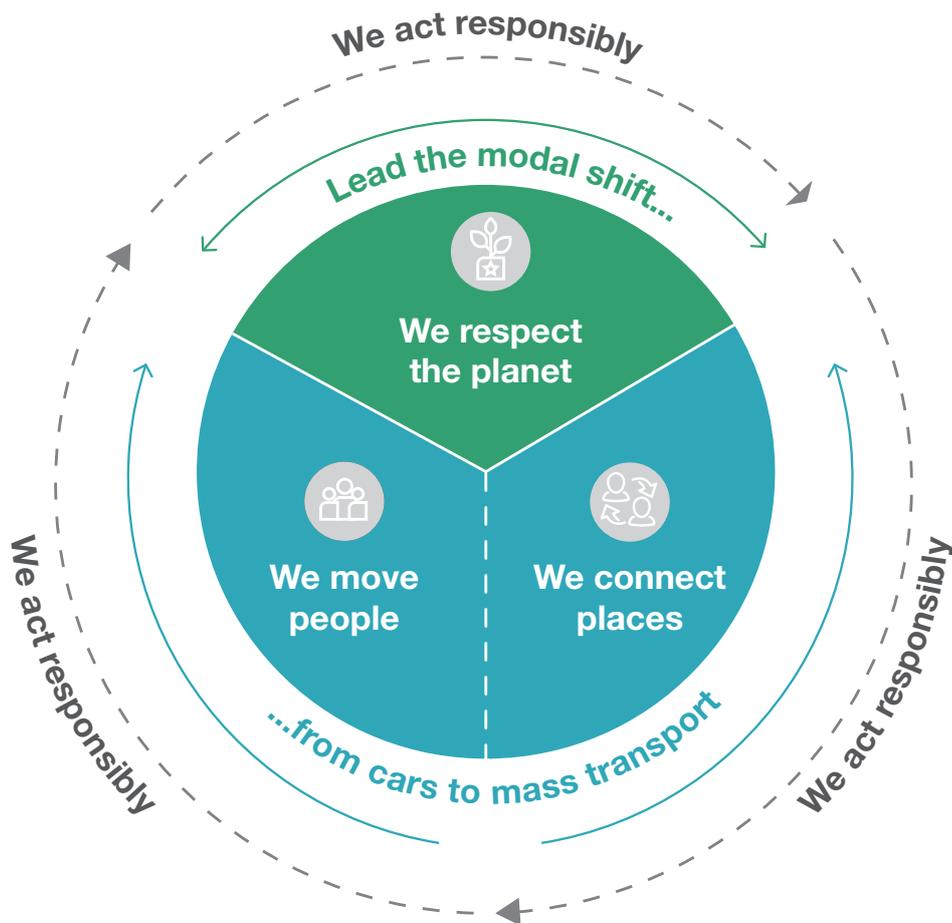


# Sustainability at National Express

We're playing a significant role in accelerating modal shift, decarbonising travel, and building greener, more liveable cities.

Our culture and purpose-led approach is at the heart of our ESG commitments.



We respect the planet	We move people	We connect places	We act responsibly
<ul style="list-style-type: none"> <li><b>Environmental leadership</b></li> <li>– Zero emission fleet target p.72</li> <li>– Innovation and development p.73</li> <li>– Our commitment to ZEV introduction is only the start p.73</li> <li>– We are pleased our work has been recognised p.73</li> </ul>	<ul style="list-style-type: none"> <li><b>Most satisfied customers</b> p.75</li> <li><b>Most reliable service</b> p.75</li> <li><b>Safety</b> p.76</li> </ul>	<ul style="list-style-type: none"> <li>– Connecting communities for the future p.77</li> </ul>	<ul style="list-style-type: none"> <li><b>Employer of choice</b></li> <li>– Diversity p.79</li> <li>– People strategy p.77</li> <li>– Materiality p.84</li> <li>– Responsible governance principles p.80</li> <li>– Policies p.80</li> <li>– T.C.F.D. p.81</li> </ul>
<p><b>Environmental</b></p> <p>Our purpose, to drive modal shift, is at the heart of the Evolve strategy and is a key differentiator with our customers.</p>	<p><b>Social</b></p> <p>The Evolve strategy commits us to having the most satisfied customers, the most reliable service and being the safest.</p>		<p><b>Governance</b></p> <p>We are committed to staying at the forefront of financial and non-financial reporting and have plans in place to have our non-financial data audit ready by the end of 2023.</p>

## Sustainability Overview

Roll out of ZEVs to continue at pace

**1,500**

ZEVs by 2024; UK Bus 50% ZEV by 2025

**\$30m**

of funding secured in North America for 80 electric School Buses

Employer of Choice

**eNPS+7**

First global employee engagement survey in 2022

**77%**

response rate exceeding target of 68%

Year on year Scope 1 & 2 emissions / mpkm reduction of

**5.9%**

(excluding business units reporting emissions for first time in 2022 )

Safety performance at record level in 2022

**FWI 1.638**

### Driving the modal shift and decarbonising the shared mobility sector

Our Purpose and vision align with the most pressing themes facing the world today. At the global level this is represented by the response to the global climate crisis. At the local level we are delivering solutions that support our stakeholders with the clean air agenda and decongesting our cities: providing accessible, clean, safe, reliable public transport services for all.

As we lead the modal shift away from private vehicles to mass transit we are able to positively impact the communities we serve and create value for all our stakeholders as well as quality employment for our 46,200 colleagues around the world.

At the same time, we are delivering profitable, sustainable growth for the benefit of colleagues, customers and client bodies around the world. By creating strong partnerships with stakeholders and our customers, we are opening up new opportunities as the transport sector undergoes a structural shift towards sustainable mobility.

In the UK, the Climate Change Committee forecasts that by 2030, around one in ten car journeys will need to be taken by bus instead of private cars if the UK is to remain on track for net zero by 2050.

In the US, the \$1.2 trillion infrastructure package includes \$39bn of new investment to modernise transport systems to drive climate and social benefits, while in Spain, the government is planning to invest €13bn in the transition to electric vehicles.

Our expertise in managing the transition to Zero Emission Vehicles for public transport will play a significant role in accelerating modal shift, decarbonising travel, and building greener, more liveable cities.

We know what it takes to make passengers leave their car keys at home: safe, reliable, clean public transport delivered by empowered employees to loyal and satisfied customers. These are the pillars of our Evolve strategy.

#### Modal shift is already happening

**1%** modal shift from a car =  
**23%** increase in bus passenger mileage.

In a recent survey 73% of people are now using the car less; 37% are using public transport more; 48% are already regularly using public transport; 27% are considering doing so.

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

# Key Targets and Metrics

**We respect the planet**  
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, including 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<sub>2</sub> emissions (tCO<sub>2</sub>e)
- CO<sub>2</sub>/million passenger km



For more information see **We respect the planet** on pages 72 to 74

**We move people**  
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)



For more information see **We move people** on page 75

**We move people**  
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

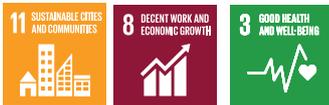


For more information see **We move people** on page 75

## We move people

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



For more information see **We move people** on page 76

## We act responsibly

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.

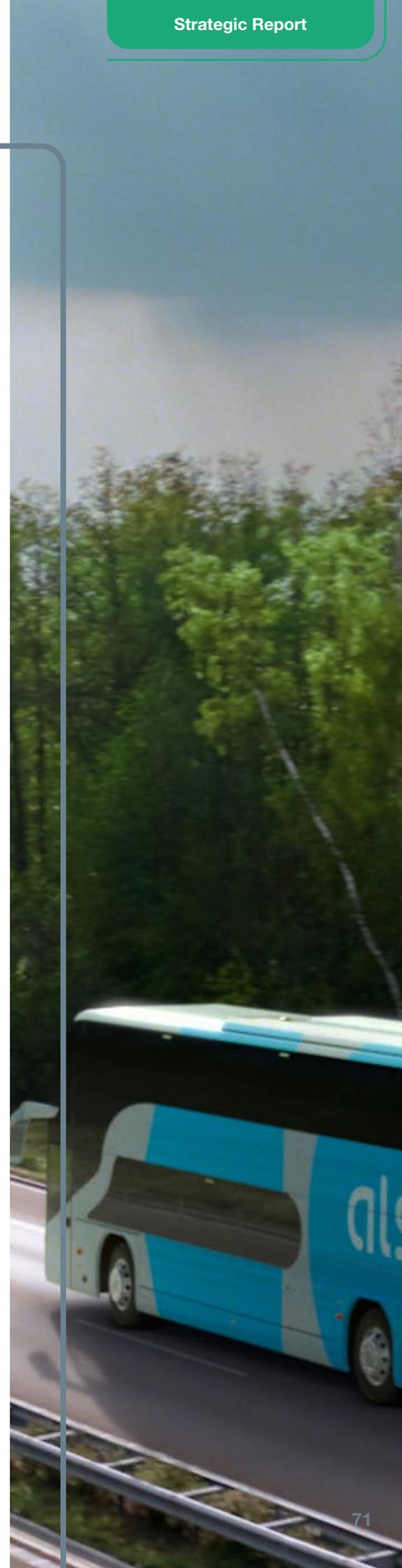
8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

#### Key metrics

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



For more information see **We act responsibly** on pages 77 to 80



# We respect the planet



## Environmental leadership

One of the six outcomes of the Evolve Strategy is environmental leadership. The single most important step the Group can take to deliver decarbonisation and clean air is to lead the modal shift from cars to public transport.

