRS 3 'Business Combinations', the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets.

Trade and other receivables had a fair value and a gross contracted value of £24.7m. The best estimate at acquisition date of the contractual cash flows not to be collected was £0.1m.

Goodwill of £14.0m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our operations in ALSA, along with synergy and growth benefits expected to be achieved in consolidating the regional and urban bus market in Granada. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is deferred contingent consideration of £5.6m. The Group is required to pay contingent consideration on renewal of contracts and other post-closing conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £5.6m. 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

19 Business combinations, disposals and assets held for sale continued

The acquired business contributed £18.4m of revenue and a £1.5m profit 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 £2,183.8m and the Group's operating loss would have been £37.9m.

(b) Acquisitions – further information

Deferred consideration of £0.6m was paid in the period relating to acquisitions in ALSA in earlier years. Total cash outflow in the period from acquisitions in ALSA was £21.4m, comprising consideration for current year acquisitions of £21.0m and deferred consideration of £0.6m, less cash acquired in the businesses of £0.2m.

In North America and the UK deferred consideration of £10.1m and £2.3m respectively was paid in the period relating to acquisitions in earlier years.

Total acquisition transaction costs of £0.1m were incurred in the year to 31 December 2021 (2020: £0.4m).

The Group measures deferred contingent consideration at fair value through 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:

Fair value:	**2021 £m**	2020 £m
At 1 January	**28.8**	49.0
Additions in the year	**5.6**	7.5
Payments during the year	**(13.0)**	(27.3)
Fair value movement in the year	**(7.9)**	(1.2)
Foreign exchange	**(0.1)**	0.8
At 31 December	**13.4**	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 comprised gross cash consideration of £11.8m less transaction costs of £1.3m, working capital adjustment of £0.4m and net assets of £10.2m. During 2020, total cash inflow 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. During 2021, the Group finalised the closing accounts resulting in an increase of the original gain of £0.3m, which has been recognised in separately disclosed items during the year for consistency. Transaction expenses totalling £0.6m were settled during 2021. Total cash outflow in the year from the disposal was £0.9m. No further cash flows are expected in 2022.

(d) Assets held for sale

In ALSA, a building with a carrying value of £17.6m (2020: £18.8m) and in the UK, public service vehicles with a carrying value of £1.0m (2020: £nil) met the held for sale criteria of IFRS 5 at 31 December 2021.

20 Non-current assets – trade and other receivables

	2021 £m	2020 £m
Contract assets	**128.1**	85.2
Prepayments	**6.7**	4.6
Other receivables	**12.3**	1.9
	147.1	91.7

Contract assets have increased primarily in ALSA and North America 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 12 months.

Other receivables includes £5.5m (2020: £nil) of property disposal proceeds that are payable to the Group on vacant possession and £5.0m (2020: £nil) of insurance recoveries.

21 Inventories

	2021 £m	2020 £m
Raw materials and consumables	**28.8**	27.0

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

	2021 £m	2020 £m
Trade receivables	**190.5**	157.8
Grant receivables	**58.0**	71.4
Contract assets	**97.1**	80.8
Amounts due from associates and joint ventures (note 37)	**3.2**	3.6
Amounts due from other related parties (note 37)	**1.2**	1.3
Trade and grant receivables and contract assets	**350.0**	314.9
Less: provision for impairment of receivables	**(39.3)**	(46.3)
Trade and grant receivables and contract assets – net (note 30)	**310.7**	268.6
Other receivables	**78.1**	76.0
Prepayments	**38.1**	46.7
Accrued income	**1.4**	0.4
	428.3	391.7

Trade receivables excludes £48.5m (2020: £33.3m) that was subject to factoring arrangements without recourse and for which no customer payment had been received at year end.

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'.

During 2019 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 was highly probable and as a result recognised a receivable (included in other receivables) representing the funding due to the Group for construction of the new property. During the current year construction has commenced and a portion of the receivable unwound and a new property asset has been recognised in property, plant and equipment. At 31 December 2021, the receivable outstanding was £8.6m (2020: £12.5m).

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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

23 Cash and cash equivalents

	2021 £m	(Restated) 2020[1] £m
Cash at bank and in hand	**268.1**	241.2
Overnight deposits	**0.4**	49.7
Other short-term deposits	**239.9**	338.9
Cash and cash equivalents	**508.4**	629.8

1 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information.

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. These amounts held are not readily available for other purposes within the Group and total £11.9m (2020: £24.5m).

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.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents and bank overdrafts in notional cash pooling arrangements are presented net. Bank overdrafts form an integral part of the group's cash management strategy as they arise from the Group's cash pooling arrangement with its bank. Net cash and cash equivalents comprise as follows:

	2021 £m	(Restated) 2020[1] £m
Cash at bank and in hand	**508.4**	629.8
Bank overdrafts (note 28)	**(132.2)**	(109.3)
Net cash and cash equivalents	**376.2**	520.5

1 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information.

24 Current liabilities – trade and other payables

	2021 £m	(Restated) 2020[1] £m
Trade payables	**209.0**	231.2
Contract liabilities	**130.8**	25.9
Amounts owed to associates and joint ventures (note 37)	**0.5**	0.7
Amounts owed to other related parties (note 37)	**1.3**	1.5
Other tax and social security payable	**39.7**	33.5
Accruals and deferred income	**230.2**	236.3
Other payables	**158.5**	236.4
Put liability	**17.7**	17.5
	787.7	783.0

1 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to 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 represent amounts advanced by customers where the Group has not yet met the performance obligation to allow the recognition of the balance as revenue, for example season ticket or advance ticket sales which cross over the year end date or payments on account. It also includes amounts outstanding with respect to the purchase of infrastructure assets under IFRIC 12 arrangements. Contract liabilities have primarily increased year-on-year in ALSA and North America due to liabilities associated with the purchase of infrastructure assets which are expected to be settled within the next 12 months, and in Germany, due to payments on account having been receipted prior to completion of our performance obligations.

Other payables includes £103.0m (2020: £204.0m) 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 £2.8m (2020: £1.6m), deferred expense-related grants (inclusive of CERTS in North America) of £39.0m (2020: £nil) and £2.4m (2020: £15.8m) of deferred contingent consideration for businesses acquired, of which £nil (2020: £2.5m) relates to businesses acquired in the year (note 19).

25 Other non-current liabilities

	2021 £m	2020 £m
Deferred fixed asset grants	**19.3**	27.1
Contract liabilities	**44.8**	24.2
Other payables	**19.6**	105.9
Put liability	**40.1**	45.5
	123.8	202.7

Contract liabilities have primarily increased year-on-year in ALSA due to liabilities associated with the purchase of IFRIC 12 infrastructure assets which are expected to be settled over the life of the contract.

Other payables includes £11.0m (2020: £13.0m) of deferred contingent consideration for businesses acquired, of which £5.6m (2020: £5.0m) relates to businesses acquired in the year (note 19), expense related grants of £7.3m (2020: £nil) and £1.3m (2020: £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, was settled during 2021. The second tranche, for a further 10% of the equity has been exercised during 2021, and will be settled during 2022. This element of the liability has been recorded in current liabilities (note 24). The remaining option, over 20% of equity will be exercised at the final opportunity, being 31 December 2022. Consistent with our analysis on page 133, the valuation is no longer considered to be a significant estimate.

26 Provisions

	Claims provision £m	Onerous contract provisions	Other £m	Total £m
At 1 January 2021	**80.7**	**38.0**	**17.2**	**135.9**
Charged to the Income Statement	**23.4**	**32.0**	**26.6**	**82.0**
Amounts settled through insurers	**13.2**	**–**	**–**	**13.2**
Utilised in the year	**(35.9)**	**(28.6)**	**(9.7)**	**(74.2)**
Unwinding of discount	**2.5**	**–**	**–**	**2.5**
Acquired in business combinations	**–**	**–**	**0.6**	**0.6**
Exchange difference	**0.5**	**(1.7)**	**(1.0)**	**(2.2)**
At 31 December 2021	**84.4**	**39.7**	**33.7**	**157.8**
Current 31 December 2021	**47.6**	**24.8**	**16.6**	**89.0**
Non-current 31 December 2021	**36.8**	**14.9**	**17.1**	**68.8**
	84.4	**39.7**	**33.7**	**157.8**
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

Claims provision

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 that in the prior year was treated as separately disclosable. It comprises provisions for claims arising in the UK and North America.

Onerous contracts

Provisions for onerous contracts relate to loss making contracts in ALSA, North America, Germany and UK. With the exception of the provision in Germany, the remaining amounts are expected to be utilised within the next 12 months. The provision in Germany is in respect of the Rhine-Ruhr Express contract and is expected to be utilised over the contracts remaining term of nine years. The Group's latest assessment identified a reduction in the contracts profitability, and accordingly a provision of £23.1m (2020: £nil) was recognised during the year (see note 5 for further details).

Other

Other includes a provision for a potential reclaim of subsidies in ALSA of £16.0m (2020: £6.5m) all of which is expected to be utilised over the next three years, provisions for potential litigation of £4.1m (2020: £3.6m) expected to be utilised in the next five years and restructuring provisions in the UK, ALSA and North America of £6.4m (2020: £2.8m), all of which is expected to be utilised within the next 12 months.

When the effect is material, provisions are discounted to their net present value.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

27 Deferred tax

	2021 £m	2020 £m
At 1 January	**99.8**	(24.6)
Credit to the Income Statement (note 11)	**26.3**	117.9
(Charge)/credit to Other Comprehensive Income or Equity	**(7.0)**	15.0
Exchange differences	**2.4**	(6.7)
Acquired in business combinations (note 19)	**(1.0)**	(2.1)
Acquired in business combinations – adjustment to goodwill (note 14)	**(9.1)**	–
Disposed in business combinations	**–**	0.3
Net deferred tax asset at 31 December	**111.4**	99.8

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	2021 £m	2020 £m
Accelerated tax depreciation	**(83.2)**	(112.7)
Losses carried forward	**194.9**	202.8
Pensions	**23.0**	24.9
Other short-term temporary differences	**15.9**	25.5
	150.6	140.5

Deferred tax liabilities	2021 £m	2020 £m
Accelerated tax depreciation	**(108.8)**	(82.3)
Losses carried forward	**22.1**	22.8
Intangibles and deductible goodwill	**2.5**	8.2
Taxation credits	**1.8**	2.0
Other short-term temporary differences	**43.2**	8.6
	(39.2)	(40.7)

The UK, US and German businesses are included in deferred tax assets of £150.6m and the Spanish and Canadian businesses are included in deferred tax liabilities of £39.2m.

The deferred tax assets relating to losses carried forward are £217.0m (2020: £225.6m). This comprises £194.9m (2020: £202.8m) within deferred tax assets and £22.1m (2020: £22.8m) within deferred tax liabilities.

The Group has recognised deferred tax assets across the UK, USA, Spanish and German businesses amounting to £303.4m (2020: £294.8m) 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. The forecast budgets used were consistent with those used in the Group's going concern and viability assessments.

28 Borrowings and derivative financial liabilities

	2021 £m	(Restated) 2020[1,2] £m
Non-current		
Bank loans	**90.8**	20.4
Bonds	**640.9**	647.0
Lease liabilities	**168.7**	239.7
Private placements	**393.9**	405.9
Non-current borrowings	**1,294.3**	1,313.0
Fuel derivatives	**0.2**	3.9
Cross currency swaps	**5.2**	6.7
Interest rate derivatives	**5.7**	–
Non-current derivative financial instruments	**11.1**	10.6
Non-current borrowings and derivative financial liabilities	**1,305.4**	1,323.6
Current		
Bank overdrafts	**132.2**	109.3
Bank loans	**100.3**	83.8
Lease liabilities	**67.0**	86.5
Private placements	**–**	70.9
Accrued interest on borrowings	**2.8**	4.1
Current borrowings	**302.3**	354.6
Fuel derivatives	**0.5**	17.0
Cross currency swaps	**4.5**	–
Interest rate derivatives	**0.7**	–
Foreign exchange derivatives	**18.8**	6.0
Current derivative financial instruments	**24.5**	23.0
Current borrowings and derivative financial liabilities	**326.8**	377.6

1 Restated for the change in presentation of advance factoring liabilities from other payables to borrowings. See note 2 for further information
2 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

	2021 £m	Maturity	Effective interest rate	(Restated) 2020[1,2] £m	Maturity	Effective interest rate
Bank overdrafts[2]	**132.2**	**–**	**–**	109.3	–	–
Bank overdrafts	**132.2**			109.3		
7-year Sterling bond	**400.1**	**November 2023**	**2.54%**	400.1	November 2023	2.54%
9-year Sterling bond	**240.8**	**November 2028**	**GBP SONIA + 1.98%**	246.9	November 2028	2.38%
Bonds	**640.9**			647.0		
European bank loans at fixed rate	**2.4**	**2022-2025**	**2.03%**	2.7	2021-2025	1.53%
European bank loans at floating rate	**10.8**	**2022-2025**	**EURIBOR + 0.86%**	–	–	–
Moroccan bank loans	**26.0**	**2022-2026**	**4.28%**	4.9	2021-2022	4.66%
US asset backed bank loans	**74.0**	**2022-2029**	**2.28%**	18.3	2021-2027	2.46%
Advance factoring liabilities[1]	**77.9**	**2022**	**0.99%**	78.3	2021	0.99%
Bank loans	**191.1**			104.2		
US Dollar leases at fixed rate	**122.7**	**2022-2028**	**3.03%**	192.4	2021-2035	3.89%
European leases at fixed rate	**19.7**	**2022-2035**	**1.43%**	29.6	2021-2025	1.13%
European leases at floating rate	**2.9**	**2022-2024**	**EURIBOR + 1.00%**	4.2	2021-2024	EURIBOR + 1.00%
Sterling leases at fixed rate	**90.4**	**2022-2037**	**3.02%**	100.0	2021-2037	3.14%
Leases	**235.7**			326.2		
Euro private placement	**–**	**–**	**–**	70.9	August 2021	4.55%
US private placement	**393.9**	**2027-2032**	**1.92%**	405.9	2027-2032	1.92%
Private placements	**393.9**			476.8		
Accrued interest – Bonds	**2.1**			2.1		
Accrued interest – Private placement	**0.7**			2.0		
Accrued interest on borrowings	**2.8**			4.1		
Total	**1,596.6**			1,667.6		

1 Restated for the change in presentation of advance factoring liabilities from other payables to borrowings. See note 2 for further information
2 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information.

The Group currently has £495.0m of unsecured committed revolving credit facilities, of which £15.0m matures in 2024 and £480.0m matures in 2025. At 31 December 2021, there was £nil (2020: £nil) drawn down on the facilities, with £1.5m of capitalised deal fees remaining and which are classified within other receivables.

