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

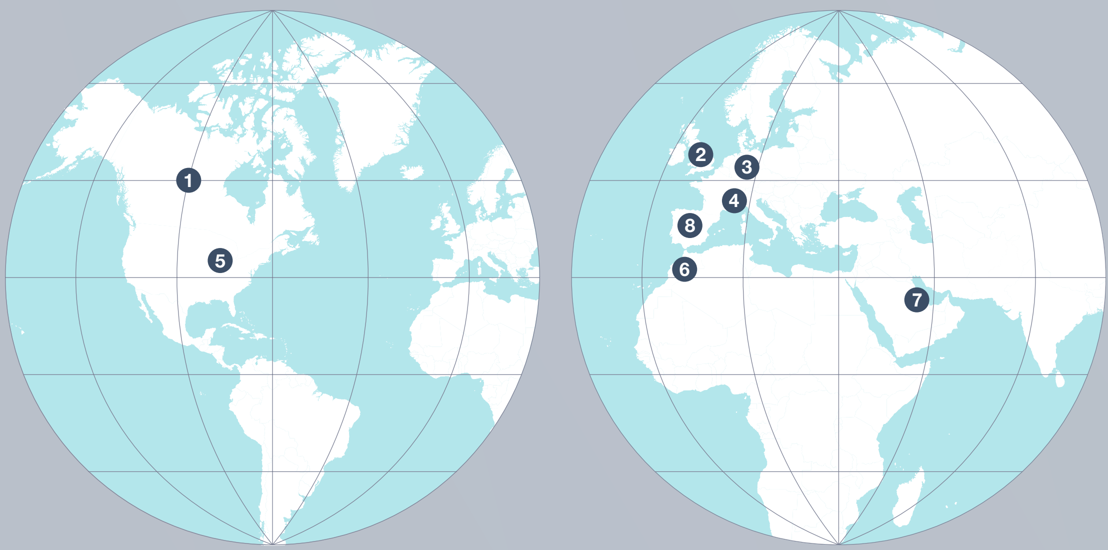
Revenue breakdown by territory

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

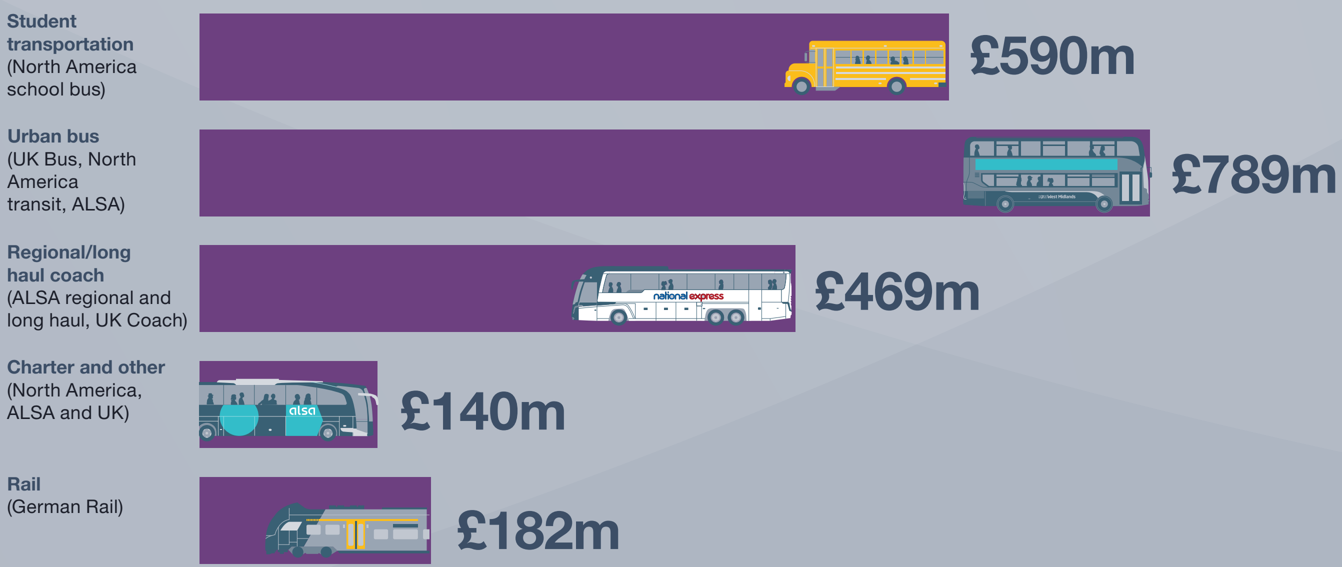
7 Bahrain*
Urban bus

* Joint venture business reported through associates

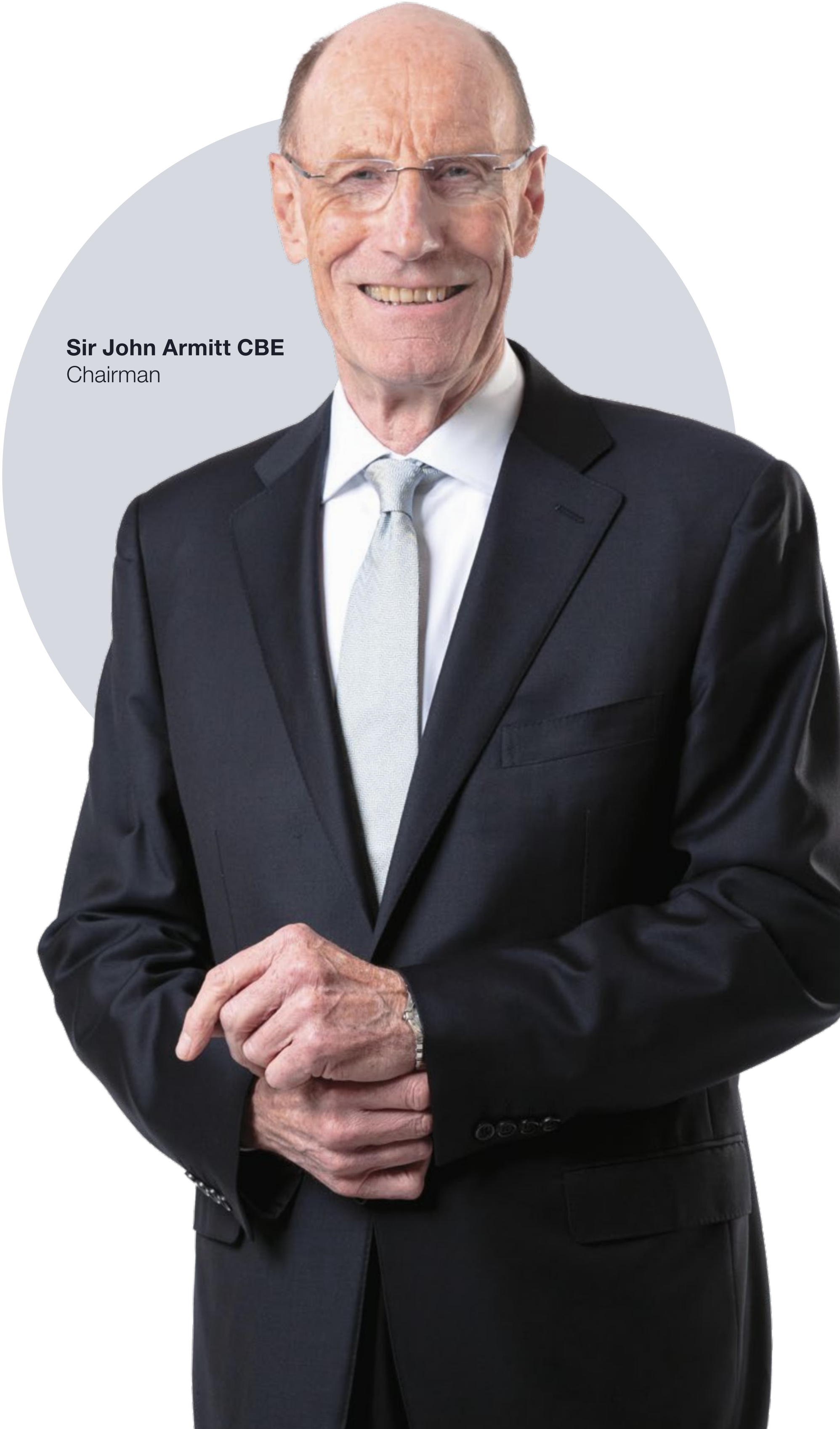
8 Spain
£592m
2020: £459m
Regional/long haul coach
Urban bus
Charter and other

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
a Morningstar company

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 ESG RATINGS AA
CCC B BB BBB A AA AAA

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

FTSE4Good

National Express is a constituent of the FTSE4Good Index Series

+ For more information please see page 30

6

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.