Our increasing experience of operating a growing fleet of zero emission vehicles (ZEVs) demonstrates that there is early indications people are more likely to take a trip on a ZEV versus a diesel vehicle, which in turn will enable us to accelerate the benefits of modal shift for both our business and the environment.

### Zero emission fleet target



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

We have continued to make excellent progress on our ZEV transition plan during the year. Each of the National Express Operating Divisions are focused on leading ZEV migration in each of our markets.

#### Plans are in place to secure 1,500 ZEVs by 2024, increasing to 14,500 by 2030.

Fleet transition highlights during 2022 include:

 UK-Coventry EV rollout: 130 electric double decker buses are being delivered. The first 61 buses are in service with deliveries continuing for the remainder of the year and Q1 2023.

 UK Birmingham: The first commercial (non-grant) electric vehicles are being progressed in the UK Bus Division. 300 buses will be procured across four depots.

 North America School Bus Grants: \$30m of fully funded grants have been secured under an EPA award. This will be spread over four contracts. Further grants have been applied for in Canada.

 ALSA First Hydrogen Bus entered operation in Madrid

#### Other initiatives adding to our environmental leadership position in 2022.

Alongside our environmental leadership goals regarding our transition to ZEVs, we have adopted six key KPIs to track our progress in reducing our impact on the environment, over a seven year period (2019-2025).

- Traction energy
- Traction carbon emissions and total (Scope 1 & 2) carbon reduction targets
- Site carbon emissions
- Water consumption
- Waste to landfill reduction targets

For details of our progress against these KPIs please see pages 285 to 288 of the report.

## Innovation and development

Although we expect electric vehicles to dominate urban bus, we recognise that longer bus and coach routes are beyond the range achievable by existing battery technology. Hydrogen fuelled vehicles will also have a role to play, but are currently more expensive than their electric powered equivalents.

We currently operate 21 hydrogen vehicles. While this is a relatively small proportion of our ZEV fleet, it is enabling us to gather important operating experience and expertise which we share across our Divisions.

In the UK, National Express in the West Midlands is operating 20 hydrogen fuelled double decker buses, the first to start operating in England outside of London.

We have initiated discussions with our suppliers with a view to having the first hydrogen powered coach in service by 2024.

In Spain, we have been working directly with our partners Toyota/Caetano and Carburos Metálicos to conduct various pilot tests in urban operations during 2022, accompanied by a portable 'hydrogen station' with renewable hydrogen supply. The initiative culminated with the first Hydrogen Bus on a scheduled route in Spain (Madrid – Torrejón de Ardoz) starting in January 2022.



## Our commitment to ZEV introduction is only the start

Managing the transition to ZEV's is key to our success. We seek to continuously learn, innovate and improve our services based on real life experience. Some examples of how we bring this to life, bringing benefits to our business as well as the environment, are set out below:

### 1. Battery life management and second life usage

It is possible to extend EV battery life significantly through sophisticated battery management. Extending the life of the battery packs lowers the whole life cost, and limits the environmental impact of production.

We work with our partners to optimise battery life during operation, and when useful vehicle life has expired, batteries are transferred, when possible, to static based applications including energy storage in solar or wind farms which helps balance the National Grid in the UK when supply and demand are mismatched.

In our Coventry depot, second life bus batteries are used to balance our own energy needs. These supplement our peak charging demand to minimise the impact on the electricity usage and cost.

## 2. Operational excellence

The ZEV transition allows us to look afresh at how we deliver our services:

- We work collaboratively with our supply partners on the use of major components such as tyres that are designed specifically for electric vehicles.
- We invest in driver training for the ZEV's, which has additional benefits including minimising brake pad usage (by optimising the use of regenerative braking) and improving energy consumption by a better driving style. Initial data demonstrates this is yielding consumption efficiencies beyond vehicle manufacture expectations, and delivering better safety performance.
- Electric vehicles do not use engine or gearbox oil which has a direct environmental impact and disposal risk. Indeed, the fact that servicing needs are lower allows us to look at the way that maintenance is planned and delivered.
- In addition to moving to green electricity tariffs in all our territories as soon as practicable, we also seek opportunities to optimise our own resources to reduce energy demand. For example, in the UK Bus Division we have invested in solar energy panels on our depot roof.
- In North America we have six Parts Reclamation Centers (PRCs) located in Naperville, IL; Philadelphia, PA; Memphis, TN; Indianapolis, IN; Burleson, TX and Worcester, MA. As well as parts reclamation, we also repurpose retired, non-electric vehicles from our fleets to community partners who use them for a range of community based activities.

## We are pleased that our work has been recognised:



Sustainalytics: rated in third percentile of all transport companies (out of 387) and in seventh percentile of over 15,000 companies in Sustainalytics global universe



MSCI\*: December 2022, 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



National Express was delighted to be recognised in the Financial Times' Europe's Climate Leaders special report. Europe's Climate Leaders 2022 ranks the top 400 European companies which have achieved the greatest reduction in their greenhouse gas (GHG) emissions intensity.

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# Case Study



## Environment and Sustainability

National Express West Midlands has worked hard to make the existing Perry Barr depot as energy efficient as possible. However, the technology and techniques available in a 21st-century new-build bring a substantial reduction in our carbon footprint.

The new facility benefits from many energy efficiency measures and was designed to house electric buses and their chargers. It opens up the possibility of zero-emission bus services for north and east Birmingham, as well as reducing emissions in some of the most deprived areas of the city.

- The depot has an Energy Performance Certificate B rating
- It is capable of accommodating a full fleet of electric buses – part of our commitment to a zero-carbon bus fleet by 2030
- There is no gas on site. Heating is via a hybrid heating system including Air Source Heat Pumps (ASHP), electric overhead radiant panels and Variable Refrigerant Flow, supplemented with solar panels
- There is roof space for further expansion of solar panels and air source heat pumps
- A green wall on acoustic panelling will help to improve air quality while reducing noise pollution. A wild flower garden has been planted behind the acoustic panelling to improve habitats for wildlife
- A 432m<sup>2</sup> green roof with a 22 species planting mix on an ultra-light sedum. By next summer, there will be up to 90% coverage helping to improve air quality and habitats for wildlife
- A self-contained water recycling system for bus washes
- A storm water system has been installed allowing rainwater to feed into the local infrastructure at a controlled rate

## Perry Barr Depot

The new bus and maintenance depot in the West Midlands has been designed to accommodate our ZEV roll out and bring substantial environmental benefits as well as benefits for our passengers and the employees who are based at the new depot.

This is the first new National Express bus depot to be built in the UK since Coventry Pool Meadow in 1986. The final buses left the old Perry Barr depot on the morning of Saturday 10th December and returned from service to the new depot later that day.

## Safety and Efficiency

The new facility allowed us to design a safer, more efficient layout for operations and maintenance than was possible in a 90-year-old depot.

For example, our bus parking plan makes it as quick and easy as possible to get services out in the morning, using minimal reversing. With nearly 200 buses to put out on time, every second counts.

A separate service lane for washing and fuelling the vehicles means the engineering team can work away from operations.

## People

The new facility incorporates well laid-out resting areas for drivers and engineers, who work a variety of hours and shift patterns. Male and female showers, ablution units, a quiet room, a cafe with seating for up to 56 people, snooker tables and TVs have also been included in the new depot.

## The Local Community

Because the new site is close to the existing depot, bus services follow the same routes as previously so there is no extra local bus traffic brought about by the slight change of location.

# We move people



## Most satisfied customers

As well as the role public transport plays to support decarbonisation, the industry also has a key role to play in driving social mobility. This has never been more important than in the current economic environment where public transport provides affordable access to work opportunities, healthcare and leisure.

A recent review undertaken for the Department of Transport (DfT) noted that transport is an important facilitator of social inclusion and wellbeing which can affect social and economic outcomes and therefore inequality.

National Express is proud of the role it plays in local communities and encourages colleagues to participate in a wide range

of community activities that have a positive impact on the diverse communities that we serve.