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 covenant net debt to EBITDA and minimum EBITDA to net interest payable. In light of the impact of the pandemic on EBITDA generation, the Group has renegotiated its covenants to obtain waivers or amendments on its gearing and interest cover covenant tests.

During 2021, the gearing covenant was waived by the lenders for the 30 June 2021 and 31 December 2021 periods, and the interest cover covenant was amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 periods respectively.

For 2022, the gearing covenant is amended to 5.0x for both the 30 June 2022 and 31 December 2022 tests, with no amendment to the interest cover covenant.

29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits, including other debt receivables and finance lease receivables:

As at 31 December 2021	< 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	(99.4)	(17.4)	(16.0)	(16.6)	(13.1)	(17.8)	(180.3)
Bonds	–	(400.1)	–	–	–	–	(400.1)
Finance lease receivables	4.1	3.8	3.1	1.0	0.5	4.3	16.8
Lease liabilities	(65.5)	(46.2)	(31.9)	(17.1)	(13.3)	(58.8)	(232.8)
Private placements	–	–	–	–	–	(393.9)	(393.9)
Floating rate							
Cash assets	508.4	–	–	–	–	–	508.4
Other debt receivables	0.8	0.2	–	–	–	–	1.0
Bank overdrafts	(132.2)	–	–	–	–	–	(132.2)
Bank loans	(0.9)	(1.0)	(8.7)	(0.1)	(0.1)	–	(10.8)
Bonds	–	–	–	–	–	(240.8)	(240.8)
Lease liabilities	(1.5)	(1.0)	(0.4)	–	–	–	(2.9)

(Restated) As at 31 December 2020[1,2]	< 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[1]	(83.6)	(6.2)	(3.1)	(2.7)	(2.9)	(4.4)	(102.9)
Bonds	–	–	(400.1)	–	–	(246.9)	(647.0)
Finance lease receivables	4.3	3.6	3.3	2.4	1.0	0.3	14.9
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[2]	629.8	–	–	–	–	–	629.8
Other debt receivables	1.2	–	–	–	–	–	1.2
Bank overdrafts[2]	(109.3)	–	–	–	–	–	(109.3)
Bank loans	(0.2)	(0.5)	(0.6)	–	–	–	(1.3)
Lease liabilities	(1.5)	(1.3)	(1.0)	(0.4)	–	–	(4.2)

1 Restated for the change in presentation of advance factoring liabilities from other payables to borrowing. See note 2 for further information

2 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. 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 202.2m, CAD 46.2m and EUR 154.4m, and cross currency interest rate swaps of USD 350.0m and EUR 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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 results from 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 £27.8m (2020: £35.6m).

		2021		2020	
As at 31 December	Strengthening/ (weakening) in currency	**Effect on (loss)/profit before tax £m**	**Effect on translation reserve £m**	Effect on profit before tax £m	Effect on translation reserve £m
US Dollar	10%	–	**(37.0)**	–	(28.5)
Euro	10%	–	**12.2**	–	(4.7)
Canadian Dollar	10%	–	**(3.0)**	–	(2.4)
US Dollar	(10)%	–	**37.0**	–	28.5
Euro	(10)%	–	**(12.2)**	–	4.7
Canadian Dollar	(10)%	–	**3.0**	–	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 2021, the proportion of the Group's gross debt at floating rates was 18% (2020: 7%), with the increase reflecting that the £250.0m bond maturing in 2028 was converted to floating rate debt during the year.

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 overleaf 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 £0.1m relating to the Euro and £0.3m relating to Sterling. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2021.

30 Financial risk management objectives and policies continued

As at 31 December	Increase/ (decrease) in basis points	2021 Effect on (loss)/profit before tax £m	2021 Effect on reserves £m	2020 Effect on profit before tax £m	2020 Effect on reserves £m
Sterling	100	**0.3**	**–**	–	–
US Dollar	100	**–**	**–**	–	–
Euro	100	**0.1**	**–**	(0.4)	–
Sterling	(100)	**(0.3)**	**–**	0.4	–
US Dollar	(100)	**–**	**–**	–	–
Euro	(100)	**(0.1)**	**–**	–	–

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's normal policy is to enter 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. However, due to the continued impact of the Covid-19 pandemic and to mitigate the risk of over-hedging, the Group has held its hedging levels at 90% of budgeted 2022 usage as at 31 December 2021.

The normal hedging programme has continued for future years and as at 31 December 2021 the Group had hedged approximately 54% of its expected usage in 2023 and 18% of its expected usage in 2024.

During the year hedge accounting was discontinued for a small number of fuel derivatives where volumes were in excess of actual or expected consumption due to the pandemic. Further information relating to this is given in note 31.

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 overleaf 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 profit/(loss) 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. For these derivative contracts the sensitivity of the net fair value to an immediate 10% increase or decrease in all prices would have been £11.9m at 31 December 2021 (2020: £9.5m). 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.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

30 Financial risk management objectives and policies continued

		2021		2020	
As at 31 December	Increase/ (decrease) in price	**Effect on (loss)/profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling denominated diesel	10%	**–**	**3.6**	–	3.0
US Dollar denominated diesel	10%	**–**	**2.2**	–	1.4
US Dollar denominated gasoline	10%	**–**	**1.5**	–	1.0
Euro denominated diesel	10%	**–**	**4.6**	–	4.1
Sterling denominated diesel	(10%)	**–**	**(3.6)**	–	(3.0)
US Dollar denominated diesel	(10%)	**–**	**(2.2)**	–	(1.4)
US Dollar denominated gasoline	(10%)	**–**	**(1.5)**	–	(1.0)
Euro denominated diesel	(10%)	**–**	**(4.6)**	–	(4.1)

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 £344.7m (2020: £312.4m), cash and cash equivalents of £508.4m (restated 2020: £629.8m), finance lease receivables of £16.8m (2020: £14.9m), investments of £13.9m (2020: £12.9m) and derivative financial instruments of £49.7m (2020: £46.3m); as well as its contract assets of £225.2m (2020: £166.0m).

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, 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 continues to monitor the economic environment in response to the Covid-19 pandemic and has taken 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.

Net 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, the Group's policy sets limits on counterparty exposure according to credit ratings.

(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.

Whilst Covid-19 has continued to impact the Group, it 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.

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 2021:

			Days past due			
31 December 2021	**Carrying amount £m**	**Current £m**	**Less than 30 days £m**	**Between 30 and 60 days £m**	**Between 61 and 90 days £m**	**Over 90 days £m**
Expected loss rate	**8.2%**	**0.7%**	**2.5%**	**2.3%**	**8.5%**	**21.9%**
Gross carrying amount – trade and grant receivables and contract assets (current and non-current)	**478.1**	**235.5**	**52.1**	**21.8**	**8.2**	**160.5**
Loss allowance	**39.3**	**1.7**	**1.3**	**0.5**	**0.7**	**35.1**

			Days past due			
31 December 2020	Carrying amount £m	Current £m	Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
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

Trade receivables over 90 days primarily comprises amounts due from public authorities in ALSA and 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 £35.1m (2020: £42.5m) 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 2021 reconciles to the opening loss allowance as follows:

	2021 £m	2020 £m
At 1 January	**(46.3)**	(36.4)
Increase in loss allowance recognised in Income Statement during the year	**(6.4)**	(10.7)
Utilised in the year	**11.5**	1.8
Arising on acquisitions	**(0.1)**	(0.2)
Exchange difference	**2.0**	(0.8)
At 31 December	**(39.3)**	(46.3)

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 of at least £300.0m 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.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

30 Financial risk management objectives and policies continued

Short-term funding requirements are met through use of cash and cash equivalents and drawings under unsecured committed revolving credit facilities if required. Most of the Group's cash is held in the UK, the USA and Spain. In the UK the Group utilises a pooling arrangement with its main relationship bank to manage its cash on a net basis.

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. These amounts held are not readily available for other purposes within the Group and total £11.9m (2020: £24.5m).

The Group currently has £495.0m of unsecured committed revolving credit facilities, which mature between 2024 and 2025. At 31 December 2021, there was £nil (2020: £nil) drawn down on the facilities. The maximum draw down of the revolving credit facility during the year was £nil (2020: £110.0m), with no drawings made during 2021 as a result of the additional liquidity headroom secured following the emergence of Covid-19 and the cash generated as a result of the share issue and issue of hybrid instrument in 2020.

Medium and long-term funding requirements are met through committed debt facilities as detailed in note 29.

The Group has secured waivers or amendments from its key covenant tests due to the continued impact of Covid-19 on the Group's EBITDA generation. In return for these waivers and amendments, during the period they apply the Group must comply with a £250m minimum liquidity test and a £1.6bn maximum net debt test, both on a pre-IFRS 16 basis. As at 31 December 2021, the Group had £871m of net cash and undrawn facilities, 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 2021 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 2021	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 overdrafts	(132.2)	(132.2)	(132.2)	–	–	–	–
Bank loans	(191.1)	(196.2)	(100.6)	(19.9)	(25.9)	(31.5)	(18.3)
Bonds	(640.9)	(709.5)	(15.9)	(414.6)	(5.9)	(11.9)	(261.2)
Lease liabilities	(235.7)	(243.5)	(67.1)	(45.5)	(30.6)	(29.3)	(71.0)
Private placements	(393.9)	(420.5)	(3.9)	(3.9)	(3.9)	(7.7)	(401.1)
Trade and other payables[1]	(667.5)	(667.5)	(615.1)	(52.4)	–	–	–
	(2,261.3)	(2,369.4)	(934.8)	(536.3)	(66.3)	(80.4)	(751.6)
Derivative financial liabilities							
Foreign exchange derivatives	(18.8)	(18.8)	(18.8)	–	–	–	–
Interest rate derivatives	(6.4)	(6.5)	(0.6)	(2.1)	(2.1)	(1.7)	–
Cross currency swaps	(9.7)	(10.3)	(4.4)	0.3	0.3	0.3	(6.8)
Fuel derivatives	(0.7)	(0.7)	(0.4)	(0.2)	(0.1)	–	–
	(35.6)	(36.3)	(24.2)	(2.0)	(1.9)	(1.4)	(6.8)

1 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense-related grants and deferred fixed asset grants

30 Financial risk management objectives and policies continued

(Restated) Year ended 31 December 2020[1,2]	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 overdrafts[2]	(109.3)	(109.3)	(109.3)	–	–	–	–
Bank loans[1]	(104.2)	(105.8)	(84.2)	(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[1,3]	(906.9)	(906.9)	(755.5)	(151.4)	–	–	–
	(2,570.4)	(2,736.5)	(1,138.1)	(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)

1 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to borrowings. See note 2 for further information
2 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information.
3 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related-grants and deferred fixed asset grants

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 Chief Financial Officer's review.

As a consequence of Covid-19 the Group made two significant adjustments to its capital structure in the prior year. In May 2020, the Group transacted a share issue through an equity placing and raised £230.1m net of fees and in November 2020 the Group issued a £500.0m sterling denominated hybrid instrument raising a further £495.5m net of fees. Both measures strengthened the Group's Balance Sheet.

The Group also uses 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 Chief Financial Officer'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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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.

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and 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 £250.0m bond. Consequently, the carrying value of the bond is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ from the fair value depending on movements in the Group's credit risk, movements in interest rates and unamortised fees. At 31 December 2021, the carrying value of the Group's bonds was £650.0m (2020: £650.0m) and compares with the fair value as presented in the table below.

All other liabilities, including the remaining 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 illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2021:

Classification of financial instruments As at 31 December 2021	Assets and liabilities at amortised cost £m	At fair value through Other Comprehensive Income £m	Hedged item at fair value £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets						
Investments	–	13.9	–	–	–	13.9
Fuel derivatives	–	–	–	–	29.4	29.4
Interest rate derivatives	–	–	–	0.1	–	0.1
Cross currency swaps	–	–	–	–	12.0	12.0
Foreign exchange derivatives	–	–	–	6.1	2.1	8.2
Cash and cash equivalents	508.4	–	–	–	–	508.4
Finance lease receivables	16.8	–	–	–	–	16.8
Trade and other receivables[1]	344.7	–	–	–	–	344.7
	869.9	13.9	–	6.2	43.5	933.5
Liabilities						
Bank overdrafts	(132.2)	–	–	–	–	(132.2)
Bank loans	(191.1)	–	–	–	–	(191.1)
Bonds	(400.1)	–	(240.8)	–	–	(640.9)
Lease liabilities	(235.7)	–	–	–	–	(235.7)
Private placements	(393.9)	–	–	–	–	(393.9)
Fuel derivatives	–	–	–	–	(0.7)	(0.7)
Interest rate derivatives	–	–	–	(6.4)	–	(6.4)
Cross currency swaps	–	–	–	–	(9.7)	(9.7)
Foreign exchange derivatives	–	–	–	(16.0)	(2.8)	(18.8)
Trade and other payables[2]	(654.1)	–	–	(13.4)	–	(667.5)
	(2,007.1)	–	(240.8)	(35.8)	(13.2)	(2,296.9)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables

2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense-related grants and deferred fixed asset grants

31 Financial instruments (including cash, trade receivables and payables) continued

(Restated) Classification of financial instruments As at 31 December 2020[3, 4]	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[4]	629.8	–	–	–	629.8
Finance lease receivables	14.9	–	–	–	14.9
Trade and other receivables[1]	312.4	–	–	–	312.4
	957.1	12.9	12.1	34.2	1,016.3
Liabilities					
Bank overdrafts[4]	(109.3)	–	–	–	(109.3)
Bank loans[3]	(104.2)	–	–	–	(104.2)
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[2,3]	(878.1)	–	(28.8)	–	(906.9)
	(2,541.6)	–	(37.2)	(25.2)	(2,604.0)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables
2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense-related grants and deferred fixed asset grants
3 Restated for the change in presentation of advance factoring liabilities from other payables to borrowings. See note 2 for further information
4 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information

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 2021, there was no objective evidence that would have necessitated the impairment of loans and receivables 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 2021, the Group applied cash flow hedge accounting to hedge fuel price risk and to hedge foreign currency risk on a US dollar denominated private placement. The Group applied net investment hedge accounting to hedge net investments in its North American and European foreign operations. The Group also applied fair value hedge accounting on a €78.5m private placement until maturity in August 2021, and on the £250.0m bond, to hedge changes in fair value due to interest rate fluctuations.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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				
	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**	**Total £m**
Net (liability)/asset at 1 January 2021	**(2.4)**	**1.5**	**4.6**	**(17.7)**	**–**	**(3.5)**	**30.2**	**12.7**
Movements through Income Statement	**2.4**	**(7.8)**	**(5.7)**	**(4.4)**	**–**	**(1.9)**	**–**	**(17.4)**
Movements through Other Comprehensive Income	**–**	**–**	**–**	**50.8**	**–**	**7.7**	**4.2**	**62.7**
Cash settlements	**–**	**–**	**(8.8)**	**–**	**–**	**–**	**(35.1)**	**(43.9)**
Net asset/(liability) at 31 December 2021	**–**	**(6.3)**	**(9.9)**	**28.7**	**–**	**2.3**	**(0.7)**	**14.1**

	At fair value through profit and loss			Derivatives used for hedging				
	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	Total £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

A reconciliation of movements in the cash flow hedge reserve, cost of hedging reserve and net investment hedge reserve is shown in note 33.

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 $552.2m €617.1m	£250.0m	$81.0m	357.0m litres
Ageing of nominal amount:				
< 1 year	CAD $46.2m USD $452.2m €154.4m	–	–	199.5m litres
1-2 years	USD $100.0m €222.7m	–	–	117.7m litres
2-5 years	–	£250.0m	–	39.8m litres
> 5 years	€240.0m	–	$81.0m	–
Average hedged rate	–	GBP SONIA + 1.98%	2.4265%	£0.33/litre
Maturity	2022-2032	2025	2027	2022-2024
Carrying amount of hedging instruments (£m)				
Assets – derivatives	13.7	0.1	0.3	29.4
Liabilities – derivatives	(7.3)	6.3	(5.2)	(0.7)
Liabilities – borrowings	(201.6)[1]	–	–	–
Carrying amount of hedged item – borrowings (£m)	–	(240.8)	(59.9)	–
Changes in fair value of hedged item for calculating hedge effectiveness[2]	(10.4)	6.4	(2.0)	(46.9)
Changes in fair value of hedged instrument used for calculating hedge effectiveness[2]	10.4	(6.3)	1.8	47.7
Amounts accumulated in reserves at 31 December 2021, net of tax	43.1	–	1.7	23.4
Accumulated fair value hedge adjustment on borrowings	–	6.4	–	–

1 Represents the carrying value of the €240.0m 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 2021, the Group had designated EUR 222.7m of cross currency interest rate swaps, EUR 240.0m of private placements and EUR 154.4m of foreign exchange forward contracts as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD 202.2m and CAD 46.2m of foreign exchange forward contracts, and USD 350.0m of cross currency interest rate swaps 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 2022 through to 2024.

During 2021, hedge accounting was discontinued for a small number of fuel derivatives where volumes were in excess of actual or expected consumption. The majority arose in the UK, ALSA and North America following more stringent lockdown measures being implemented in early 2021 and slower recovery. Overall expenses and gains recycled to the Income Statement from Other Comprehensive Income netted to £nil (2020: £17.3m) and have been recorded as separately disclosable for consistency with the treatment in the prior year, as shown in note 5.

During the year, £50.8m of fair value gains (2020: £50.5m losses) have been transferred to the cash flow hedge reserve due to movements in market fuel prices. A fair value gain of £1.9m (2020: £29.5m loss) has been transferred from the cash flow hedge reserve to the Income Statement following settlement of fuel trades; this comprised a loss of £16.0m (2020: £1.8m loss), being the hedging reserve position at 1 January and a £17.9m gain (2020: £27.7m loss) generated during the year due to movements in market fuel prices. No material ineffectiveness was recognised in relation to these hedges.

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For the year ended 31 December 2021

31 Financial instruments (including cash, trade receivables and payables) continued

Fuel derivatives can be analysed as follows:

Fuel derivatives	31 December 2021 Fair value £m	31 December 2020 Fair value £m	31 December 2021 Volume million litres	31 December 2020 Volume million litres
Sterling denominated – UK	5.3	(5.2)	48.6	55.4
Euro denominated – ALSA	7.4	(7.0)	85.4	84.0
US Dollar and Canadian Dollar denominated – North America	7.1	(4.4)	65.5	47.3
Fuel derivatives included in current assets/(liabilities)	19.8	(16.6)	199.5	186.7
Sterling denominated – UK	3.0	(0.8)	42.6	47.6
Euro denominated – ALSA	3.6	(2.2)	61.8	64.0
US Dollar and Canadian Dollar denominated – North America	2.3	(0.5)	53.1	54.7
Fuel derivatives included in non-current assets/(liabilities)	8.9	(3.5)	157.5	166.3
Total fuel derivatives	28.7	(20.1)	357.0	353.0

Interest rate swaps at fair value through profit or loss

In September 2012, the Group entered into a series of interest rate swaps equal in value to the €78.5m Euro private placement, which matured in August 2021. These interest rate swaps paid floating interest (EURIBOR + margin) semi-annually and received fixed interest semi-annually with maturities matching the Euro private placement, which matured in August 2021 and were designated as a fair value hedge of the interest rate risk on the private placement. These swaps were 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. During the year a fair value loss of £0.7m was recognised in the Income Statement and was offset by a fair value gain of £0.7m on the underlying hedged item due to changes in the risk-free interest rate.

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. These interest rate swaps all pay fixed interest annually and receive floating interest (GBP SONIA + margin) annually with cash settlements matching that of the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and 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 £250.0m bond. During the year, a fair value loss of £6.4m was recognised in the Income Statement and was offset by a fair value gain of £6.4m on the underlying hedged item due to changes in the risk-free interest rate.

Cash flow hedges

In June 2020, the Group entered into an $81.0m 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 $81.0m 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	2021 £m	No. of shares	2020 £m
At 1 January	**614,086,377**	**30.7**	511,738,648	25.6
Issued during the year	**–**	**–**	102,347,729	5.1
At 31 December	**614,086,377**	**30.7**	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 was credited to a merger reserve rather than the share premium account. 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 were recorded in share premium.

The total number of share options exercised in the year by employees of the Company was 402,244 (2020: 1,552,919) of which all (2020: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 1,489,069 (2020: 877,337) 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 1,013,976 (2020: 1,025,505) shares and 402,244 (2020: 1,552,919) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2020: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2021 was £3.8m (2020: £2.1m). No dividends were payable on these shares in either 2021 or 2020.

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 2021	0.2	239.5	(1.5)	(15.2)	1.4	16.0	127.4	367.8
Exchange differences on retranslation of foreign operations	–	–	–	–	–	–	(55.7)	(55.7)
Gains on equity instruments classified as fair value through Other Comprehensive Income	–	–	1.2	–	–	–	–	1.2
Gains on hedges	–	–	–	52.5	–	26.5	–	79.0
Hedging gains reclassified to Income Statement	–	–	–	(2.8)	(0.5)	–	–	(3.3)
Cost of hedging	–	–	–	–	0.1	–	–	0.1
Deferred tax	–	–	–	(9.5)	–	0.5	–	(9.0)
At 31 December 2021	0.2	239.5	(0.3)	25.0	1.0	43.0	71.7	380.1

Notes to the Consolidated Accounts continued
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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 2020 as described in note 32.
- The cash flow hedge 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 cash flow 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	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
Exchange differences on retranslation of foreign operations	–	–	0.1	–	–	–	34.4	34.5
Losses on equity instruments classified as fair value through Other Comprehensive Income	–	–	(1.6)	–	–	–	–	(1.6)
Losses on hedges	–	–	–	(50.3)	–	(10.0)	–	(60.3)
Hedging gains/(losses) 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

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.

The Company defined benefit scheme was subject to a buy-in transaction on 11 October 2018 whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Rothesay Life under which the benefits payable to defined benefit members became fully insured. On 23 September 2021, a full buy-out of the defined benefit section was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets (comprising the Rothesay Life insurance policy) and matching defined benefit liabilities were derecognised from the Group's Balance Sheet. The buy-out transaction also triggered the return of surplus assets to the Company totalling £7.5m, with the remaining assets retained in the scheme to cover final expenses in completing its wind-up.

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 2022.

The total pension cost charged to underlying operating loss in the year for the Group was £10.9m (2020: £11.2m), of which £6.0m (2020: £6.7m) relates to the defined contribution schemes.

34 Pensions and other post-employment benefits continued

The defined benefit pension (liability)/asset included in the Balance Sheet is as follows:

	2021 £m	2020 £m
Company	3.8	12.3
Pension assets	**3.8**	**12.3**
UK	(96.1)	(141.6)
Other	(3.1)	(5.8)
Pension liabilities	**(99.2)**	**(147.4)**
Total	**(95.4)**	**(135.1)**

Through its defined benefit plans, the Group is exposed to a number of risks. Following the buy-out of the Company scheme during the year, such risks as detailed below, only relate to the UK scheme.

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 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.

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 consumer price index (CPI) inflation instead of retail price index (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%

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

34 Pensions and other post-employment benefits continued

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. Following the buy-out of the Company scheme there are no remaining pension liabilities at 31 December 2021, therefore a full set of assumptions was not derived. Therefore the Company assumptions listed below are those used to derive the schemes valuation immediately preceding the buy-out transaction, whereas for the UK scheme the assumptions listed below are those at 31 December 2021.

	2021		2020	
	UK	**Company**	UK	Company
Rate of increase in salaries	**2.5%**	**–**	2.5%	–
Rate of increase of pensions in payment	**2.8%**	**3.4%**	2.4%	2.9%
Discount rate	**1.8%**	**2.0%**	1.3%	1.4%
Inflation assumption (RPI)	**3.4%**	**3.4%**	3.0%	2.9%
Inflation assumption (CPI)	**2.8%**	**2.8%**	2.4%	2.3%
Post-retirement mortality in years:				
Current pensioners at 65 – male	**19.6**	**22.4**	19.9	22.4
Future pensioners at 65 – male	**21.0**	**23.7**	21.3	23.7
Current pensioners at 65 – female	**23.0**	**25.1**	23.2	25.1
Future pensioners at 65 – female	**24.6**	**26.6**	24.7	26.6

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:

(Increase)/decrease in the defined benefit obligation	**UK 2021 £m**	**Company 2021 £m**	UK 2020 £m	Company 2020 £m
Effect of a 0.5% increase in pensions in payment	**(30.4)**	**–**	(27.6)	–
Effect of a 0.5% increase in the discount rate	**36.1**	**–**	35.8	–
Effect of a 0.5% increase in inflation	**(34.8)**	**–**	(32.0)	–
Effect of a 1 year increase in mortality rates	**(18.0)**	**–**	(18.5)	–

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 scheme, 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 2021 and 2020 are set out in the following tables:

Group Income Statement	**UK 2021 £m**	**Company 2021 £m**	**Other 2021 £m**	**Total 2021 £m**
Amounts (charged)/credited:				
Current service cost	**(3.8)**	**–**	**–**	**(3.8)**
Settlement gain	**–**	**0.1**	**–**	**0.1**
Net interest (expense)/income	**(1.7)**	**0.1**	**(0.2)**	**(1.8)**
Total charge/(credit) to Income Statement	**(5.5)**	**0.2**	**(0.2)**	**(5.5)**

In addition, during the year £1.2m (2020: £1.0m) of administrative expenses were incurred.

Group Statement of Comprehensive Income	**UK 2021 £m**	**Company 2021 £m**	**Other 2021 £m**	**Total 2021 £m**
Actuarial gain during the period from obligations	**25.5**	**7.5**	**0.2**	**33.2**
Expected return on plan assets greater than discount rate	**15.8**	**(7.6)**	**0.5**	**8.7**
Net actuarial gain/(loss)	**41.3**	**(0.1)**	**0.7**	**41.9**

34 Pensions and other post-employment benefits continued

The net interest expense has been included within finance costs (see note 10).

Group Income Statement	UK 2020 £m	Company 2020 £m	Other 2020 £m	Total 2020 £m
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)

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.

Group Statement of Comprehensive Income	UK 2020 £m	Company 2020 £m	Other 2020 £m	Total 2020 £m
Actuarial gain/(loss) during the period from obligations	(71.6)	(17.0)	(0.8)	(89.4)
Expected return on plan assets less than discount rate	24.4	16.4	0.2	41.0
Net actuarial gain/(loss)	(47.2)	(0.6)	(0.6)	(48.4)

In addition to the above actuarial movements, the Statement of Comprehensive Income 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:

As at 31 December 2021	**UK 2021 £m**	**Company 2021 £m**	**Other 2021 £m**	**Total 2021 £m**
Equities	**96.4**	**–**	**2.6**	**99.0**
Bonds and multi-asset credit	**63.8**	**–**	**0.9**	**64.7**
Insurance policy	**171.7**	**–**	**–**	**171.7**
Diversified growth fund	**98.3**	**–**	**–**	**98.3**
Liability-driven investment	**48.0**	**–**	**–**	**48.0**
Other	**1.5**	**3.8**	**0.1**	**5.4**
Fair value of scheme assets	**479.7**	**3.8**	**3.6**	**487.1**
Present value of liabilities and defined benefit obligation	**(575.8)**	**–**	**(6.7)**	**(582.5)**
Defined benefit pension (deficit)/surplus	**(96.1)**	**3.8**	**(3.1)**	**(95.4)**

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 remaining equity and debt instruments have primarily been determined based on quoted prices in active markets.

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34 Pensions and other post-employment benefits continued

As at 31 December 2020	UK 2020 £m	Company 2020 £m	Other 2020 £m	Total 2020 £m
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)

The movement in the present value of the defined benefit obligation in the year is as stated below.

The Group's defined benefit obligation comprises £580.6m (2020: £732.3m) arising from plans that are wholly or partly funded and £1.9m (2020: £3.9m) from unfunded plans.

The movement in the defined benefit obligations is as follows:

	UK £m	**Company £m**	**Other £m**	**Total £m**
Defined benefit obligation at 1 January 2021	**(616.7)**	**(110.5)**	**(9.0)**	**(736.2)**
Current service cost	**(3.8)**	**–**	**–**	**(3.8)**
Benefits paid	**27.4**	**3.7**	**0.1**	**31.2**
Contributions by employees	**(0.5)**	**–**	**2.2**	**1.7**
Finance charge	**(7.7)**	**(1.1)**	**(0.2)**	**(9.0)**
Gain on settlements	**–**	**100.4**	**–**	**100.4**
Actuarial gain from changes in financial assumptions	**19.9**	**7.3**	**0.1**	**27.3**
Actuarial gain arising from changes in demographics	**8.6**	**0.2**	**0.1**	**8.9**
Actuarial loss arising from experience adjustments	**(3.0)**	**–**	**–**	**(3.0)**
Defined benefit obligation at 31 December 2021	**(575.8)**	**–**	**(6.7)**	**(582.5)**

	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
Defined benefit obligation at 31 December 2020	(616.7)	(110.5)	(9.0)	(736.2)

34 Pensions and other post-employment benefits continued

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 2021	**475.1**	**122.8**	**3.2**	**601.1**
Expected return on plan assets	**6.0**	**1.2**	**–**	**7.2**
Expected return on plan assets greater/(less) than discount rate	**15.8**	**(7.6)**	**0.5**	**8.7**
Cash contributions – employer	**9.9**	**(7.5)**	**–**	**2.4**
Administrative expenses	**(0.1)**	**(1.1)**	**–**	**(1.2)**
Cash contributions – employee	**0.4**	**–**	**–**	**0.4**
Loss on settlement	**–**	**(100.3)**	**–**	**(100.3)**
Benefits paid	**(27.4)**	**(3.7)**	**(0.1)**	**(31.2)**
Fair value of scheme assets at 31 December 2021	**479.7**	**3.8**	**3.6**	**487.1**

The employer cash contribution of £7.5m in the Company scheme represents the surplus returned to the Group upon the buy-out transaction completing.