In 2021 ALSA launched an initiative for reforestation Congoto de Valdavia (Palencia). This initiative seeks to recover the significant ecological value of an area that saw 100,000 trees destroyed in a major fire in 2020. More than 92,240 trees are being replanted across 58,9 hectares.

At the Group level, National Express has been a proud corporate partner to Transaid for over a decade. Transaid's mission, to transform lives through safe, available transport, sits at the heart of our purpose, to drive modal shift and key outcomes of the Evolve strategy. In particular, Transaid's

focus on road safety and the aim to build employability and professional skills in local communities. National Express has contributed over £100,000 towards the charity since becoming a corporate partner. In addition to the financial contribution, we provide the opportunity for colleagues to participate in train the trainer opportunities around the world where they can contribute their professional skills. We also facilitate graduate placements and this year one of our graduates undertook a three month placement.

Each of the Divisions also undertake a wide range of community programmes and initiatives tailored to the community they serve.



## Most reliable service

### Most Reliable

Based on our most recent customer satisfaction survey held in North America School Bus, approximately 88% of our school bus customers were satisfied or highly satisfied with our on-time performance and the overall standard of service provided. In our North America Shuttle and Transit Division, a number of our customers have been recognised with the 'Best Workplace for Commuters' and 'Best Universities for Commuters' awards in 2022. In ALSA we have achieved a 20% year on year improvement in NPS and have been awarded a BCX Seal for Best Customer Service in the Transport Sector.



# We move people continued



## Safety



Safety remains our number one priority and is a key outcome of the Evolve strategy: To be the Safest. We are proud of our industry leading track record and we are continually refreshing technology and innovation to maintain our leadership position.

The Company has a robust range of safety systems that are anchored in our 'Driving Out Harm' safety programme that was put in place in 2011 and is continually updated. Each Division has detailed safety plans. In 2022 ALSA focused in particular on predictive management of drivers using artificial intelligence; a roll out of additional monitoring systems; the management of minor speeding events as well as the promotion of employee health and well being. In the UK, the business has been working with simulator training suppliers to obtain best practice, such as Cranfield University Transport for the West Midlands Metro and Coventry University. The business has also been working with Senseye (Tenshi) to quantify ways to detect fatigue. North America has also adopted AI technology to identify and mitigate risk triggers.

We are very pleased that overall we were able to match our best ever Group FWI index safety in 2022 (previously achieved in 2019).



### Safety is in our DNA

We are proud to be externally recognised for our approach to safety.

In the UK, National Express Bus was once again awarded the prestigious Sword of Honour from the British Safety Council, the fifth time the business has been recognised as a top performing company for safety. In North America School Bus, all of our operating authorities have received the highest safety rating. ALSA once again achieved the AENOR certification for road safety for the 10th year.

# We connect places and we act responsibly



## Employer of choice

### People Strategy

Our Evolve strategy commits us to being the employer of choice. This year we have taken the time to work with the divisional representatives to put in place the foundations to create a high trust, listening culture. Our new People Strategy, Be Part of the Future Today, has four main aims:

- Embraces diversity, equality and inclusion
- Sets the tone for us as a purpose-led organisation
- Helps us win the war for talent
- Enables our people to grow and develop in a high-performance culture.

It is organised around three pillars.

### Connecting communities for the future Being part of the future today

#### Embrace

- Inclusive Environment & Culture
- Diverse workforce
- Meaningful external impact & social change

#### Energise

- Values
- Recruitment & EVP
- Engagement
- Wellbeing
- Community

#### Elevate

- Performance Management
- Talent Management
- Succession
- Leadership development
- Learning

- Recognition
- Policies
- Benchmarking
- Data

- Induction
- HR Admin
- Systems
- MI/Reporting

- Payroll
- Channels
- ER
- Reward

### Data driven

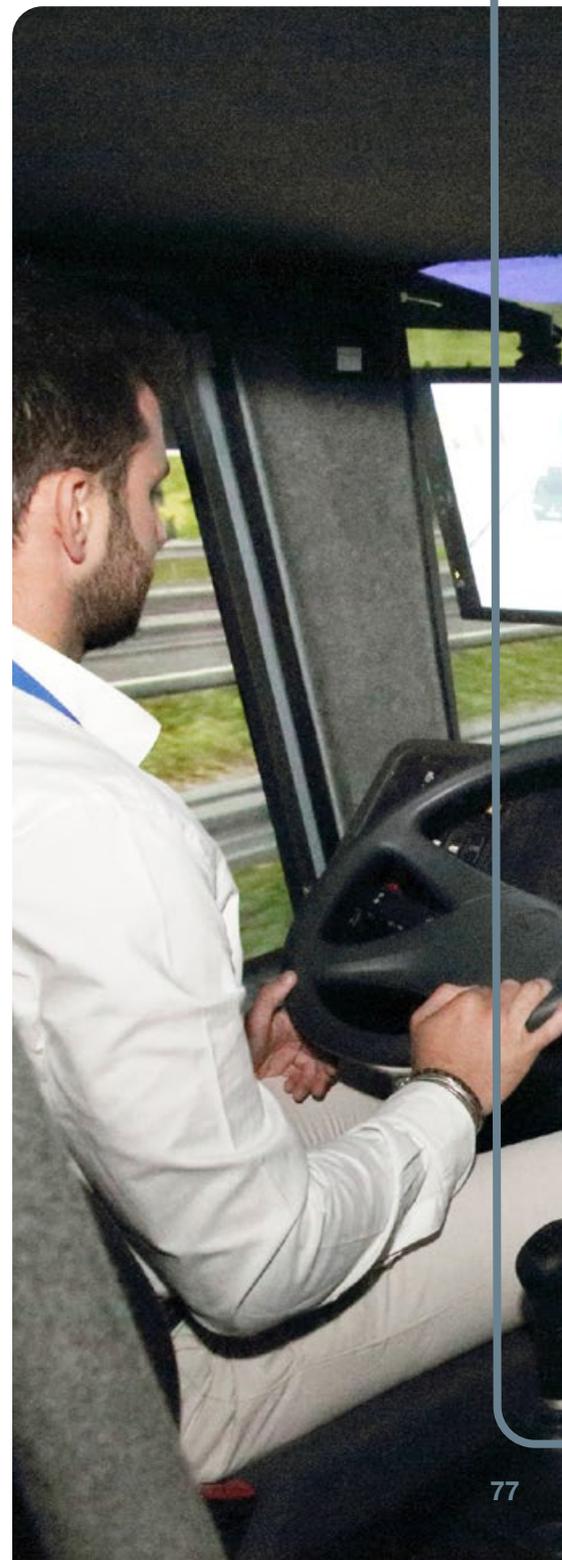
**Embrace:** is about fostering a culture that embraces difference and individuals through the creation of a compelling diversity, equality and inclusion (DE&I) strategy that ensures each of our business units is representative of the communities we serve and help our people feel valued and respected for who we are.

**Energise:** is about having a core set of values that guide people in their day to day activities. Energise creates an environment that allows people to be at their best, where they are listened to and feel they can make a difference.

### Externally researched

We are working towards world-class engagement levels with colleagues who are united behind our purpose, are highly collaborative and proud of the role they have. In 2023 we plan to undertake a Company-wide engagement programme to test and refresh our current values.

**Elevate:** reflects our aspiration to create a high-performing culture where colleagues can see that they can and do grow and develop both personally and professionally. We want to ensure we develop our future leaders with an 'internals first' approach to talent.



# We connect places and we act responsibly continued



## Employer of choice

We are proud to have achieved a

**77%**

response rate to our first global engagement survey

This year as part of our 'Your Voice Matters' campaign, we carried out our first global engagement survey across our 46,200 colleagues. We are proud to have achieved a 77% response rate to our first global engagement survey.

The survey provided us with a benchmark against which we will drive future action. Key results included: 80% of colleagues recognised our commitment to safety; 76% of colleagues agreed that the organisation

**YOUR VOICE MATTERS**



promoted DE&I; 65% indicated they were proud of our brands and 69% recognised our commitment to our customers.

While this is a good base from which to build, we recognise the need to act on the feedback. Each of our Divisions and business units has developed action plans focused on the key themes that came from the survey aligned to the areas that will have most impact. As well as focusing on driving engagement and developing actions, divisions are also sharing best practice and learning from high scoring business areas to ensure we are drawing on the strength of the global organisation.

In response to the survey a communications framework has been developed based on three themes: Inform, Inspire, and Improve. Inform: demonstrates the commitment to continuous improvement and that feedback is being acted upon; Inspire: by showing colleagues that we have listened we inspire and create trust; Improve: encourages colleagues to support actions and improve the way we work.

Action plans are monitored with regular updates provided to the Group Executive who oversee progress. Regular updates are also provided to the Board Sustainability Committee.