	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

History of experience gains and losses:	**2021 £m**	2020 £m	2019 £m	2018 £m	2017 £m
UK					
Fair value of scheme assets	**479.7**	475.1	458.0	453.0	486.2
Present value of defined benefit obligation	**(575.8)**	(616.7)	(557.1)	(580.3)	(620.0)
Asset ceiling	**–**	–	–	–	–
Deficit in the scheme	**(96.1)**	(141.6)	(99.1)	(127.3)	(133.8)
Experience adjustments arising on liabilities	**(3.0)**	6.7	52.2	(1.1)	(4.3)
Experience adjustments arising on assets	**15.8**	24.4	8.9	(30.0)	20.2
Company					
Fair value of scheme assets	**3.8**	122.8	109.3	98.6	134.0
Present value of defined benefit obligation	**–**	(110.5)	(95.1)	(83.7)	(90.8)
Surplus in the scheme	**3.8**	12.3	14.2	14.9	43.2
Experience adjustments arising on liabilities	**–**	1.0	0.3	(2.3)	–
Experience adjustments arising on assets	**(7.6)**	16.4	10.8	(35.6)	(0.4)
Other					
Fair value of scheme assets	**3.6**	3.2	3.0	2.7	2.8
Present value of defined benefit obligation	**(6.7)**	(9.0)	(8.1)	(7.1)	(6.7)
Deficit in the scheme	**(3.1)**	(5.8)	(5.1)	(4.4)	(3.9)
Experience adjustments arising on liabilities	**–**	–	–	–	–
Experience adjustments arising on assets	**0.5**	0.2	0.2	–	0.2

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £135.8m loss (2020: £177.7m 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.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

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):

	2021				2020			
Right-of-use assets	**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
Additions	**25.4**	**8.0**	**0.3**	**33.7**	29.6	6.4	0.2	36.2
Depreciation charge	**(28.8)**	**(36.5)**	**(0.6)**	**(65.9)**	(30.6)	(46.1)	(0.6)	(77.3)
Net book value at 31 December	**97.6**	**129.9**	**0.2**	**227.7**	107.0	213.3	1.1	321.4

Set out below are the carrying amounts of lease liabilities (included in borrowings – note 28) at 31 December 2021:

Lease liabilities	**2021 £m**	2020 £m
Current	**67.0**	86.5
Non-current	**168.7**	239.7
	235.7	326.2

The maturity analysis of lease liabilities is presented in note 29.

(b) Amounts recognised in the Income Statement

	2021 £m	2020 £m
Depreciation expense on right-of use assets (note 6)	**65.9**	77.3
Interest on lease liabilities (note 10)	**10.5**	12.6
Interest income on sub-leases (note 10)	**(0.7)**	(0.6)
Expenses relating to short-term leases (note 6)	**4.3**	7.9
Expenses relating to leases of low-value assets (note 6)	**3.0**	5.2
Variable lease payments not included in the measurement of lease liabilities (note 6)	**0.1**	–
Covid-19-related rent concessions (note 6)	**–**	(0.7)
Income from sub-leasing right-of-use assets (included in other revenue)	**(3.5)**	(1.6)

It is not expected that commitments for short-term leases will materially differ from those in place at 31 December 2021.

(c) Amounts recognised in the Cash Flow Statement

	2021 £m	2020 £m	Included within
Payment of interest	**(10.5)**	(12.6)	Cash flows from operating activities
Payment of principal	**(118.2)**	(97.7)	Cash flows from financing activities
Payments for short-term, low-value leases and variable lease payments	**(7.4)**	(13.1)	Cash flows from operations
Total cash outflow for leases	**(136.1)**	(123.4)	

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 the 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

During the year the Group entered into a variable lease arrangement in respect of public service vehicles in North America. The lease payments are fully variable based on miles driven, and there is no minimum mileage or fixed payment within the contract. Given the lease payments are fully variable, no lease liability has been recognised in the Balance Sheet. Instead the variable lease payments are included in the Income Statement as incurred.

(f) Residual value guarantees

The Group has a 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

During the year the Group has entered into an availability agreement for the provision of 130 electric buses in the UK. However at year end no vehicles have been made available to us. The agreement includes a substitution clause whereby the service provider makes available to us a set number of vehicles each day from its wider pool of vehicles. In the Directors' view, the arrangement does not meet the definition of a lease. The service provider has control of the vehicles and has a substantive substitution right, having both the practical ability to substitute the vehicles and an economic incentive to do so. Consequently, no right of use asset or lease liability will be recognised on the Balance Sheet, and payments under the agreement will be charged to the Income Statement as incurred. These contracts will give rise to an estimated annual expense of £7.6m.

At the year end, the Group had commitments relating to leases not yet commenced with future lease payments of £0.1m within one year, £0.7m within five years and £0.5m thereafter (2020: £nil).

Group as a lessor

The Group entered into finance leasing arrangements as a lessor for certain vehicles to its customers. In addition, the Group sub-leases two properties which are no longer used by the Group. During 2021, the Group recognised interest income on lease receivables of £0.7m (2020: £0.6m).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

Net investment in the lease	2021 £m	2020 £m
Within one year	**4.6**	4.7
After one year but not more than five years	**9.3**	11.0
More than five years	**5.6**	0.3
Total undiscounted lease receivable	**19.5**	16.0
Unearned finance income	**(2.7)**	(1.1)
Finance lease receivable	**16.8**	14.9

The maturity analysis of the discounted lease payments are as follows:

Net investment in the lease	2021 £m	2020 £m
Current	**4.1**	4.3
Non-current	**12.7**	10.6
	16.8	14.9

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

35 Leases continued

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.

Operating lease receipts	2021 £m	2020 £m
Within one year	**3.0**	1.3
After one year but not more than five years	**4.7**	1.8
More than five years	–	–
	7.7	3.1

36 Commitments and contingencies

(a) Capital commitments

	2021 £m	2020 £m
Contracted	**97.0**	97.1

The Group is committed to vehicle purchases and various land and buildings improvements.

(b) Contingent liabilities

Guarantees
The Group has guaranteed credit facilities totalling £3.7m (2020: £7.3m) 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 2021, the Group had performance bonds in respect of businesses in the USA of £113.7m (2020: £165.3m), in Spain of £88.1m (2020: £106.7m), in Germany of £30.0m (2020: £32.0m) and in the Middle East of £6.0m (2020: £6.0m). Letters of credit have been issued to support insurance retentions of £145.0m (2020: £117.2m).

Legal
Through the ordinary course of our operations, the Group is party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Group's results, cash flows or financial position.

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 2021 of £1.8m (2020: £2.4m). 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	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Joint ventures						
Bahrain Public Transport Company W.L.L.	**0.5**	0.5	**–**	–	**–**	–
Associates						
ALSA associates	**3.5**	3.7	**3.2**	3.6	**(0.5)**	(0.7)
Total joint ventures and associates	**4.0**	4.2	**3.2**	3.6	**(0.5)**	(0.7)
Trade investments						
ALSA trade investments	**4.7**	4.9	**0.8**	0.9	**(0.8)**	(1.1)
North America trade investments	**1.0**	0.3	**–**	–	**–**	–
Total investments	**5.7**	5.2	**0.8**	0.9	**(0.8)**	(1.1)
Property transactions						
ALSA property transactions	**4.9**	3.7	**0.4**	0.4	**(0.5)**	(0.4)
North America property transactions	**2.0**	3.2	**–**	–	**–**	–
Total property transactions	**6.9**	6.9	**0.4**	0.4	**(0.5)**	(0.4)
Total other related parties	**12.6**	12.1	**1.2**	1.3	**(1.3)**	(1.5)
Total	**16.6**	16.3	**4.4**	4.9	**(1.8)**	(2.2)

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.

Compensation of key management personnel of the Group

	2021 £m	2020 £m
Total compensation paid to key management personnel (note 8)	**2.1**	0.8

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

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 Regional Bus	The Group has a contract with the Provincial Government of Bizkaia to operate regional services.	10 years	July 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Spanish Urban Bus	The Group has two contracts with Spanish Councils 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
		3 years	June 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Alaska Schoolbus	The Group has undertaken a contract for home to school transportation.	10 years	July 2021	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 before tax to cash generated from operations

	2021 £m	(Restated) 2020[2] £m
Loss before tax	**(84.9)**	(444.7)
Net finance costs	**47.7**	61.2
Share of results from associates and joint ventures	**1.0**	2.1
Depreciation of property, plant and equipment	**199.7**	223.6
Intangible asset amortisation	**54.2**	69.0
Amortisation of fixed asset grants	**(3.2)**	(2.9)
Gain on disposal of property, plant and equipment	**(8.0)**	(8.7)
Gain on disposal of intangible assets	**(0.6)**	(2.3)
Share-based payments	**1.0**	0.2
(Increase)/decrease in inventories	**(1.9)**	2.9
(Increase)/decrease in receivables	**(85.3)**	56.6
Increase/(decrease) in payables	**53.2**	(140.0)
Increase/(decrease) in provisions	**17.1**	(22.9)
Separately disclosed operating items[1]	**84.4**	278.0
Cash flows relating to separately disclosed items	**(43.3)**	(120.4)
Cash generated from operations	**231.1**	(48.3)

1 Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'
2 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to borrowings – see note 2 for further information

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 226 for further information.

	(Restated) At 1 January 2021[4,5] £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2021 £m
Components of financing activities:						
Bank and other loans[1, 4]	(101.8)	(89.6)	(2.0)	4.4	(0.6)	(189.6)
Bonds	(647.0)	–	–	–	6.1	(640.9)
Fair value of interest rate derivatives	1.0	–	–	–	(7.3)	(6.3)
Fair value of foreign exchange forward contracts	4.6	(8.8)	–	(5.7)	–	(9.9)
Cross currency swaps	(5.7)	–	–	8.3	–	2.6
Net lease liabilities[2]	(311.3)	118.2	–	0.8	(26.6)	(218.9)
Private placements	(476.8)	66.8	–	15.5	0.6	(393.9)
Total components of financing activities	(1,537.0)	86.6	(2.0)	23.3	(27.8)	(1,456.9)
Cash[5]	241.2	28.7	0.2	(2.0)	–	268.1
Overnight deposits	49.7	(47.4)	–	(1.9)	–	0.4
Other short-term deposits	338.9	(98.4)	–	(0.6)	–	239.9
Bank overdrafts[5]	(109.3)	(22.9)	–	–	–	(132.2)
Net cash and cash equivalents	520.5	(140.0)	0.2	(4.5)	–	376.2
Other debt receivables	1.2	(0.1)	–	(0.1)	–	1.0
Remove: fair value of foreign exchange forward contracts	(4.6)	8.8	–	5.7	–	9.9
Net debt[3]	(1,019.9)	(44.7)	(1.8)	24.4	(27.8)	(1,069.8)

1 Net of arrangement fees totalling £1.5m 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
4 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to borrowings. See note 2 for further information
5 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information

Short-term deposits relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £1,294.3m (2020: £1,313.0m) as disclosed in note 28.

Other non-cash movements include lease additions and disposals of £26.6m (2020: £21.1m) and a £1.2m net reduction from the amortisation of loan and bond arrangement fees (2020: £1.7m). A £7.3m 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 £6.4m fair value increase in bonds and a £0.9m fair value increase in private placements.

Notes to the Consolidated Accounts continued For the year ended 31 December 2021

39 Cash flow statement continued

	(Restated[4, 5])					
	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, 4]	(242.6)	154.0	(11.3)	(1.0)	(0.9)	(101.8)
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	(1,783.2)	310.8	(15.6)	(26.2)	(22.8)	(1,537.0)
Cash[5]	348.7	(109.3)	0.7	1.1	–	241.2
Overnight deposits	2.1	47.6	–	–	–	49.7
Other short-term deposits	365.0	(30.7)	–	4.6	–	338.9
Bank overdrafts[5]	(237.5)	128.2	–	–	–	(109.3)
Net 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 debt[3]	(1,282.1)	324.4	(14.9)	(24.5)	(22.8)	(1,019.9)

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
4 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to borrowings. See note 2 for further information
5 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information

(c) Reconciliation of net cash flow to movement in net debt

	2021 £m	2020[1] £m
(Decrease)/Increase in net cash and cash equivalents in the year	**(139.8)**	36.5
Cash outflow from movement in other debt receivables	**(0.1)**	(1.2)
Cash inflow from movement in debt and leases liabilities	**93.4**	274.2
Change in net debt resulting from cash flows	**(46.5)**	309.5
Change in net debt resulting from non-cash movements	**(3.4)**	(47.3)
Movement in net debt in the year	**(49.9)**	262.2
Opening net debt[1]	**(1,019.9)**	(1,282.1)
Net debt	**(1,069.8)**	(1,019.9)

1 Restated for the change in presentation of advance subsidy factoring liabilities from other payables to borrowings – 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 2021 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of Incorporation	% equity interest
United Kingdom & Ireland	
Airlinks The Airport Coach Company Limited (a)	100
Altram L.R.T. Limited (a)	100
Brooke Management Limited (a)	100
Central Trains Limited (a)	100
Clarkes Holdco Limited (a)	100
Coachman Limited (a)	100
Coliseum Coaches Limited (a)	100
E. Clarke & Son (Coaches) Limited (a)	100
Eurolines (U.K) Limited (a)	100
H. Luckett & Co. Limited (a)	100
Inter-Capital and Regional Rail Limited (a)	40
London Eastern Railway Limited (a)	100
Lucketts Holdings Limited (a)	100
Lucketts Services Limited (a)	100
Maintrain Limited (a)	100
Midland Main Line Limited (a)	100
Mortons Travel Limited (a)	100
National Express Bus & Coach Services Limited (b)	100
National Express European Holdings Limited (05652775)* (a)	100
National Express Finance Company Limited (a)	100
National Express Financing LP** (a)	100
National Express Group Holdings Limited (a)	100
National Express Holdings Limited (02156473)* (a)	100
National Express Intermediate Holdings Limited (a)	100
National Express International Limited (a)	100
National Express Leisure Limited (previously Lucketts Travel Limited) (a)	100
National Express Limited (a)	100
National Express Manchester Metrolink Limited (a)	100
National Express Middle East Plc (a)	100
National Express North America Holdings Limited (07855182)* (a)	100
National Express Operations (Stansted) Limited (a)	100
National Express Operations Limited (a)	100
National Express Petermann UK Limited (07855188)* (a)	100
National Express Rail Replacement Limited (a)	100
National Express Services Limited (a)	100
National Express Spanish Holdings Limited (a)	100
National Express Trains Limited (a)	100
National Express Transport Holdings Limited (04338163)* (a)	100
National Express UK Limited (a)	100
N E Canada Limited (08596333)* (a)	100
NE Durham UK Limited (08270480)* (a)	100
NE Europe Finance Limited (07876047)* (a)	100
NE No.1 Ltd (a)	100
NE No.2 Ltd (a)	100
NE No. 3 Limited (a)	100
NE Trains South Limited (a)	100
NXEC Trains Limited (a)	100
Scotrail Railways Limited (a)	100
Silverlink Train Services Limited (a)	100
Solent Coaches Limited (a)	100
Speedlink Airport Services Limited (a)	100
Stewarts Coach Group Limited (a)	100
Stewarts Coaches Limited (a)	100
The Kings Ferry Limited (a)	100
Travel Coventry Limited (previously WM Card Systems Limited) (a)	100
Travel Merryhill Limited (a)	100
Travel West Midlands Limited (a)	100
Travel WM Limited (a)	100
Travel Yourbus Limited (a)	100
West Anglia Great Northern Railway Limited (a)	100
West Midlands Accessible Transport Limited (previously Travel Coventry Limited) (a)	100
West Midlands Travel Limited (a)	100
W M Property Holdings Limited (a)	100
WM Travel Limited (a)	100
W M Ventures Limited (a)	100
Wood's Coaches Limited (a)	100
Woods Reisen Limited (a)	100
Worthing Coaches Limited (a)	100
Bahrain	
Bahrain Public Transport Company W.L.L. (c)	50
Germany	
National Express Germany GmbH (d)	95
National Express Holding GmbH (e)	100
National Express Rail GmbH (f)	100
Süddeutsche Regionalbahn GmbH (e)	100
Czech Republic	
National Express Cz s.r.o. (g)	100
Netherlands	
National Express Holdings LLC BV (h)	100
Andorra	
Estació 2017, S.A. (i)	11
Estació d'Autobusos d'Andorra (j)	100
Transports Dels Pirineus (i)	100
France	
Iberolines (k)	46
SARL Chamexpress.com (l)	100

Notes to the Consolidated Accounts continued
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40 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Morocco	
Alsa al Baida (m)	100
Alsa City Agadir S.A. (n)	100
Alsa City Sightseeing Maroc (o)	100
Alsa City Tour S.A.R.L. (o)	95
Alsa Education a la Sécurité Routière S.A.R.L. (o)	98
Alsa Khouribga S.A. (p)	100
Alsa Tanger S.A. (q)	100
Centre de Formation Techn. Profes. Transport S.A.R.L. (o)	99
Groupe Alsa Transport S.A. (o)	100
Immeubles Véhicules Accessoires Maroc S.A.R.L. (o)	80
Interprovincial Maroc S.A.R.L. (o)	100
Transport de Voyageurs en Autocar Maroc S.A. (o)	100
Alsa Citybus Rabat-Salé-Temara, S.A. (r)	51
Portugal	
Alsa Metropolitano do Porto, Lda (s)	100
Tiac Viagens e Turismo Lda (t)	100
Alsa Todi Metropolitana de Lisboa (u)	65
Slovakia	
Efc Spol s.r.o. (v)	80
Spain	
Agreda Bus, S.L (w)	70
Alianza Bus, S.L.U. (x)	100
Alhambra Bus, S.L.U. (y)	100
Almeria–Murcia Bus, S.L. (y)	100
Alsa Atlántica, S.L.U. (z)	100
Alsa Ferrocarril, S.A.U. (z)	100
Alsa Granada Airport S.L. (y)	100
Alsa Grupo, S.L.U. (z)	100
Alsa Internacional, S.L.U. (z)	100
Alsa Internacional, S.L.U. y Otros U.T.E. (x)	100
Alsa Metropolitana, S.A.U. (x)	100
Alsa-Mirat Extremadura, S.L. (aa)	50
Alsa Micromobility, S.L.U. (z)	100
Alsa Rail, S.L.U. (z)	100
Aplic. y Sist. Integrales Para el Transporte, S.A. (ab)	100
Aragonesa de Estación de Autobuses, S.A. (ac)	23
Argabus, S.A. (ad)	100
Artazo Servicios Integrales, S.L. (ae)	100
Asturies Berlinas de Luxu, S.L. (af)	100
Autobuses Urbanos de Bilbao, S.A. (ag)	75
Autobuses Urbanos de León, S.A.U. (ah)	100
Autocares Castilla–Leon, S.A.U. (ai)	100
Autocares de Badajoz, S.L. (aj)	100
Autocares Discrecionales del Norte, S.L.U. (ak)	100
Automóviles Luarca, S.A.U. (al)	100
Automóviles Sigras Carral, S.A. (am)	100

Name and country of Incorporation	% equity interest
Autos Cal Pita, S.A. (am)	97
Autos Pelayo, S.A.U. (z)	100
Autos Rodríguez Eocar, S.L. (an)	80
Baleares Business Cars, S.L. (af)	100
Baleares Consignatarios, S.L.U. (ao)	100
Baleares Consignatarios Tours, S.L.U. (ao)	100
Berlinas de Asturias, S.L. (af)	100
Berlinas Calecar, S.L.U. (ai)	100
Berlinas de Canarias, S.L. (af)	100
Berlinas de Toledo, S.L. (af)	100
Berlinas VTC de Cantabria, S.L.U. (ap)	100
Bilboko Hiribus Jasangarría, S.L. (ag)	78
Buses de Palencia, S.L. (aq)	100
Bus Metropolitano de Granada, S.L. (ar)	50
Busturialdea Lea Artibai Bus, S.A. (as)	65
Bus Urbano de Castro Urdiales, S.L. (ap)	96
Canary Business Cars, S.L. (af)	100
Cataluña Business Cars, S.L. (af)	100
Center Bus, S.L. (at)	90
Cetralsa Formación, S.L.U. (z)	100
Cía. del Tranvía Eléctrico de Avilés, S.A. (au)	87
Compañia Navarra de Autobuses, S.A. (av)	50
Compostelana, S.A.U. (aw)	100
Concesionario Estación Autobuses Logroño, S.A. (ax)	21
Ebrobus, S.L.U. (z)	100
Estación Autobuses de Cartagena, S.A. (ay)	54
Estación Autobuses de Ponferrada, S.A. (az)	49
Estación Central de Autobuses de Zaragoza, S.A. (ba)	19
Estación de Autobuses de Siero, S.L. (bb)	50
Estación de Autobuses Aguilar de Campoo, S.L. (bc)	67
Estación de Autobuses de Aranda de Duero, S.L. (bd)	43
Estación de Autobuses de Astorga, S.L. (be	79
Estación de Autobuses de Aviles S.L. (bf)	100
Estación de Autobuses de León, S.A. (ai)	89
Estación de Autobuses de Plasencia, S.A. (bg)	52
Estación de Autobuses de San Lorenzo del Escorial, S.A.U. (x)	100
Estación de Autobuses de Ribadeo, S.L. (bh)	50
Estación de Autobuses de Vitoria, S.L. (bi)	32
Estación de Líneas Regulares, S.L. (bj)	46
Estaciónes Terminales de Autobuses, S.A. (bk)	79
Euska Alsa, S.L.U. (ak)	100
Explotación Gasoleo Estación de Autobuses A Coruña, S.L. (bl)	40
Ezkerraldea-Meatzaldea Bus, S.A. (as)	65
Gal Bus, S.L. (am)	100
G.S. Carretera (bm)	25
General Técnica Industrial, S.L.U. (z)	100
Gorbea Representaciones, S.L. (ak)	100
Guaguas Gumidafe, S.L. (ae)	100
Grupo Enatcar, S.A. (x)	100
Ibero-Euro Sur, S.L. (x)	20

40 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Intercambiadores Europeos, S.L. (z)	60
Intercar Business Cars, S.L. (bn)	100
International Business Limousines, S.A.U. (bo)	100
Interurbana de Autocares, S.A.U. (z)	100
Irubus, S.A.U. (x)	100
Jimenez Lopera, S.A.U. (bo)	100
Julia Travel y Automóviles Luarca Sa Ute (bp)	50
La Tafallesa, S.A.U. (av)	50
La Unión Alavesa, S.L. (bi)	50
La Unión de Benisa, S.A. (bq)	98
Lineas Europeas de Autobuses, S.A. (br)	43
Los Abades de la Gineta, S.L.U. (x)	100
Mybustest, S.L (z)	50
Mai Tours, S.L.U. (bs)	100
Manuel Vázquez, S.L. (bt)	60
Movelia Tecnologias, S.L. (bu)	78
Mundaka Consultoria, S.L.U. (ak)	100
NEX Continental Holdings, S.L.U. (z)	100
NX Middle East, S.L.U. (bv)	100
Proyectos Unificados, S.A.U. (z)	100
Publi Imagen Granada, S.L.U. (y)	100
Representaciones Mecánica, S.A.U. (ak)	100
Return Viajes, S.L. (bw)	50
Rutas a Cataluña, S.A. (bx)	28
Rutas del Cantábrico, S.L. (ak)	95
Semarvi (z)	34
Serviareas 2000, S.L.U (z)	100
Servicios Auxiliares del Transporte C.B. (by)	100
Servicios del Principado, S.A.U. (z)	100
Servicios El Temple, S.L. (am)	100
Servicios Empresariales Especiales, S.L.U. (ak)	100
Servicios Generales de Automoción, S.A.U. (ak)	100
Servicios VTC Tibus, S.L.U. (x)	100
Setra Ventas y Servicios, S.A.U. (bo)	100
Sevirama, S.L. (bz)	30
Sociedad Anónima Unipersonal Alsina Graells de A.T. (ca)	100
Sociedad Concesionaria Interurbano Tolosa Buruntzaldea S.L. (cb)	25
Técnicas en Vehículos Automóviles, S.L.U. (x)	100
Técnologias Formativas en Simuladores, S.L. (cc)	50
Terminal de Autobuses de Garellano, S.L. (cd)	41
Tibus, S.A. (ca)	60
Tibus Berlines de Luxe, S.L.U. (ca)	100
Tibus Business Cars, S.L.U. (ca)	100
Tibus Business Limousines, S.L.U. (x)	100
Tibus Luxury Services, S.L.U. (ca)	100
Transporte Colectivos, S.A.U. (ce)	100
Transportes Accesibles Peninsulares, S.L. (cf)	100
Transportes Adaptados Andaluces, S.A.U. (cg)	100
Transportes Adaptados Regionales, S.L.U. (ai)	100
Transportes Adaptados Cántabros, S.A. (ch)	98
Transportes Bacoma, S.A.U. (ca)	100
Transportes Rober, S.A.U. (y)	100
Transportes de Viajeros de Aragón, S.A. (ba)	59
Transportes Santo Domingo, S.L.U. (ci)	100
Viajes ALSA, S.A.U. (z)	100
Transportes Terrestres Cantabros, S.A. (ch)	93
Transportes Unidos de Asturias, S.L. (cj)	100
Transportes Unidos, S.L.U. (z)	100
Transportes Urbanos de Cantabria, S.L.U. (ch)	100
Transportes Urbanos de Cartagena, S.A. (ck)	97
Tranvía de Vélez, S.A.U. (cl)	100
Transportes Urbanos de Guadalajara, S.L. (cm)	100
Tranvías Metropolitanas de Granada, S.A.U. (cn)	100
Tury Express, S.A. (ak)	100
Ute Catamaranes Bahía Cadiz (co)	23
Ute Ea Cordoba (cp)	50
Ute Extremadura (x)	100
Ute Guadalajara (z)	100
Ute Mundiplan (cq)	17
Ute Murcia City Tour (al)	50
Ute Ea Alicante (cr)	50
Viajes Por Carretera, S.A.U. (ak)	100
Voramar el Gaucho S.L.U. (cs)	100
Switzerland	
AlpyBus S.a.r.l. (ct)	100
Eggmann Frey (cu)	100
GVA Transfers.com SARL (cv)	100
Linien Abfertigung GmbH (cu)	80
Odier Excursions, S.A. (cw)	100
US	
The Provider Enterprises, Inc. (cx)	100
A1A Transportation, Inc. (cy)	100
Aristocrat Limousine and Bus, Inc. (cz)	100
A&S Transportation Incorporated (cy)	100
Atlantic & Southern Transportation (da)	100
Atlantic & Southern Transportation (db)	100
Atlantic & Southern Transportation (dc)	100
Beck Bus Transportation Corp. (de)	100
Beck Bus Transportation III, LLC (de)	100
Beck Bus Transportation IV, LLC (de)	100
Beck Bus Transportation, LLC (de)	100
Bus Co., Inc. (de)	100
Caravan Leasing Vehicles LLC (df)	100
Carrier Management Corporation (dg)	100
Chicagoland Coach Lines LLC (dh)	100
Community Transportation, Inc. (dg)	100
Cook-DuPage Transportation Company, Inc. (de)	100
Diamond Transportation Services, Inc. (di)	100

Notes to the Consolidated Accounts continued **For the year ended 31 December 2021**

40 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Discount Enterprises, Inc. (dj)	100
Durham D&M LLC (dh)	100
Durham Holding I, LLC (dh)	100
Durham Holding II, LLC (dh)	100
Durham School Services, L.P. (dh)	100
Fox Bus Lines Inc. (dk)	100
Greensburg Yellow Cab Co. (dg)	100
Haid Acquisitions LLC (dl)	100
JNC Leasing, Inc. (dm)	100
Kiessling Transit, Inc. (dk)	100
Meda-Care Vans of Waukesha, Inc. (dn)	100
MF Petermann Investment Corporation (dh)	100
Monroe School Transportation, Inc. (do)	100
MV Student Transportation, Inc. (dp)	100
National Express Acquisition Corporation (dh)	100
National Express Durham Holding Corporation (dh)	100
National Express LLC (dh)	100
National Express Leasing Company LLC (dh)	100
National Express Transit Corporation (dh)	100
National Express Transit Services Corporation (dh)	100
New Dawn Transit LLC (do)	100
Petermann Acquisition Co., LLC (dh)	100
Petermann Acquisition Corporation (dh)	100
Petermann Holding Co., LLC (dh)	100
Petermann Ltd. (dl)	100
Petermann Northeast, LLC (dl)	100
Petermann Northwest, LLC (dh)	100
Petermann Partners, Inc. (dh)	100
Petermann Southwest, LLC (dh)	100
Petermann STS, LLC (dh)	100
Petermann STSA, LLC (dh)	100
PM2 Co. LLC (dh)	100
Quality Bus Service, LLC (do)	100
Queen City Transportation, LLC (dl)	100
Rainbow Management Service, Inc. (do)	100
Safeway Training and Transportation Services, Inc. (cx)	100
Septran, Inc. (dc)	100
Smith Bus Service, Inc. (dq)	100
Suburban Paratransit Services, Inc. (do)	100
Total Transit Enterprises, LLC (dr)	100
Trans Express, Inc. (do)	100
Transit Express, Inc. (dn)	100
Transit Express Services, Inc. (dn)	100
Trinity, Inc. (dm)	100

Name and country of Incorporation	% equity interest
Trinity Cars, Inc. (dm)	100
Trinity Coach LLC (dm)	100
Trinity Management Services Co. LLC (ds)	100
Trinity Student Delivery LLC (dm)	100
TWB Transport, LLC (de)	100
WeDriveU America LLC (dc)	100
WeDriveU Holdings, Inc. (dt)	70
White Plains Bus Co., Inc. (do)	100
Whitetail Bid Co., LLC (dh)	100
Wise Coaches, Inc. (du)	100
Canada	
National Express Canada (Holdings) Limited (dv)	100
National Express Canada Transit Ltd (dv)	100
Stock Transportation Ltd (dv)	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.