With this announcement, National Express Transit is unveiling NEXcelerate, a diversity and inclusion initiative to help employees reach their full potential in exciting roles – from bus drivers and dispatchers to safety supervisors and general managers. The effort will cultivate Latino and Hispanic talent and resources, under the guidance of National Express Transit Vice President of Business Development and newly elected Latinos In Transit Board member, Rick Pulido.

This year we will focus on diversity across all of our business units.

ALSA have plans in place to increase the presence of women in the transport sector, with the aim of having more than 25% of women in the workforce by 2035.

In Morocco, we are proud to have been awarded the Diversity Hallmark in recognition of the actions taken by ALSA Morocco to attract women into the workforce, to benefit disadvantaged groups and promote equality.

### Connecting communities

National Express Transit (NEXT) announced a new strategic partnership with Latinos In Transit (LIT), an organisation that promotes the advancement and development of Latinos and other minorities in transportation. The collaboration reflects National Express' commitment to building a diverse and inclusive environment where employees thrive.



## Diversity

The Group launched its diversity and inclusion strategy in 2020, which included the incorporation of the Company's Global Diversity & Inclusion Council. As part of this, there were three strategic ambitions:

1. Reflecting the communities we serve by increasing those in underrepresented 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.
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.

Since 2020, significant progress has been made across all three strategic aims. Particular highlights include:

In North America we have developed several internal programmes to support our commitment to DE&I including: Unidos for National Express which is a new Employee Resource Group (launched in 2022), and is a voluntary, employee-led forum to promote an inclusive work environment, support members' professional advancement, attract top Hispanic/Latino talent and grow our business. It offers members networking and educational opportunities, resources to connect with mentors and senior leaders, and also internally promotes volunteering with organisations that serve the Hispanic/Latino population.

The Women's Inspiration Network (WIN) also launched in North America in 2022 aims to equalise access and opportunity for women in our organisation and in the transportation industry by nurturing a community that celebrates and promotes women's advancement and achievement. The network supports professional development, networking, and mentorship programmes with women leaders inside and outside the company, as well as supporting women's causes.

In ALSA the business has been focused in recent years on increasing the number of women in the workforce with an ambitious target of 25% of female employees by 2035 and 35% of women in senior positions by 2030. ALSA is also a member of the national 'More Women Better Companies' initiative.

In Morocco, the business has set up an equality and diversity committee. Members of the Committee have received expert input from outside of the business so they are able to mentor colleagues.

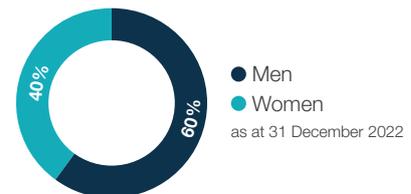
The initiative earned an external recognition in the form of a Diversity Badge.

Recognising it is nearly three years since launch, we will be refreshing the approach to diversity as part of the People Strategy under the Embrace pillar. With this in mind, we have recently launched an internal audit to provide an objective review of progress against the strategic aims and wider progress of the 2020 strategy.

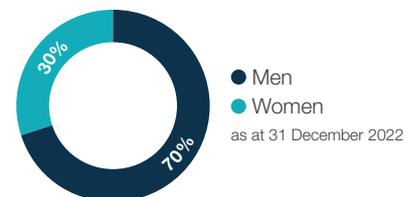
We will be using the outputs from this audit to launch a new strategy to refresh our approach to Embrace as DE&I is a crucial enabler of the Evolve outcome of being an 'Employer of Choice'.

## Diversity at National Express

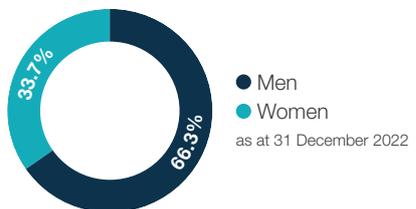
### Gender – Board



### Gender – GEC



### Gender – All



# We act responsibly

## Responsible Governance Principles

Full details of our approach to deliver on our promise to maintain best in class governance is covered on pages 95 to 117 of the report.

With regard to governance surrounding our environmental and social commitments, this is overseen by the Board Sustainability Committee which was founded in 2022 to provide rigorous oversight of our approach to the environment, climate related risks and our social obligations. The detail of the Committee's membership and terms of reference are set out on pages 136 to 139 of this report.

In addition to the Board Committee we have established a Global Sustainability Steering Committee, with representatives from each of the divisions. The Committee is chaired by the Sustainability Director with the aim of coordinating our sustainability approach to align with our Evolve strategy, to foster collaboration and best practice and ensure shared learning from our experiences across the Group.

In 2021, we completed our first TCFD (Task Force on Climate Related Financial Disclosure). This work has been updated in line with the latest guidance and is set out on pages 81 to 94 of this report.

Policy	Actions
<b>Ethical behaviour</b>	<ul style="list-style-type: none"> <li>Ethical Board behaviour – Code of Conduct</li> <li>Anti-bribery policy</li> <li>Whistleblowing policy</li> <li>Tax</li> <li>Procurement</li> </ul> <p>➔ For more information see <a href="http://www.nationalexpressgroup.com">www.nationalexpressgroup.com</a></p>
<b>Human Rights</b>	<ul style="list-style-type: none"> <li>Modern Slavery</li> <li>Workplace Rights</li> <li>Health and Safety</li> </ul>
<b>Equality</b>	<ul style="list-style-type: none"> <li>Gender pay gap reporting</li> <li>Disability statement</li> </ul>
<b>Digital Security</b>	<ul style="list-style-type: none"> <li>Appointment of new Chief Information Officer</li> <li>Providing customers with digital channels to meet their expectations</li> <li>Safeguarding customer data</li> </ul>



➔ For more information see our **Policies** at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

# TCFD Disclosure

## 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.

## Governance

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

Until May 2022, the Board's oversight of the environment was through its Safety & Environment Committee. Since May 2022, it has been through its dedicated Sustainability Committee, with a remit to cover the governance of environmental and sustainability matters. The Sustainability Committee met twice during 2022, with the Safety & Environment Committee also meeting once during the year prior to it being repurposed. In future, the Sustainability Committee will meet three times a year. The terms of reference can be found on the Company's website at [www.nationalexpressgroup.com/search/?q=sustainability+committee](http://www.nationalexpressgroup.com/search/?q=sustainability+committee)

### Key activities

With the Safety & Environment Committee having previously approved the Group's environmental strategy, which is centred on the transition of the Group's fleet to ZEVs, this year the key activities of the newly formed Sustainability Committee focused on monitoring the progress of implementing the strategy, including:

- Assessing the Group's performance against its sustainability targets and reviewing the plans for achieving its sustainability ambitions, the Group's Sustainability road map and the Group's ZEV transition road map;
- Reviewing and approval of the Group's first Group-wide Sustainability Report published in July 2022;
- Monitoring of the Group's plans to align with the Paris Agreement target of limiting global warming to 1.5 degrees above pre-industrial levels; and
- Reviewing and approval of the sustainability disclosures reported in this Annual Report.

### Reporting

The Committee reports to the Board of Directors, with the Committee Chair providing updates to the Board after each Committee meeting on the matters discussed. The Board is specifically updated on information received by the Committee in respect of the physical and transitional risks associated with climate change and any strategic recommendations made by the Committee. The Committee also produces a formal written report each year to the Company's Shareholders, which is approved by the Board. This year's report is set out on pages 136 to 139 of this Annual Report, which includes a list of Committee members and other attendees.

## Review of climate-related issues

The Evolve strategy, launched in 2021 was reviewed by the Board prior to launch. One of the key outcomes of the strategy is for the Group to be an environmental leader, by delivering the transition to zero emission vehicles.

To monitor progress against this strategy and the financial impact, the Board reviews on an annual basis both the long-term strategic plan, of which the latest runs until 2027, and the annual budget, the most recent of which was for FY23. Both of these exercises consider the financial and operational impacts of both the transition to a low carbon economy and the potential impact of physical risks from climate change, which are discussed in detail in the Strategy section of this disclosure.

Please refer to the risk management section for how the Board exercises oversight vis-à-vis the incorporation of climate-related issues into the risk management processes.

## Training and Development

To assist them in discharging their oversight responsibilities on the Group's environmental strategy and having the ability to give direction and raise challenges, the Committee received a Benchmarking and Landscape review presentation from international sustainability consultants BRODIE during the year. Committee members also have access to climate related resources, including Chapter Zero.