** National Express Financing 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 2021.

40 Subsidiary undertakings and other significant holdings continued

Key	Address
(a)	National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD
(b)	Terminal 1, Office 10, Link Corridor, Mezzanine Level, Dublin Airport, Dublin, K67 KD58, Ireland
(c)	Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain
(d)	Trakehner Strasse 7-9, 60487 Frankfurt am Main, Germany
(e)	Vogelsanger Weg 38, 40470 Düsseldorf, Germany
(f)	Johannisstrasse 60-64, 50668 Cologne, Germany
(g)	Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic
(h)	Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands
(i)	Carrer de la Cúria, s/n, Andorra la Vella
(j)	Av. de Tarragona, 42, AD500 Andorra la Vella
(k)	41 Boulevard Poniatowski, 75012, Paris
(l)	498 Avenue des Alpages, 74310 Les Houches
(m)	Twin Center ang Bd Zerktouni Et Al Massira Etg 5 et 6, Casablanca
(n)	Rue De Teheran, Q.I Agadir
(o)	Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech
(p)	No 22 Rue Meknes Hay Haboub, Khouribga
(q)	37 Rue Omar Ibn Khattab, Inmeuble Maspalomas 2, Tanger
(r)	Rue cadi Srayri et Cadi Ben Hammadi, Quartier de la Pinede – Rabat
(s)	Avenida das Forças Armadas, N 125, 12 Lisboa
(t)	Rua de Pedro Nunes, 39, Lisboa
(u)	Estrada de Algeruz, Cruz de Peixe – 2901-279-Setúbal
(v)	Tehelná 23 83103, Bratislava – Nové Mesto
(w)	Avda. Manuel Rodríguez Ayuso, 110 – Zaragoza
(x)	C/ Alcalá, 478, Madrid (28027)
(y)	Avda Juan Pablo II, 33, Granada
(z)	C/ Miguel Fleta, 4, Madrid (28037)
(aa)	C/ Túnez, 1 (Estación de Autobuses), Cáceres
(ab)	Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)
(ac)	Urbanización Plaza de Roma, F-1, Zaragoza
(ad)	C/ Real 116 – Arganda del Rey (Madrid)
(ae)	Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10
(af)	C/ Jorge Juan, 19 – 2º Izquierda, Madrid (28001)
(ag)	C/ Tellaetxebidea 3, Bilbao
(ah)	Pol. Ind. Vilecha Oeste, León (24192)
(ai)	Estación de Autobuses, Avda Ingeniero Saenz de Miera, León (24009)
(aj)	Avenida de la Libertad, s/n, 06800, Mérida (Badajoz)
(ak)	Alameda de Urquijo, no 85, 1o – Dcha., Bilbao- Vizaya (48013)
(al)	Magnus Blikstad 2, Gijón (33207)
(am)	Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña
(an)	Cedofeita, c/ Requiande, 1 – Ribadeo-Lugo
(ao)	Carretera Porto Pi, 8-7º, 07015, Palma de Mallorca
(ap)	Avenida de Candina, nº 35, Santander (39011)
(aq)	C/ Campaneros, 4, 1o Dcha, Palencia (34003)
(ar)	Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)
(as)	Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510)
(at)	Paseo de Moret, 7, Madrid
(au)	Avda Conde de Guadalhorce 123, Aviles (33400)
(av)	C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona
(aw)	Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña)
(ax)	Avda de España, 1, Logroño- La Rioja
(ay)	Avda Trovero Marín. Nº 3,(Estación Autobuses), Cartagena (30202)

Key	Address
(az)	Ctra de Asturias, Ponferrada
(ba)	Avda de Navarra, 80 (Estación Central de Autobuses),Zaragoza (50011)
(bb)	C/ Ramón y Cajal, Pola de Siero
(bc)	Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)
(bd)	Avda Valladolid, Aranda de Duero (Burgos)
(be)	Avda Las Murallas, nº 52, Astorga-León (24700)
(bf)	C/ Los Telares (Estación de Autobuses) Aviles (33400)
(bg)	C/ Tornavacas, 2, Plasencia
(bh)	Avda Rosalía de Castro, Ribadeo
(bi)	C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)
(bj)	Plaza de las Estaciones, Santander (Cantabria)
(bk)	Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009)
(bl)	Rúa Caballeros, 21, 15009 A Coruña
(bm)	Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo
(bn)	Pol. De Pocomaco, Primera Avenida, 10 Nave Alsa B-15, A Coruña
(bo)	Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)
(bp)	Avda Sancho El Sabio, 31, Donostia
(bq)	C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)
(br)	C/Guillem de Castro, 77, Valencia
(bs)	Avenida de la Hispanidad O- Parking P12, Barajas, Madrid
(bt)	C/ Jacques Cousteau, 2 – Arteijo (A Coruña)
(bu)	C/ Santa Leonor, 65 –Avalón Parque Empresarial, Edificio A, Madrid
(bv)	C/ Inglaterra, 20-22, Palencia (34004)
(bw)	Madrid (Las Rozas), Avda de Marsil 33
(bx)	C/ Musico Gustavo Freire, 1 -1° Dcha, Lugo (27001)
(by)	C/ Mendez Álvaro (Estación de Autobuses), Madrid
(bz)	Paseo Colón, 18, Bajo Dcha. Sevilla
(ca)	C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)
(cb)	Barrio Ubilluts, Andoaín – Guipuzcoa
(cc)	Newton, 6,Edificio 6, Nave, 6.P, Leganés, Madrid (28914)
(cd)	Alameda de Mazarredo, 21, Bilbao
(ce)	Gran Vía de D. Ingacio de Haro, 81, Bilbao
(cf)	C/Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)
(cg)	Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén
(ch)	Avda Candina, 35-37, Santander (39011)
(ci)	C/ Investigación. Nº 2 – Getafe (Madrid)
(cj)	Pol. Ind. Espírtiu Santo, Oviedo (33010)
(ck)	Paraje de la Asomada, Cartagena (Murcia)
(cl)	Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)
(cm)	Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)
(cn)	Avenida de Cádiz, número 70, 1º-B, Granada
(co)	Avda José León de Carranza, nº20, Cádiz
(cp)	Glorieta de las Tres Culturas, Córdoba
(cq)	C/ Ruiz Perelló, 15, Madrid
(cr)	Muelle de Poniente, Alicante
(cs)	S' Hort den Serral (San Agustín) Sant Josep de sa Talaia, Illes Balears
(ct)	8 Chemin de Morglas, 1214, Genève
(cu)	Rue du Mont Blanc 14, 1201, Genève
(cv)	Chemin de Morglas, 8 – Vernier
(cw)	Chemin Des Aulx 9 – Plan Les Ouates – Switzerland
(cx)	9 Capitol Street, Concord, NH 03301

Notes to the Consolidated Accounts continued
For the year ended 31 December 2021

40 Subsidiary undertakings and other significant holdings continued

Key	Address
(cy)	1200 Pine Island Road, Plantation, FL 33324
(cz)	820 Bear Tavern Road, West Trenton, NJ 08628
(da)	289 Culver Street, Lawrenceville, GA 30046
(db)	3867 Plaza Tower Drive, Baton Rouge, LA 70816
(dc)	334 North Senate Avenue, Indianapolis, IN 46204
(de)	208 S. LaSalle Street, Chicago, County of Cook, IL 60604
(df)	8020 Excelsior Drive, Suite 200, Madison, WI 53717
(dg)	600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071
(dh)	1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120
(di)	4701 Cox Road, Glen Allen, County of Henrico, VA 23060
(dj)	3800 North Central Avenue, Ste. 460 Phoenix, AZ 85012
(dk)	155 Federal Street, Suite 700, Boston, MA 02110
(dl)	4400 Easton Commons Way, Suite 125, Columbus, County of Franklin, OH 43219
(dm)	40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675
(dn)	301 S. Bedford St., Suite 1, Madison, WI 53703
(do)	28 Liberty Street, New York, NY 10005
(dp)	40 West Lawrence, Suite A, Helena, Montana 59601
(dq)	2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264
(dr)	3800 North Central Avenue, Suite 460, Phoenix, AZ 85012
(ds)	4624 13th St., Wyandotte, MI 48192
(dt)	2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833
(du)	300 Montvue Road, Knoxville, TN 37919
(dv)	40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada

41 Post balance sheet events

Although considered a non-adjusting post balance event, the recent events in Ukraine are still unfolding with the knock on effects at this stage uncertain and unquantifiable. Whilst the events are impacting on current fuel prices, as at the 9 March 2022 the Group is fully hedged for 2022 and around 65% hedged for 2023, which will help mitigate against such volatility.

Company Balance Sheet
At 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Intangible assets	4	**0.7**	0.6
Property, plant and equipment	5	**0.1**	–
Investments in subsidiaries	6	**2,090.3**	1,991.1
Debtors: amounts falling due after more than one year	9	**803.2**	701.2
Derivative financial instruments	7	**9.6**	1.1
Deferred tax assets	14	**18.7**	21.1
Defined benefit pension asset	18	**3.8**	12.3
Total non-current assets		**2,926.4**	2,727.4
Current assets			
Debtors: amounts falling due within one year	8	**37.5**	52.8
Derivative financial instruments	7	**10.7**	44.5
Cash at bank and in hand	10	**303.6**	389.9
Total current assets		**351.8**	487.2
Current liabilities			
Creditors: amounts falling due within one year	11	**(292.1)**	(238.0)
Derivative financial instruments	7	**(24.0)**	(6.0)
Provisions for liabilities and charges	13	**(0.6)**	(0.9)
Total current liabilities		**(316.7)**	(244.9)
Net current assets		**35.1**	242.3
Total assets less current liabilities		**2,961.5**	2,969.7
Non-current liabilities			
Creditors: amounts falling due after more than one year	12	**(1,034.8)**	(1,052.9)
Derivative financial instruments	7	**(10.9)**	(6.7)
Provisions for liabilities and charges	13	**(1.3)**	(1.9)
Deferred tax liability	14	**(0.7)**	(2.3)
Total non-current liabilities		**(1,047.7)**	(1,063.8)
Net assets		**1,913.8**	1,905.9
Shareholders' equity			
Called-up share capital	16	**30.7**	30.7
Share premium account		**533.6**	533.6
Own shares		**(4.5)**	(3.5)
Hybrid reserve		**513.0**	497.6
Other reserves	17	**225.4**	224.4
Retained earnings		**615.6**	623.1
Shareholders' equity		**1,913.8**	1,905.9

The Company reported a profit for the financial year ended 31 December 2021 of £9.9m (2020: £56.2m loss).

I Garat
Group Chief Executive
9 March 2022

C Davies
Group Chief Financial Officer

Company Number 02590560

Company Statement of Changes in Equity For the year ended 31 December 2021

	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 2021	30.7	533.6	(3.5)	497.6	224.4	623.1	1,905.9
Profit for the year	–	–	–	–	–	9.9	9.9
Actuarial loss, net of tax	–	–	–	–	–	(0.1)	(0.1)
Revaluation through Other Comprehensive Income	–	–	–	–	1.8	–	1.8
Transfers to the Income Statement on cash flow hedges	–	–	–	–	(0.8)	–	(0.8)
Total comprehensive expense	–	–	–	–	1.0	9.8	10.8
Shares purchased	–	–	(2.5)	–	–	–	(2.5)
Own shares released to satisfy employee share schemes	–	–	1.5	–	–	(1.5)	–
Share-based payments	–	–	–	–	–	1.0	1.0
Issuance of hybrid instrument (net of transaction costs)	–	–	–	(0.5)	–	–	(0.5)
Accrued payments on hybrid instrument	–	–	–	21.2	–	(21.2)	–
Payments on hybrid instrument	–	–	–	(5.3)	–	–	(5.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	4.4	4.4
At 31 December 2021	**30.7**	**533.6**	**(4.5)**	**513.0**	**225.4**	**615.6**	**1,913.8**

The Company's retained earnings include £372.6m (2020: £380.9m) 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 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 was 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 were 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.

Notes to the Company Accounts
For the year ended 31 December 2021

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 certain derivative financial instruments which have been measured at fair value, 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 critical accounting judgements or key sources of estimation uncertainty have been identified in the year.

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 are 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.

Notes to the Company Accounts continued For the year ended 31 December 2021

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 Company 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 Company 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 as 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 Company. 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 instruments
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 derivative is 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, or 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.

Gains and losses are recognised immediately in the Income Statement.

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.

Notes to the Company Accounts continued For the year ended 31 December 2021

2 Exchange rates

The most significant exchange rates to UK Sterling for the Company are as follows:

	2021		2020	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.35**	**1.38**	1.37	1.28
Canadian Dollar	**1.71**	**1.72**	1.74	1.72
Euro	**1.19**	**1.16**	1.12	1.13

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 2021	**0.6**
Additions	**0.1**
At 31 December 2021	**0.7**
Amortisation:	
At 1 January 2021	**–**
Amortisation charge	**–**
At 31 December 2021	**–**
Net book value:	
At 31 December 2021	**0.7**
At 1 January 2021	**0.6**

5 Property, plant and equipment

	Plant and equipment £m
Cost:	
At 1 January 2021	**–**
Additions	**0.1**
At 31 December 2021	**0.1**
Depreciation:	
At 1 January 2021	**–**
Depreciation charge	**–**
At 31 December 2021	**–**
Net book value:	
At 31 December 2021	**0.1**
At 1 January 2021	**–**

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 (2020: £0.4m).