# TCFD Disclosure continued

## 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 environmental strategy and are the sponsors of its overall 2040 net zero ambitions. The Group Sustainability Director, who joined the Group in December 2021, has supported this delivery and continued to develop the Group's environmental and wider sustainability strategy during the year. As the Group's environmental strategy is centred on the transition of the Group's fleet to ZEVs, the Group has steering Groups to oversee and lead the ZEV transition. This includes a new Global Sustainability Steering Group (GSSG), which was incorporated during the year and has the Group CFO and the Group Human Resources and Communications Director as the Executive sponsors. The following diagram explains the role both Board committees and different senior leaders play in having oversight of assessing and managing climate-related risks and opportunities:

### Board of Directors

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, including for climate risks.

#### Sustainability Committee

Newly formed in the year with a remit to cover the governance of environmental and sustainability matters. Key activities in the year are set out on page 136.

#### Nominations Committee

Considered and recommended the proposed size and composition of the newly formed Sustainability Committee, taking into account the Non-Executive Directors' experience, expertise and other Board and Committee responsibilities

#### Remuneration Committee

Reviewed and approved the inclusion of ESG targets within the Executive Directors, and senior management's remuneration to ensure alignment with strategy and performance

#### Audit Committee

Reviewed the annual report including TCFD disclosures

### Company Executive Management (Group CEO & CFO)

- Delivery of the Group's overall strategy, including its ZEV fleet transition strategy and management of other climate-related risks and 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

### Group Sustainability Director

- Supports Company executive management in developing and delivering a sustainability strategy, consistent with the Evolve strategy

### Group Head of Compliance & Risk

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

### 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: identifies, negotiates and builds partnerships with vehicle manufacturers for the supply of ZEVs 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
- Group Financial Controller: assists with the quantification of climate-related risks and scenario modelling

### 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

### Global Sustainability Steering Group (GSSG)

The GSSG was newly established in the year. Attendees also include the Group Head of Sustainability, Group Financial Controller, Group Procurement Director, and representatives from each division who are primarily responsible for environmental and sustainability matters. The Steering Group is tasked with:

1. Ensuring consistent reporting of ESG and sustainability targets
2. Setting the global strategic framework for our sustainability strategy
3. Establishing how to communicate our ESG strategy, vision and purpose externally
4. Sharing best practice and collective learning
5. Communicating our successes to our stakeholders – particularly shareholders

## Divisional

### Divisional Executive Management (Divisional CEOs & CFOs)

- 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

### Divisional Commercial & Operations/Service Delivery Managers

- 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 road services to cover disruption caused by physical risks to rail infrastructure 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 (passenger and contract counterparty) demand for ZEVs
- Review ZEV supply chain relationships
- Review ZEV funding options
- Track ZEV technological advancements

# TCFD Disclosure continued

## Risk Assessment

### Processes for identifying, assessing and managing climate-related risks, and integration into overall risk management

#### Identifying and Assessing

We apply a two-pronged approach to identifying and assessing climate-related risks. Firstly, they are considered as part of the Group's risk management system to identify, assess and report on all business risks (see pages 56 to 61 for more detail), which is presented to the Board annually. Secondly, in 2021, a specific climate-related risk self-assessment was introduced for the first time, which was updated by all the Group's divisions during 2022 and will be refreshed annually in the future. This process enabled the Group to assess the potential size and scope of climate-related risks identified across the Group.

The key features of the specific climate-related risk assessment are as follows:

- The risk assessment has two components: physical risks (such as extreme weather events); and risks related to the transition to a lower carbon society (such as the cost and operational challenges with transitioning rapidly to a ZEV fleet). This transition risk includes the need to comply with new regulations or laws related to climate change (e.g. a ban on use of diesel vehicles).
- Divisional teams assigned a probability of occurrence and a financial impact score against each of the risks identified, enabling the Group to prioritise consideration of the higher climate-related risks we face.

- For each risk, divisional teams assessed the expected frequency of occurrence, the activities and controls in place to mitigate the risk, and the effectiveness of those controls.
- Each division has also assessed potential opportunities related to climate change.
- The risk assessments were reviewed by the Group Financial Controller, Group Head of Compliance and Group Sustainability Director.
- A summary is presented to the Board, who duly reviewed and challenged the conclusions, enabling an assessment of the relative significance of the risks posed by climate change compared to other risks.

#### Time horizons

In order to assess the impact of climate-related risks over time, the Group has set short, medium and long-term time horizons as set out in the diagram below. The short-term time horizon to 2027 aligns with the five-year forecast period used for the Group's strategic financial planning process. The medium-term end date of 2035 aligns with the assumed ban on use of diesel vehicles that we have applied in the 'extreme transition' scenario (as described below), and is also a key milestone date for the Group's zero emission targets. The long-term assessment considers a longer period to 2050. Please refer to page 72 for our net zero goals, timeline and plan.



#### Materiality

In assessing these risks, we have set materiality thresholds in line with TCFD guidance. For short to medium-term risks, we have applied a level of materiality consistent with the approach of how the Group has determined materiality for our Financial Statement audit (the higher of (i) 5% of the Group's Underlying Operating Profit in the respective year of the most recent long term strategic plan; or (ii) £10

million). For longer-term risks, we apply a higher materiality of 10% of a long-term estimate of the Group's Underlying Operating Profit, as the risks are less certain and the Group has longer to develop mitigation plans. We applied this assessment to the climate change scenario modelling analysis to determine material risks and opportunities arising from climate change.

### Managing climate-related risks

Climate-related risks, like any principal risks, are included in the divisional and Group risk registers. They are assigned Risk Owners, who are responsible for capturing and reporting any developments regarding the risk in the regular risk management updates that take place throughout the year. Any necessary actions required to respond to climate-related risks (for example increased investment or expenditure to mitigate the risks) are discussed and approved as per the Group's delegated authority framework.

Furthermore, the more detailed breakdown of specific climate-related risks identified in the climate-related risks self-assessment process are reviewed by the Global Sustainability Steering Group, who instruct the relevant teams in each division to draw up mitigation plans where relevant.

### Integration into overall risk management

The climate-related risk self-assessments feed into the wider divisional and Group risk registers. Any significant climate-related risks are captured for review and discussion at the various levels of Management and the Board. There is a clear interrelationship between addressing climate-related risks and Group strategy primarily through the transition to ZEVs. As a further control over the completeness and accuracy of the divisional and Group risk registers, a cross check is performed from the detailed climate-related risks self-assessment exercise to ensure it is consistent with the higher-level risk register process.

## Strategy

### Climate-related risks and opportunities (short, medium and long term)

#### Impact of climate-related risks and opportunities on the strategy and financial planning

#### Resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or lower scenario

Our climate scenarios:

1. an **extreme physical climate change scenario** assuming a lack of coordinated governmental action and intervention to reduce emissions, ultimately resulting in more extreme weather events. This scenario assumes the current warming rate continues unabated; rising to circa +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; and
2. an **extreme transition scenario** including an assumed ban on internal combustion engines to limit the global temperature increase to 1.5°C above pre-industrial levels, as projected by the IPCC's 'RCP 2.6' scenario.

These two scenarios were selected to model the potential impacts at the opposite end of the spectrum of likely outcomes: the extreme transition scenario (consistent with significant, co-ordinated intervention) increases transition risk, but minimises physical risks associated with climate change, whereas the opposite can be said for scenario 1. We confirmed this by analysing a third scenario (based on the IPCC's 'RCP 4.5' scenario).

A summary of the two scenarios is set out in the table below.

Scenario	Extreme Physical Climate Change	Extreme Transition Scenario
<b>RCP scenario</b>	8.5°C	2.6°C
<b>Description</b>	Assuming a lack of action to reduce emissions, resulting in more extreme weather events	Including an assumed ban on internal combustion engines
<b>Mean temperature rise by 2100</b>	4°C	1.5°C

# TCFD Disclosure continued

## 1. Extreme physical climate change scenario

For this scenario, we assumed a range of extreme weather events occurring with increasing frequency through the time horizons under consideration, which included damage to depots from flooding or fires and business disruption from extreme heat or cold. We considered the impact of these before mitigations; in reality, we anticipate that mitigating actions will 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 in 11 countries. Any extreme weather event, whilst potentially very disruptive on a localised basis, is unlikely to affect more than a small number of Group locations, nor occur with sufficient annual frequency to cause a material financial impact, post mitigations. In any case, the Group's insurance policies cover many of the risks of physical damage, as well as the cost of business interruption.

During 2022, the Group performed an initial physical climate risk assessment with an external provider in order to inform and supplement our own risk assessment. This exercise calculated a risk rating for approximately 200 of the Group's major locations, to identify those most at risk from the impact of climate change across a number of different extreme weather or climate events. The analysis identified that sites in central USA, largely from draught and high temperatures, and southern ALSA, from extreme rainfall, are the sites at the highest risk of impact from climate change; and these would be a priority to address in the medium and long-term time horizon.

This analysis also enables the development of location-specific mitigation plans.

The illustrations on the next page show physical risk on a colour scale from green (least at risk from climate change) to red (most at risk from climate change) forecasted for the midpoint of our medium-term horizon, 2030, under the RCP 8.5 scenario.

Across the Group, we already operate vehicles in both the coldest large city in the USA (Fairbanks, Alaska, with a mean January temperature of -22oC), and Bahrain, which has an average high temperature of 38oC in the summer. This shows we are already used to operating in extreme weather conditions, and have the infrastructure to manage it. Nonetheless, weather events have historically had some impact on our operations; in 2022, the financial impact from extreme weather events was £5m, mostly being disruption from snow fall in North America, and this was broadly consistent with that

experienced in prior years. This amount also included a number of extreme storm events during the year, including hurricane Fiona in Florida in September 2022. However, some events such as Storm Eunace and Storm Franklin in the UK had a minimal impact, demonstrating that there is variation in the extent to which each event has a financial or operational impact. The Group also has many mitigations in place. For example, Germany has adjustments built into its contracts, meaning we have access to reimbursement of infrastructure costs and penalty reductions, to reduce the financial impact of extreme weather events. We will continue to closely monitor the impact weather has on our operations as part of our future financial planning.

Under this very extreme scenario, our climate modelling showed that the financial impact caused by an increased magnitude and severity of extreme climate events could be in the order of c.£50m annual profit impact from 2027. Critically, however, this is before any offset from mitigating actions and modal shift opportunities that would very likely arise under this extreme scenario. Whilst based on our calculated materiality this amount would represent a material impact on Group profit, it is not significant in the context of our going concern, viability statement and headroom on lender covenant tests. In reality, mitigating actions, such as relocating frequently affected depots in order to continue operating the services, can be implemented to reduce the impact.

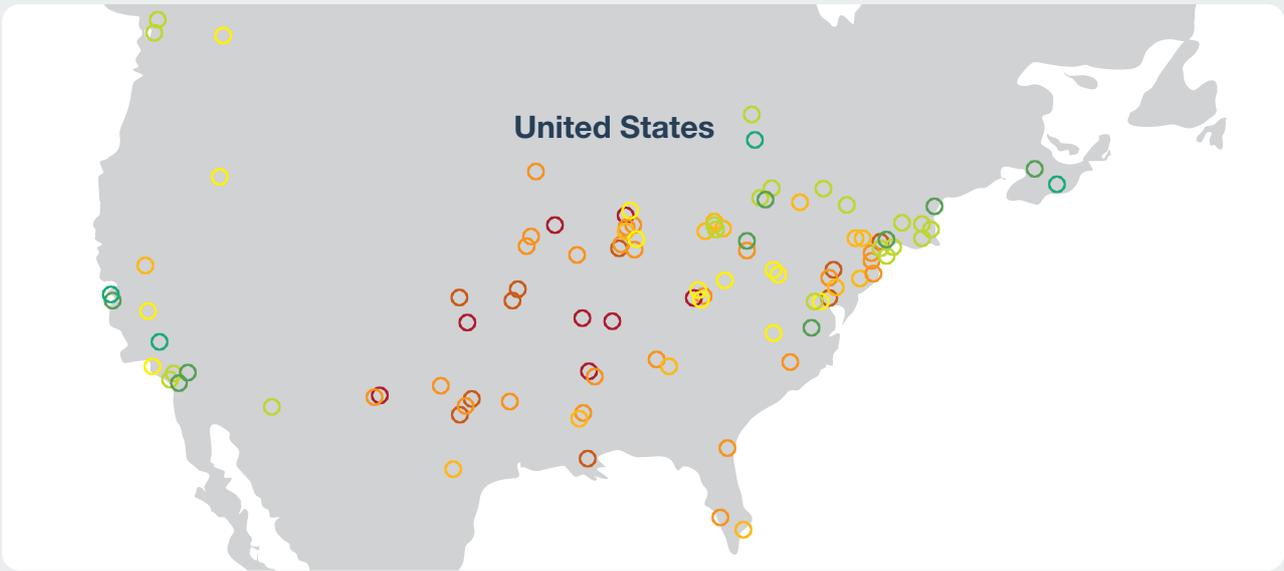
## 2. Extreme transition scenario, incorporating the Group's transition plans

We considered the risk of regulatory change and/or customer demand requiring society to transition to zero emission cars and public transport in a relatively short period of time. Specifically, we have assumed that this involves a global ban on the use of any internal combustion engine vehicles from 1 January 2035. We have also considered the Group's plans to transition to a low carbon economy to address the Group's existing net zero targets.

A ban being introduced in 2035, as assumed under this scenario, would have the greatest impact on the Group in the medium-term time horizon.

The Group's current ZEV transition plan assumes over 95% of the fleet would be transitioned during the short and medium time horizon, with only a small remainder being required in the long-term time horizon, and therefore the key risks listed below are most pertinent in the short and medium-term time horizon.

Physical risk rating to the Group's locations under the 'RCP 8.5' scenario by 2030



The colour coding denotes the scale of expected physical impacts from climate change at that location, from green (least at risk from climate change) through to red (most at risk from climate change), under the 'RCP 8.5' scenario by 2030.

# TCFD Disclosure continued

Our analysis of this scenario identified the following key risks, which apply to both the Group's transition plan, and to a greater extent under the extreme transition scenario:

- i. impact on our existing fleet;
- ii. the ability to manage the fleet transition, including:
  - a. supply chain challenges to production of ZEVs in sufficient volumes;
  - b. infrastructure availability (particularly with respect to power/fuel);
- iii. maintaining the operation of the assets (particularly with regard to having sufficient skilled employees);
- iv. rising costs of ZEVs (particularly in a supply constrained scenario); and
- v. changing consumer behaviour (as attitudes towards flying and cruise travel impact on our associated services, e.g. airport transfers).

We concluded that the most significant priority risks are risks (i) and (ii), which are discussed in more detail below.

## Impact on existing fleet

The Group has considered the impact on the value and useful economic lives of its assets, primarily on public service vehicles, under both the extreme transition scenario and as a result of the Group's own transition plan.

The Group has set out its ZEV fleet target dates by division on page 72.

With the exception of UK Bus, all existing diesel vehicles will have been fully depreciated by each divisional net zero target date. In UK Bus, the net book value of diesel vehicles at their net zero target date of 2030 is estimated to be £35m, assuming no disposals in the intervening period. The Group is not accelerating depreciation on these vehicles because it is anticipated that they will be sold at, or above, their net book value between now and the ZEV transition date. Some ZEV suppliers are actively buying back diesel vehicles in order to accelerate the introduction of electric vehicles.

Under the extreme transition scenario, where we have assumed a ban on the use of diesel vehicles from 2035, the net book value of diesel vehicles at that date would be £14m, and so the impact of accelerated depreciation on annual profit from 2023 would be circa £1m in the event of such a ban being implemented.

Please refer to the table below for a timeline of net book values and Note 15 in the Notes to the Consolidated Accounts for further information.

NBV of Diesel Vehicles	2030 (£m)	2035 (£m)	2040 (£m)
UK	36	6	0
ALSA	42	3	0
Germany	n/a- already operate electric fleet		
North America	86	5	0

## Managing the fleet transition

The Group's ability to both transition the fleet to ZEVs to meet our own net zero targets, plans to move towards a low-carbon economy, and to mitigate risk in the extreme transition scenario is dependent on the ability to transition to and operate ZEVs across all divisions, with the exception of Germany, which already operates a fully electric fleet of trains. Vehicle emissions currently represent around 95% of Scope 1 emissions and therefore transitioning the fleet to ZEVs is the key driver of achieving our net zero target. We therefore do not currently anticipate that carbon offsetting will represent a significant part of the strategy to reach net zero. A transition plan is in place for each division, setting out both the known procurement pipeline in the near term and the assumed purchases in later years in order to achieve full transition of the fleet by the relevant target date.

We are transitioning our fleet regardless of any introduction of legislation to ban diesel vehicles, because of both the positive impact on the environment and, as we've proven in the UK, it is also economically better. The transition to ZEVs presents opportunities from reduced exposure to increases in fossil fuel prices.

The capital investment impact of the fleet transition will be achieved through a blend of traditional leasing agreements, outright purchasing, and 'availability' type arrangements. We do not expect that the financial commitments required each year under a mix of these financing arrangements to be any more capital intensive than the continuation of replenishing and replacing the existing diesel fleet would be. The pipeline of new ZEVs over the next five years has been reflected in the financial forecasts within the Group's latest strategic plan.

The impact of this on impairment assessments is set out in note 14 to the Consolidated Accounts.

A summary of the progress towards achieving our transition plan in each key division or market, and the future outlook is set out below.