6 Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2021	**2,532.4**
Additions	**89.8**
At 31 December 2021	**2,622.2**
Provisions:	
At 1 January 2021	**541.3**
Reversed in the year	**(9.4)**
At 31 December 2021	**531.9**
Net carrying amount:	
At 31 December 2021	**2,090.3**
At 1 January 2021	**1,991.1**

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 remains below the net carrying amount of investments in subsidiaries, which is seen as an indicator of potential impairment; as well as the continued 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 Group Consolidated Financial Statements.

During the year an impairment was reversed 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 increased such that it is now in excess of the investment value due to exchange rate movements and an impairment reversal 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 Group Consolidated Financial Statements. 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

Notes to the Company Accounts continued For the year ended 31 December 2021

7 Derivative financial instruments

	2021 £m	2020 £m
Cross currency swaps	**9.6**	1.1
Non-current derivative financial assets	**9.6**	1.1
Interest rate derivatives	**0.1**	1.5
Cross currency swaps	**2.4**	2.2
Foreign exchange forward contracts	**8.2**	40.8
Current derivative financial assets	**10.7**	44.5
Interest rate derivatives	**(5.7)**	–
Cross currency swaps	**(5.2)**	(6.7)
Non-current derivative financial liabilities	**(10.9)**	(6.7)
Interest rate derivatives	**(0.7)**	–
Cross currency swaps	**(4.5)**	–
Foreign exchange forward contracts	**(18.8)**	(6.0)
Current derivative financial liabilities	**(24.0)**	(6.0)

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the Group Consolidated Financial Statements. 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

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	**26.9**	49.2
Corporation tax recoverable	**3.5**	–
Other debtors	**0.6**	1.2
Prepayments	**6.5**	2.4
	37.5	52.8

Expected credit losses in respect of amounts owed by subsidiary undertakings due within one year were £nil (2020: £1.4m) at the reporting date.

9 Debtors: amounts falling due after more than one year

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	**801.7**	701.2
Prepayments	**1.5**	–
	803.2	701.2

Expected credit losses in respect of amounts owed by subsidiary undertakings due after more than one year were £1.9m (2020: £nil) at the reporting date.

10 Cash at bank and in hand

	2021 £m	2020 £m
Cash at bank	**74.6**	60.9
Short-term deposits	**229.0**	329.0
	303.6	389.9

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

	2021 £m	2020 £m
Trade creditors	**7.5**	3.7
Amounts owed to subsidiary undertakings	**208.2**	91.3
Accruals and deferred income	**15.8**	65.5
Accrued interest on borrowings	**2.8**	4.1
Bank overdrafts	**57.8**	–
Private placements	**–**	70.9
Corporation tax payable	**–**	2.5
	292.1	238.0

Trade creditors are non-interest bearing and are normally settled on 30-day terms.

12 Creditors: amounts falling due after more than one year

	2021 £m	2020 £m
Bonds	**640.9**	647.0
Private placements	**393.9**	405.9
	1,034.8	1,052.9

13 Provisions for liabilities and charges

	Total £m
At 1 January 2021	**2.8**
Utilised in the year	**(0.3)**
Released in the year	**(0.6)**
At 31 December 2021	**1.9**
Current 31 December 2021	**0.6**
Non-current 31 December 2021	**1.3**
	1.9
Current 31 December 2020	0.9
Non-current 31 December 2020	1.9
	2.8

Provisions for liabilities and charges relates to restructuring activities and is expected to be utilised within the next five years.

Notes to the Company Accounts continued
For the year ended 31 December 2021

14 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2021 £m	2020 £m
Deferred tax assets	**18.7**	21.1
Deferred tax liability	**(0.7)**	(2.3)
Net deferred tax asset	**18.0**	18.8

The major components of the provision for deferred taxation are as follows:

	2021 £m	2020 £m
Accelerated capital allowances	**0.1**	0.1
Other timing differences	**0.1**	0.1
Losses carried forward	**18.5**	20.9
Defined benefit pension	**(0.7)**	(2.3)
Net deferred tax asset	**18.0**	18.8

A reconciliation of the deferred tax balances is as follows:

	Deferred tax assets £m	Deferred tax liability £m
Deferred tax at 1 January 2021	**21.1**	**(2.3)**
Tax (charge)/credit to Income Statement	**(6.8)**	**1.6**
Tax credit to Other Comprehensive Income	**4.4**	**–**
Deferred tax at 31 December 2021	**18.7**	**(0.7)**

Timing differences associated with investments

No deferred tax (2020: £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 (2020: £nil).

15 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows:

	2021 £m	Maturity	Effective interest rate	2020 £m	Maturity	Effective interest rate
Current						
Bank overdrafts	**57.8**	**–**	**–**	–	–	–
Euro private placement	**–**	**–**	**–**	70.9	August 2021	4.55%
Accrued interest on borrowings	**2.8**	**–**	**–**	4.1	–	–
Total current	**60.6**			75.0		
Non-current						
7-year Sterling bond	**400.1**	**November 2023**	**2.54%**	400.1	November 2023	2.54%
9-year Sterling bond	**240.8**	**November 2028**	**GBP SONIA + 1.98%**	246.9	November 2028	2.38%
US private placement	**393.9**	**2027-2032**	**1.92%**	405.9	2027-2032	1.92%
Total non-current	**1,034.8**			1,052.9		

The Company currently has £495.0m of unsecured committed revolving credit facilities, of which £15.0m matures in 2024 and £480.0m matures in 2025. At 31 December 2021, there was £nil (2020: £nil) drawn down on the facilities, with £1.5m of capitalised deal fees remaining, which are classified within prepayments.

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the Group Consolidated Financial Statements.

16 Called-up share capital

Issued called-up and fully paid:	No. of shares	2021 £m	No. of shares	2020 £m
At 1 January	**614,086,377**	**30.7**	511,738,648	25.6
Issued during the year	**–**	**–**	102,347,729	5.1
At 31 December	**614,086,377**	**30.7**	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 was 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 were recorded in share premium.

The total number of share options exercised in the year by employees of the Company was 402,244 (2020: 1,552,919) of which all (2020: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 1,489,069 (2020: 877,337) 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 1,013,976 (2020: 1,025,505) shares and 402,244 (2020: 1,552,919) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2020: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2021 was £3.8m (2020: £2.1m). No dividends were payable on these shares in either 2021 nor 2020.

Notes to the Company Accounts continued For the year ended 31 December 2021

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 2021	**0.2**	**0.7**	**(0.6)**	**224.1**	**224.4**
Gains on hedging	**–**	**1.8**	**–**	**–**	**1.8**
Hedging gains reclassified to Income Statement	**–**	**(0.8)**	**–**	**–**	**(0.8)**
At 31 December 2021	**0.2**	**1.7**	**(0.6)**	**224.1**	**225.4**

	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)
Gains on hedging	–	0.2	(0.5)	–	(0.3)
Hedging gains reclassified to Income Statement	–	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

The nature and purpose of the other reserves are as follows:
- The cash flow hedge 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 prior 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. The scheme was subject to a buy-in transaction on 11 October 2018 whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Rothesay Life under which the benefits payable to defined benefit members became fully insured. On 23 September 2021, a full buy-out of the defined benefit section was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets (comprising the Rothesay Life insurance policy) and matching defined benefit liabilities were derecognised. The buy-out transaction also triggered the return of surplus assets of £7.5m, with the remaining assets retained in the scheme intended to cover final expenses in completing the wind-up of the scheme.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2021 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. Following the buy-out of the Company scheme there are no remaining pension liabilities at 31 December 2021, therefore a full set of assumptions was not derived. Therefore, the Company assumptions listed below are those used to derive the schemes valuation immediately preceding the buy-out transaction. 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 Group Consolidated Financial Statements.

The relevant assumptions used are as follows:

	2021	2020
Rate of increase of pensions	**3.4%**	2.9%
Discount rate	**2.0%**	1.4%
Inflation assumption (RPI)	**3.4%**	2.9%
Inflation assumption (CPI)	**2.8%**	2.3%
Post-retirement mortality in years:		
Current pensioners at 65 – male	**22.4**	22.4
Future pensioners at 65 – male	**23.7**	23.7
Current pensioners at 65 – female	**25.1**	25.1
Future pensioners at 65 – female	**26.6**	26.6

Sensitivities regarding key assumptions are disclosed in note 34 to the Group Consolidated Financial Statements.

The amounts charged to the Income Statement and Other Comprehensive Income for the years ended 31 December 2021 and 2020 are set out in the following tables:

Income Statement	**2021 £m**	2020 £m
Past service cost	**–**	(0.8)
Settlement gain	**0.1**	–
Net interest income	**0.1**	0.3
Total credit/(charge) to the Income Statement	**0.2**	(0.5)

During the year, £1.1m (2020: £0.8m) of administrative expenses were incurred.

The past service cost in 2020 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 Company 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.

Other Comprehensive Income	**2021 £m**	2020 £m
Actuarial gain/(loss) during the period from obligations	**7.5**	(17.0)
Expected return on plan assets (less)/greater than discount rate	**(7.6)**	16.4
Net actuarial loss	**(0.1)**	(0.6)

Notes to the Company Accounts continued
For the year ended 31 December 2021

18 Retirement benefits continued

The amounts recognised in the Balance Sheet at 31 December are as follows:

	2021 £m	2020 £m
Insurance policy	**–**	109.0
Other	**3.8**	13.8
Fair value of scheme assets	**3.8**	122.8
Present value of scheme liabilities and defined benefit obligation	**–**	(110.5)
Defined benefit pension surplus	**3.8**	12.3

The movement in the present value of the defined benefit obligation in the year is as stated below:

	2021 £m	2020 £m
Defined benefit obligation at 1 January	**(110.5)**	(95.1)
Past service cost	**–**	(0.8)
Benefits paid	**3.7**	4.3
Finance charge	**(1.1)**	(1.9)
Gain on settlements	**100.4**	–
Actuarial gain/(loss) arising from changes in financial assumptions	**7.3**	(17.8)
Actuarial gain/(loss) arising from changes in demographics	**0.2**	(0.2)
Actuarial gain arising from experience adjustments	**–**	1.0
Defined benefit obligation at 31 December	**–**	(110.5)

The movement in the fair value of scheme assets is as follows:

	2021 £m	2020 £m
Fair value of scheme assets at 1 January	**122.8**	109.3
Expected return on plan assets	**1.2**	2.2
Expected return on plan assets (less)/greater than discount rate	**(7.6)**	16.4
Cash contributions – employer	**(7.5)**	–
Administrative expenses	**(1.1)**	(0.8)
Loss on settlement	**(100.3)**	–
Benefits paid	**(3.7)**	(4.3)
Fair value of scheme assets at 31 December	**3.8**	122.8

The employer cash contribution of £7.5m in the scheme represents the surplus returned to the Company upon the buy-out transaction completing.

History of experience gains and losses:	**2021 £m**	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of scheme assets	**3.8**	122.8	109.3	98.6	134.0
Present value of defined benefit obligation	**–**	(110.5)	(95.1)	(83.7)	(90.8)
Surplus in the scheme	**3.8**	12.3	14.2	14.9	43.2
Experience adjustments arising on liabilities	**–**	1.0	0.3	(2.3)	–
Experience adjustments arising on assets	**(7.6)**	16.4	10.8	(35.6)	(0.4)

19 Share-based payments

During the year ended 31 December 2021, the Company had a number of share-based payment arrangements, which are described in note 8(b) to the Group Financial Statements.

The options have a weighted average contractual life of one year (2020: one year). Options were exercised throughout the year and the weighted average share price at exercise was 291p (2020: 210p).

20 Commitments and contingencies

Contingent liabilities

Guarantees

The Company has guaranteed credit facilities totalling £3.7m (2020: £7.3m) 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 Group Financial Statements.

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 2021, the Company had performance bonds in respect of businesses in the USA of £113.7m (2020: £165.3m), in Spain of £88.1m (2020: £106.7m), in Germany of £30.0m (2020: £32.0m), and in the Middle East of £6.0m (2020: £6.0m). Letters of credit have been issued to support insurance retentions of £145.0m (2020: £117.2m).

Five Year Summary

	2021	2020[3,4]	2019[3,4]	2018	2017
Group underlying					
Revenue	**2,170.3**	1,955.9	2,744.4	2,450.7	2,321.2
Underlying operating profit/(loss)	**87.0**	(50.8)	295.3	257.7	241.5
Return on capital	**3.4%**	(2.0)%	12.4%	12.4%	11.9%
Basic EPS	**0.1**	(14.6)	34.5	32.9	29.1
IFRS					
Revenue	**2,170.3**	1,955.9	2,744.4	2,450.7	2,321.2
Operating (loss)/profit	**(36.2)**	(381.4)	242.3	215.4	197.9
PBT	**(84.9)**	(447.7)	187.0	177.7	156.4
Basic EPS	**(16.8)**	(57.9)	27.6	26.6	25.7
Dividends per share	**Nil**	Nil	16.4	14.9	13.5
Net (debt)/funds					
Cash[4]	**508.4**	629.8	715.8	117.7	314.3
Bank overdrafts[4]	**(132.2)**	(109.3)	(237.5)	–	–
Other debt receivable	**1.0**	1.2	2.4	2.1	0.7
Bonds	**(640.9)**	(647.0)	(1,081.9)	(852.4)	(851.9)
Bank loans[3]	**(189.6)**[1]	(101.8)	(242.6)	(9.0)	(115.6)
Fair value of derivatives included in financing activities	**(3.7)**	(4.7)	15.0	6.4	11.3
Lease liabilties[2]	**(218.9)**	(311.3)	(385.0)	(142.6)	(173.1)
Private placements	**(393.9)**	(476.8)	(68.3)	(73.7)	(73.6)
Net debt[3]	**(1,069.8)**	(1,019.9)	(1,282.1)	(951.5)	(887.9)

1 Net of arrangement fees totalling £1.5m 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
3 Net debt in 2020 and 2019 have been restated for a change in presentation in advance subsidy factoring liabilities from other payables to borrowings – see note 2 for further information
4 Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 2 for further information

Environmental performance

In 2019, we introduced a new approach to measuring and assessing our environmental performance, using the Sectoral Decarbonisation Approach (SDA) methodology to set ourselves a number of new environmental targets, alongside 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 at the time met the 2018 Intergovernmental Panel on Climate Change (IPCC) goal of controlling the increase in global warming to below 2°C. The SDA KPIs were set over an initial seven-year performance period – 2019 to 2025 – from a 2018 baseline. We supplemented these SDA targets with KPIs on site emissions, waste to landfill and water usage, which we also aim to achieve over the same seven-year performance period against a 2018 baseline.