### Urban Bus – UK

The Group is most progressed in the UK Bus division, with 99 ZEVs in operation as of 31 December 2022, and a further 84 to be delivered and operational by the end of Q1 2023. An order for 170 was placed at the end of 2022, and a further 130 planned in early 2023. Our early orders have enabled us to monitor actual data on the operating cost of electric vehicles versus diesel vehicles, in order to inform and refine our total cost of ownership (TCO) modelling. Our modelling shows that electric buses have a TCO better than that of diesel vehicles, without grant funding being required; largely driven by lower maintenance and running costs. It is assumed in the extreme transition scenario that this continues to hold true in the future. Early signs in the UK also point to increased passenger numbers when ZEVs are used, with all other factors controlled for. There are several operational benefits from using electric vehicles, including the ability to optimise maintenance (both planned and reactive). We are able to mitigate technology transition risk by negotiating with supply chain partners, for example, by obtaining extended warranties on battery performance or through availability contracts.

We do not expect our vehicle purchasing requirements to comprise a significant portion of the market capacity for the manufacture of these vehicles. In relation to the charging infrastructure, the Office for Zero Emission Vehicles is accelerating the ease of installing charging points for businesses.

### Urban Bus – Spain and Morocco

In Spain and Morocco we expect our Urban Bus operations to transition on a slightly longer timescale than in the UK as a result of two key factors: (i) operating conditions, including route length, and ambient temperatures being more challenging than in the UK; and (ii) the contracted nature of the services means that the transition timetable needs to be agreed with the contract counterparty. Whilst there is more uncertainty than in the UK, we still anticipate that the availability of suitable vehicles in the market will be sufficient to meet our transition plan and that the TCO is at least at parity compared to diesel vehicles.

### School Bus – North America

School bus operations are well suited to ZEVs given relatively short operating distances and ample time for mid-day recharging. However, the longer time frame for transition in North America reflects two key factors: (i) ZEVs for the school bus market are currently expensive, reflecting low production volumes; and (ii) contracted procurement practices at school board level will need to adapt to accommodate ZEV introduction (for example, to recoup the cost of infrastructure investment). However, we are seeing increased demand for ZEVs (particularly as parents embrace the clean

air agenda), and funding is becoming increasingly available, such as the US government launching a \$5bn Clean School Bus programme. The Group has already submitted applications, and to date has received \$31m in grants. Additionally, our own assessment shows that the market capacity for ZEVs that we expect to consume is not notably larger than our proportionate market share.

### Transit and Shuttle – North America

Our Transit and Shuttle operations are well progressed in transition, with approximately 100 electric vehicles currently in operation across the business. Our customers are driving the transition by replacing the vehicles they own, (which we operate), to ZEVs, and providing the on-site infrastructure to enable this. There is ample capacity in the vehicle market to enable transition. We have also set up a Zero Emission Leadership Coalition (ZELC) which brings together a number of our key customers, industry experts and vehicle providers to share knowledge and experience and help to drive the transition agenda forwards.

### Long-Haul Coach – UK and ALSA

The transition of our long haul coach operations is more uncertain, as whilst hydrogen power produces a longer range than battery EV, the technology for hydrogen power is less developed, and fuel costs are currently too high to compete economically with diesel. More practical concerns such as the need to maintain sufficient passenger luggage space also need to be considered in the design and specification of ZEVs. However whilst battery EV may be impractical for long distance journeys, it is still suited to shorter distances and we are already using electric vehicles on a private hire contract in the UK.

In the UK, we are already engaging with the industry to develop a hydrogen coach demonstrator vehicle meeting our specification and multiple potential suppliers have been engaged.

In terms of hydrogen power, we have experience of setting up the required infrastructure through introducing 20 hydrogen vehicles into service in UK Bus in the West Midlands. Although the hydrogen requirements for these vehicles utilises approximately two thirds of our suppliers' current capacity, the market capacity is still developing. Given we have a number of depot locations located across the UK, the Group Procurement team are considering a range of alternate options to having hydrogen delivered to depots, with one solution being explored to have an on-site hydrolyser where the gas is created inside depots.

# TCFD Disclosure continued

Ultimately, although the current outlook is more uncertain, we anticipate that we will be able to procure ZEVs suited to short and long distance journeys to enable us to achieve full transition by the target date, given our progress in engaging with suppliers and the wider industry thus far. Whilst TCO parity is not currently achieved for hydrogen solutions without grant funding, we would expect that, particularly under the extreme transition scenario, a combination of government support and private investment would ensure the requisite infrastructure was in place to enable the wider use of hydrogen vehicles. We will also be closely following emerging solutions for the considerably larger haulage industry, which will likely accelerate the emergence of technology and infrastructure solutions into the market for long haul transport.

## Modal shift opportunities

In both scenarios, there are potentially very material upside opportunities from modal shift, which is discussed in more detail on page 13.

In the extreme physical 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 (to help the drive for a cleaner air environment) and simultaneously meet their countries' own carbon reduction targets. These measures are likely to include increasing clean air zones or congestion zones that levy fees for cars, or ban them from city centres completely. This would force modal shift out of private car and into public transport.

In the extreme transition scenario, it is likely that as well as the above, central governments would bring about measures to either ban combustion engine cars or make them prohibitively expensive, as well as otherwise 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.

## Resilience of the Group's strategy

A cornerstone of our Evolve strategy is to be an environmental leader, by leading the transition to zero emission vehicles, setting zero emission fleet targets for all areas of our business and fulfilling our purpose of leading the modal shift from cars to mass transit. Collectively, across Governments, employers and the public, there will be a desire and a need to reduce emissions to tackle the risks posed by climate change.

We believe this will accelerate both modal shift into public transport and the need to transition away from diesel vehicles; and that this would happen more quickly under the extreme physical climate change scenario. Therefore, we believe our strategy is resilient to these likely changes, as whilst as we have set out above, physical risks from climate change will undoubtedly provide more challenges to the business, we see greater opportunities from the vehicle transition and modal shift which are both key to our strategy.

Please refer to the risk management section on pages 56 to 61 for further considerations on the possible impact and mitigations of anticipated climate-related risks.

## Impact on the strategy and financial planning

The Group considers both the financial and operational impact from transitioning the fleet to ZEVs, and possible physical risks from climate change, in its financial planning. These considerations are incorporated into both the five-year strategic plan, and the annual budget process. The following climate-related matters are reflected in both of these exercises on an annual basis:

- The blend of financing options for new ZEVs.
- Impact on the net book value or useful lives of the existing fleet – this is discussed in detail in the 'extreme transition' section.
- Whilst the targets for transitioning to fully ZEV fleets are ambitious and industry-leading, they can largely be accomplished through normal replacement cycles and therefore do not create a significant capital investment burden on the Group.
- Consideration of the output of the divisional climate-related risk assessments.

Additionally, in relation to the climate change scenario modelling, we assessed the impact of these on the Group's profit, cash flow and net debt, as well as the impact on the covenant tests that apply to certain borrowings.

## Conclusion on risks, opportunities and impacts

In modelling the impact of a ban on diesel vehicles from 1 January 2035, whilst the Group does not underestimate the operational challenges (and has set up the appropriate governance to plan for it), there would be no material adverse financial impact on the Group. This is because it would not need to significantly accelerate the Group's existing transition plan. Even under the most extreme climate scenarios, we believe that the modal shift opportunities more than offset the transitional and physical risks.

Our conclusion does rely on various assumptions as set out in detail above, with varying levels of confidence, which will continue to monitor and re-assess closely.

## Metrics and Targets

### Metrics to assess climate-related risks and opportunities in line with strategy and risk management process

### Targets used to manage climate-related risks and opportunities and performance against targets

In 2019, the Group was an early adopter of a set of intensity-based metrics which are measured year-on-year and are used as the basis for three absolute targets on GHG emissions, using the Sectoral Decarbonisation Approach (SDA) methodology. These targets were chosen to meet the then-prevailing IPCC goal of controlling the increase in global warming to below 2 degrees. Therefore, the existing targets are not yet aligned to the ambition of the Paris agreement. We intend to set new targets aligned to this approach during 2023, using 2022 as the new baseline year.

In the meantime, we continue to report against the existing targets, which are based on intensity metrics widely used in the transport industry, and were aimed to be achieved over an initial seven-year performance period, 2019 to 2025, with 2018 being the baseline year.

The Group has reviewed the list of metrics in tables A1.1, A1.2 and A2.1 in the TCFD guidance and considers the following to be the relevant metrics which the Group will use to track climate-related risks and opportunities:

- Absolute Scope 1, 2 and 3 emissions (see below for commentary on 2022 performance)
- Number of zero emission vehicles in service or on order by division and % of total fleet that is ZEV
- Revenue and profit impact from extreme weather events
- Net book value of existing vehicles in the context of both the Group's own transition plans and any ban on use/sale of diesel vehicles implemented in the future

- Levels of debt financing linked to ESG-related metrics (see below)
- Proportion of LTIP remuneration targets based on ESG metrics

We consider the remaining metrics to not be not relevant nor meaningful to the Group at the current time. The Group will continue to monitor which metrics are most appropriate, as we expect that the need to track further metrics will emerge over time. For example, tracking changes in passenger numbers and behaviours as a result of modal shift and higher utilisation of ZEVs across the business.

In relation to the use of internal carbon pricing, the Group already has incentives in place across all divisions to lower our carbon footprint in our operations, for example being embedded within bonus targets and employee objectives. Please see page 149 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. In addition to this, capital investment requests and bid models are already scrutinised for their environmental impact. Given that the ZEV transition targets, which drive the majority of carbon reduction plans, already meet the aim of using a carbon price, we are not currently utilising one in our internal reporting at this stage; however this will be kept under review.

During the year, the Group entered into a new £32m unsecured Revolving Credit Facility, which is the first debt facility that has a margin linked to ESG metrics, being the additional number of ZEVs procured, and reduction in emissions.

The table below shows the overall Group targets through to 2025 and our progress to date from our baseline year of 2018.

Reduction target description (metric)	Base year (2018)	2025 target	2021	2022	% change from base year	% change YOY (2021-2022)	Required % reduction to meet target
Traction Energy: (vehicle fuel and electricity) <b>MWh/mpkm</b>	66.92	58.72	86.19	83.82	25.3%	(2.7%)	(29.9%)
Traction Carbon Emissions (Scope 1 & 2) <b>tCO<sub>2</sub>e/mpkm</b>	17.67	15.45	24.15	23.38	32.3%	(3.2%)	(33.9%)
Total Scope 1 & 2 Emissions <b>tCO<sub>2</sub>e/mpkm</b>	19.26	16.45	25.26	24.17	29.6%	(4.3%)	(31.9%)
Site Scope 1 & 2 Emissions (building use only) <b>tCO<sub>2</sub>e</b>	41,656	38,199	31,683	29,839	(28.4%)	(5.8%)	Met
Landfill Waste Disposal <b>tonnes</b>	7,711	5,783	4,491	4,215	(45.3%)	(6.1%)	Met
Water consumption <b>m<sup>3</sup></b>	478,956	439,209	424,347	429,170	(10.4%)	1.1%	Met

# TCFD Disclosure continued

The performance against KPI intensity targets in 2022 was still impacted by Covid-19, with disruption caused by the Omicron variant in the early part of the year affecting discretionary travel. This had the effect of reducing the environmental efficiency relative to normalised operation. The year began, therefore, with Covid-19 continuing to have a significant impact on our intensity metrics.

Over the full year, the 2022 traction metrics have all improved on the 2021 result as patronage improved over the year. Whilst we remain behind our 2025 targets on all three traction metrics, we are seeing the start of a positive impact of ZEV transition, mostly in the UK, and expect this to continue as we roll out the ZEV transition in future years and therefore there remains potential for material improvement in intensity metrics as this progresses.

More detail on these targets and on performance against them is set out in the detailed environmental data disclosures on pages 285 to 288.

## Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks

We continue to measure our absolute Scope 1 and 2 emissions and have this year completed a Group-wide assessment of our Scope 3 emissions across all relevant categories, enabling fuller disclosure of our Scope 3 emissions compared to previous years.

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 58 to 61 for more information on our principal risks and uncertainties.

### Reporting boundaries

The Group applies an Operational Control approach to reporting emissions for collecting this data, thereby covering 100% of our business activities. A regular review is undertaken to ensure any changes to the Group structure are reflected in capturing emissions data.

tCO <sub>2</sub> e emissions by scope	2016	2017	2018	2019	2020	2021	2022	% change YOY (2021-2022)
1	815,788	801,061	808,650	823,582	514,106	657,239	<b>830,287</b>	26.3%
2	95,107	60,682	48,583	49,938	67,879	73,649	<b>83,577</b>	13.5%
3	9,620	6,127	7,627	8,221	8,641	5,762	<b>600,400<sup>1</sup></b>	n/a <sup>1</sup>
<b>Total</b>	<b>920,516</b>	<b>867,870</b>	<b>864,859</b>	<b>881,741</b>	<b>590,626</b>	<b>736,650</b>	<b>1,514,264</b>	n/a <sup>1</sup>

<sup>1</sup> Scope 3 absolute emissions has increased significantly year-on-year due to the Group completing a full baseline assessment of Group-wide Scope 3 emissions during the year and including all relevant categories in the 2022 numbers. Prior year Scope 3 included only business travel, waste, water and certain other upstream emissions, hence no year-on-year % change has been disclosed as they are not comparable. Please refer to the below for the detailed methodology and breakdown of Scope 3 emissions by category.

## Scope 1 and 2

Scope 1 emissions (from combustion of fuels, and use of natural gas and refrigerant gases) 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, in our German rail operations and electric vehicles in operation in other divisions.

We report our greenhouse gas emissions in line with the GHG Protocol methodology.

Scope 1 absolute emissions increased by 26.3% on 2021 predominantly due to the strong patronage growth in the year and the inclusion of the WeDriveU business in North America for the first time following a full assessment of their emissions. Excluding WeDriveU, Scope 1 absolute emissions on a like-for-like basis increased by 20.3% on 2021.

Scope 2 absolute emissions increased 13.5% year on year, primarily due to an increase in electricity use in Germany because of the emergency contract awards in the year.



### Scope 3

Prior to calculating our Scope 3 footprint, all categories were screened for relevance using the GHG Protocol criteria. Those listed as 'n/a' in the table on the following page were considered to make a negligible or no contribution to the Group's Scope 3 emissions. The same operational control approach was used as for Scope 1 and 2 emissions, with all divisions in the Group being included.

Scope 3 emissions have been calculated based on the guidance in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Standard. The screening exercise and determination of relevant categories was also reviewed externally prior to the commencement of the detailed calculations.

Note that for categories 1 and 2 (purchased goods and services and capital goods), the calculation methodology for 2022 was based on actual spend data, which was then applied to emissions factors by spend category, as supplier-specific data is not yet available. The same methodology was used within category 8 for emissions from the manufacture of leased vehicles, which includes the optional disclosure of life cycle emissions associated with manufacturing leased assets.

We aim to transition to a supplier-specific approach over time, starting with the most material suppliers, for example the companies who manufacture and produce our vehicles, some of which have committed to Scope 1 and 2 Science-Based Targets already. We are already working with some of our major vehicle manufacturers to obtain supplier-specific emissions data. We will continue to improve the data quality and methodology for calculating emissions in these categories, and therefore, these three categories may see more significant year-on-year movements in the future.

For employee commuting (category 7), assumptions have been made around commuting patterns applied to the actual number of employees at each location.

For investments (category 15), the 'average data' method is used, based on the sector the investee company operates in, which drives the sector specific emission factor used, applied to revenue data, and our proportional share of equity held.

For all other Scope 3 categories (3, 4, 5, 6 and 13), actual usage data has been obtained.

# TCFD Disclosure continued

A breakdown of Scope 3 emissions by category is shown in the following table:

<b>Category</b>	<b>Absolute emissions (tCO<sub>2</sub>e)</b>	<b>% of total Scope 3</b>
1. Purchased goods and services	221,783	36.9%
2. Capital goods	92,680	15.4%
3. Upstream fuel and energy production and distribution	214,893	35.8%
4. Upstream transportation & distribution	n/a	n/a
5. Waste and water	1,967	0.3%
6. Business travel	2,349	0.4%
7. Employee commuting	41,819	7.0%
8. Upstream leased assets	10,543	1.8%
9. Downstream transportation and distribution	n/a	n/a
10. Processing of sold products	n/a	n/a
11. Use of sold products	n/a	n/a
12. End-of-life treatment of sold products	n/a	n/a
13. Downstream leased assets	1,118	0.2%
14. Franchises	n/a	n/a
15. Investments	13,248	2.2%
<b>TOTAL</b>	<b>600,400</b>	<b>100.0%</b>

## Data assurance

We recognise the importance of emissions data, and the quality of data underpinning it. Accordingly, we have continued to enhance our approach and processes in line with external expectations by continuing to utilise external support in the calculation and compilation of the Group's emissions.

During the year external assurance from Carbon Responsible Limited was obtained over the Group's 2021 environmental data underpinning absolute Scope 1 & 2 emissions, to a limited level of assurance to the ISO14064-3 standard.

## Future developments

From 2023 onwards, the Group intends to obtain external assurance on a wider scope of ESG data. A project was initiated during 2022 to prepare for this.

The Group has also noted the newly announced Transition Plan Taskforce ('TPT') disclosures, which will be applicable from 2023; the requirements have been noted and the Group will work towards compliance during the year.