Our intention is to review the SDA KPIs on a regular basis as climate science, technology and forecasting methods improve. In this context, we are already considering how best to recalibrate the SDA KPIs in light of the updated 1.5°C target arising from the recent revised climate agreement. At this stage the sectoral guidance has yet to be published. It should be noted that wherever these targets settle, we have committed to an overarching goal of achieving net zero (Scope 1 & 2 emissions) across the Group by 2040.

Summary 2021 performance

Since the beginning of the global pandemic in 2020, we have seen a significant impact on all aspects of our business, and the restrictions on mobility have had two marked impacts on our environmental KPIs:

1. absolute metrics have materially improved (i.e. emissions reduced) as we have travelled significantly fewer miles and sites have been closed for long periods; but

2. intensity metrics have worsened (i.e. emissions per passenger km have increased) driven by lower occupancy across the business and a mix away from long distance coach businesses and into urban bus businesses.

Reduction target description (metric)	Base year (2018)	2025 target	2020	2021	Change from base year	Change 2020-2021	Required to meet target
Traction Energy: (vehicle fuel and electricity) **MWh/mpkm**	66.92	58.72	71.40	86.19	28.8%	20.7%	(31.9)%
Traction Carbon Emissions **tCO_2e/mpkm**	17.67	15.45	22.28	24.15	36.7%	8.4%	(36.0)%
Total Scope 1 & 2 emissions **tCO_2e/mpkm**	19.26	16.45	23.60	25.34	31.2%	5.9%	(34.9)%
Site Scope 1 & 2 Emissions (building use only) **tCO_2e**	41,656	38,199	36,549	31,683	(23.9)%	(13.3)%	Met
Landfill Waste Disposal **tonnes**	7,711	5,783	5,773	4,491	(41.8)%	(22.2)%	Met
Water Consumption **m^3**	478,956	439,209	397,731	424,347	(11.4)%	6.7%	Met

As the table above shows, not only does 2021 represent a worsening in intensity metrics year-on-year, but they are materially worse than the base year, now requiring more than 30% improvement by 2025 in order to reach our targets. There remains scope for material improvement in our intensity metrics as occupancy (and business mix) returns to pre-pandemic levels and we continue to decarbonise the fleet.

To demonstrate the impact of occupancy on intensity metrics, we have normalised the UK Bus and UK Coach performance by setting occupancy to 2019 levels (holding all other factors fixed). Modelling traction carbon emissions with 2019 utilisation rates gives a normalised intensity metric similar to 2019 for UK Coach, and an 18% reduction versus 2019 for UK Bus as shown below:

Traction Carbon/mpkm	2019	2021	2021 (normalised)
UK Coach	24.84	27.62	24.79
UK Bus	98.98	136.74	81.64

These are the results we would expect as there has been limited change in fleet specification in UK Coach, whilst in UK Bus we have retired the oldest diesel vehicles and replaced them with Euro VI vehicles or ZEVs.

Absolute emissions

Our absolute traction emissions in 2021 are approximately 84% of the equivalent emissions in 2019 and we have seen significant improvement in site level (Scope 1 & 2) emissions, waste disposal and water usage.

Scope 1 emissions (from combustion of fuels) have increased by 27.8% in 2021 against 2020 as the business builds back towards pre-pandemic operating levels, but remain 20% below 2019. Scope 2 emissions (primarily electricity usage) have increased by 8.5%, primarily driven by the expansion of the German Rail business which mobilised an additional contract in the year. Scope 3 emissions comprise business travel, waste, water and certain upstream emissions. There is more work to be done to identify and quantify the Group's complete Scope 3 footprint. A project has been initiated with that aim in mind and we will report on progress in our 2022 Annual Report.

tCO_2e emissions by scope	2018	2019	2020	2021	Change (2020 vs. 2021)
Scope 1	808,650	823,582	514,106	657,239	27.8%
Scope 2	48,583	49,938	67,879	73,649	8.5%
Scope 3	7,627	8,221	8,641	5,762	(33.3)%
Total	**864,859**	**881,741**	**590,626**	**736,650**	**24.7%**

Environmental performance continued

Measuring Scope 2 emissions will become increasingly important as we move towards a more electrified fleet and we expect increasingly to use renewable energy to recharge our fleets, as we already do in the UK. We have previously noted the complexity in measuring Scope 3 emissions and we have initiated a project to fully capture and quantify our Scope 3 emissions and improve our processes in partnership with our biggest suppliers. The Group has a multiplier effect on reducing emissions through both modal shift out of cars as well as decarbonising our own fleet.

We will also continue to report the decarbonisation impact of passengers choosing to travel on public transport rather than in private cars.

tCO_2e emissions by division	2018	2019	2020	2021	Change (2020 vs. 2021)
ALSA	317,812	324,007	234,477	368,714	57.3%
Bahrain	20,433	22,833	20,214	17,810	(11.9)%
Germany	25,367	29,269	52,347	58,939	12.6%
United Kingdom	230,354	227,380	142,769	147,789	3.5%
USA and Canada	269,916	276,693	140,168	142,800	1.9%
Business travel & leased vehicles	978	1,559	569	598	5.1%
Group total	**864,859**	**881,741**	**590,545**	**736,650**	**24.7%**

Note that the reduction in emissions in Bahrain is due to its refrigerant gas loss halving in 2021, which has more than offset a small rise in traction (diesel) emissions.

In the current year aggregate Scope 1 & 2 GHG emissions in our UK operations amounted to 122,578 tCO_2e (2020: 93,137 tCO_2e), and totalled 582,936 tCO_2e (2020: 441,532 tCO_2e) in our global (excluding UK) operations.

Intensity metrics

As our businesses gradually rebuild to normal operating levels, we are rebuilding service ahead of the full return of passengers – passenger kilometres for 2021 are 63% of the equivalent in 2019. The impact of this is a faster rise in carbon emissions than passenger numbers, which in turn has resulted in a rise (worsening) in intensity metrics between 2020 and 2021.

Intensity metrics	2018	2019	2020	2021	(2020 vs. 2021)
Group totals (million pass.km)	44,488	46,258	24,656	28,932	17.3%
Traction Carbon Emissions (Scope 1 & 2) tCO_2e/mpkm	17.67	16.69	22.28	24.15	8.4%
Total tCO_2e per million pass.km (Scope 1, 2 & 3)	19.46	19.06	23.93	25.34	5.9%

Carbon emissions per passenger kilometre (tCO_2e/million passenger km) increased by 6% between 2020 and 2021, from 23.93 tCO_2e/mpkm in 2020, to 25.34 tCO_2e/mpkm in 2021. It is important, however, to note that the data shows improvement through the year, with emissions intensity in the second half of 2021 showing signs of improvement as passenger numbers/load factors continued to recover at a faster rate to pre-pandemic levels.

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%, have accounted for all material sources of GHG emissions and have reported emissions for the period 1 January 2021 to 31 December 2021 in line with our Financial Statements.

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)).

Streamlined Energy and Carbon Reporting

SECR regulations require the reporting (in MWh rather than tCO_2 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	2020	2021
ALSA	840,100	**1,325,774**
USA and Canada	529,482	**515,191**
United Kingdom	366,927	**489,515**
Germany	121,000	**137,700**
Bahrain	53,314	**54,950**
All	1,910,823	**2,523,130**
Energy consumed from the activities for which the Company is responsible, including the combustion of fuel and the operation of any facility	1,739,101	**2,333,066**
Energy consumed resulting from the purchase of electricity, heat, steam or cooling	171,721	**190,064**
All	1,910,822	**2,523,130**

Proportion of figure that relates to energy consumed in the UK and offshore area	2020	2021
Offshore	1,543,896	**2,033,615**
United Kingdom	366,927	**489,515**
UK proportion	19%	**19%**

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 tCO_2 and kWh for the Group should be broadly the same. The fact that, measured in MWh, emissions are up 32% year-on-year whereas measured in tCO_2 they are up 25% is driven by a combination of definitions, measurement standards and changes in energy 'mix'.

Building emissions and waste disposed to landfill have all shown a reduction between 2020 and 2021, but this trend will be skewed by lower occupancy of buildings. Increased water consumption between 2020 and 2021 reflects greater washing of vehicles as operations have increased.

During 2021 we have taken a number of steps to improve energy efficiency, including replacing diesel buses with zero emission equivalents. During 2020 the steps taken to improve energy efficiency included replacing diesel buses with zero emission equivalents and the switching of energy use in the UK to renewable energy sources.

Shareholder information

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: www.uar.co.uk.

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 7047*

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* (from the UK), +44 121 415 7560* (from overseas) or 0371 384 2255* (Textel)

* 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: https://www.nationalexpressgroup.com/privacy-centre.

Definitions and supporting information

Glossary

AGM	Annual General Meeting
AI	Artificial intelligence
APMs	Alternative performance measures
Board	The Board of Directors of the Company
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 2021
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
Directors	The Directors of the Company
Dividend	Dividend amount payable per ordinary share
DTRs	Disclosure, Guidance and Transparency Rules
EDBP	Executive Deferred Bonus Plan
EURIBOR	Euro Interbank Offered Rate
EV	Electric vehicle
Executive Directors	The Executive Directors of the Company
FCA	The Financial Conduct Authority
FRC	The Financial Reporting Council
FWI	Fatalities and Weighted Injuries
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
MaaS	Mobility as a service
Net interest expense	Finance costs less finance income
Non-Executive Directors	The Non-Executive Directors of the Company
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
RME	Rhine-Münster Express
RMS	Revenue Management System
RPI	Retail Prices Index
RRX	Rhine-Ruhr Express
SDA	Sectoral Decarbonisation Approach
Stagecoach	Stagecoach Group plc
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
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
ZEV	Zero emission vehicle

Alternative performance measures

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
Underlying 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 Group Chief Financial Officer's review on page 17.	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	No direct equivalent	The ratio of covenant net debt to Underlying EBITDA over the last 12 months, after making the following adjustments to EBITDA: including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period; the reversal of IFRS 16 accounting; the exclusion of the profit or loss from associates; the exclusion of the profit or loss attributable to minority interest; and the add back of interest costs arising from the unwind of the discount on provisions.	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 Underlying Operating Profit and net cash flow from operating activities to free cash flow is set out in the supporting tables overleaf.	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 incepted 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 Chief Financial Officer's review) is set out in the supporting tables overleaf.	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 incepted 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.
Covenant net debt	Borrowings less cash and related hedges	Net debt adjusted for certain items agreed with the Group's lenders as being excluded for the purposes of calculating net debt for covenant assessment. The adjustments principally comprise the exclusion of IFRS 16 liabilities, the exclusion of amounts owing under arrangements to factor advance subsidy payments, the add back of trapped cash, and an adjustment to retranslate any borrowing denominated in foreign currency to the average foreign currency exchange rates over the preceding 12 months.	Covenant net debt is the measure that is applicable in the covenant gearing test.
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.
Underlying Operating Margin	Operating profit[1] divided by revenue	Underlying Operating Profit/(Loss) divided by revenue.	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 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, but is a generally accepted profit measure

Supporting reconciliations

Reconciliation of net cash flow from operating activities to free cash flow	**2021 £m**	2020 restated £m
Net cash flow from operating activities	**170.9**	(114.0)
Remove: Cash payments in respect of IFRIC 12 asset purchases treated as working capital for statutory cash flow*	**42.9**	–
Remove: Cash expenditure in respect of separately disclosed items	**44.4**	126.9
Add: Net maintenance capital expenditure	**(142.1)**	(215.9)
Add: Other non-cash movements	**(1.3)**	(4.0)
Profit on disposal of fixed assets	**8.6**	11.0
Free cash flow	**123.4**	(196.0)

* During the year the Group made payments in respect of assets (principally vehicles) acquired to fulfil a contract in Morocco that is accounted for under the IFRIC12 financial asset model and for which the statutory cash flow for these purchases is accordingly presented as a movement in working capital, with the assets being recorded as contract assets on the balance sheet rather than in property, plant and equipment or intangible assets. In order to be consistent with the treatment of asset purchases on other contracts, these asset purchases are reclassified to capital expenditure for the purposes of the "funds flow" presented in the CFO report. The asset purchases in 2021 were in respect of a new contract and therefore have been reclassified to growth capital expenditure, consistent with other asset purchases for new business and consistent with previous years.

Reconciliation of capital expenditure in statutory cash flow to funds flow	**2021 £m**	2020 £m
Purchase of property, plant and equipment	**(168.5)**	(215.3)
Proceeds from disposal of property, plant and equipment	**13.7**	17.7
Payments to acquire intangible assets	**(44.4)**	(22.7)
Proceeds from disposal of intangible assets	**0.7**	2.3
Net capital expenditure in statutory cash flow statement	**(198.5)**	(218.0)
Add: Profit on disposal of fixed assets	**(8.6)**	(11.0)
Add: Capitalisation of leases initiated in the year, less disposals	**(26.5)**	(22.2)
Add: Cash payments in respect of IFRIC 12 asset purchases*	**(42.9)**	–
Net capital expenditure in the funds flow (presented in the Group Chief Financial Officer's review)	**(276.5)**	(251.2)
Split as:		
*Net maintenance capital expenditure***	***(142.1)***	*(215.9)*
*Growth capital expenditure***	***(134.4)***	*(35.3)*

* See explanation above
** These terms are defined in the glossary of APMs

Alternative performance measures continued

Reconciliation of ROCE	2021 £m	2020 restated £m
Statutory operating profit	**(36.2)**	(381.4)
Add back: Separately disclosed items	**123.2**	330.6
Return – Underlying Operating Profit/(Loss)	**87.0**	(50.8)
Average net assets	**1,462.1**	1,294.3
Remove: Average net debt	**1,044.9**	1,161.1
Remove: Average derivatives, excluding amounts within net debt	**(13.4)**	5.1
Foreign exchange adjustment	**33.1**	63.9
Average capital employed	**2,526.7**	2,524.4
Return on capital employed	**3.4%**	(2.0)%

Depreciation and other non-cash items	2021 £m	2020 £m
Depreciation charge	**199.7**	223.6
Underlying amortisation charge	**15.5**	16.5
Share-based payments	**1.0**	0.2
Amortisation of fixed asset grants	**(3.2)**	(2.9)
Depreciation and other non-cash items (as disclosed in the “funds flow” in the CFO report)	**213.0**	237.4

Key contacts and advisers

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Financial calendar 2022

	2022 AGM
11 MAY	Annual General Meeting[1]
	2022 reporting timetable[2]
20 APR	Trading update[3]
28 JULY	Half year results[3]
20 OCT	Trading update[3]
	2023
2 MAR	Full year results[3]

1 The Annual General Meeting will be held in the Banqueting Hall at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD at 2.00pm on Wednesday, 11 May 2022. 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

Cautionary statement
Certain statements included in this Annual Report are, or may be deemed to be, forward-looking. 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. 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. Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. 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.

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