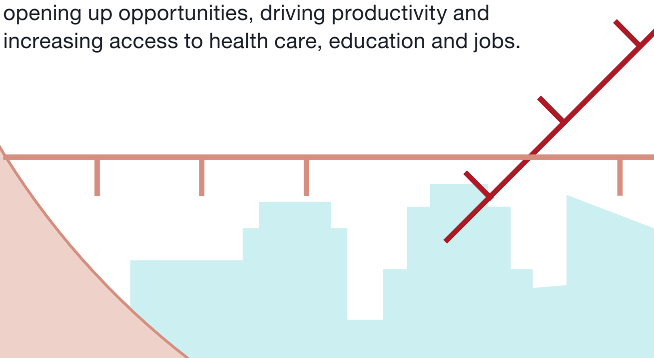
As we transition to a zero emission vehicle future, a passenger taking a journey on an electric bus, rather than an electric car, can save well over 10 times their total lifetime carbon emissions, and that bus can take 70 cars off the road, significantly reducing congestion and freeing up liveable spaces.

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.

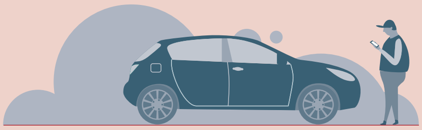
Modal shift from private cars to public transport remains the single most important driver of reduced emissions and congestion. Governments around the world are increasingly aware of this and are driving policy around greater use of public transport and funding ZEVs to meet their decarbonisation and 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.

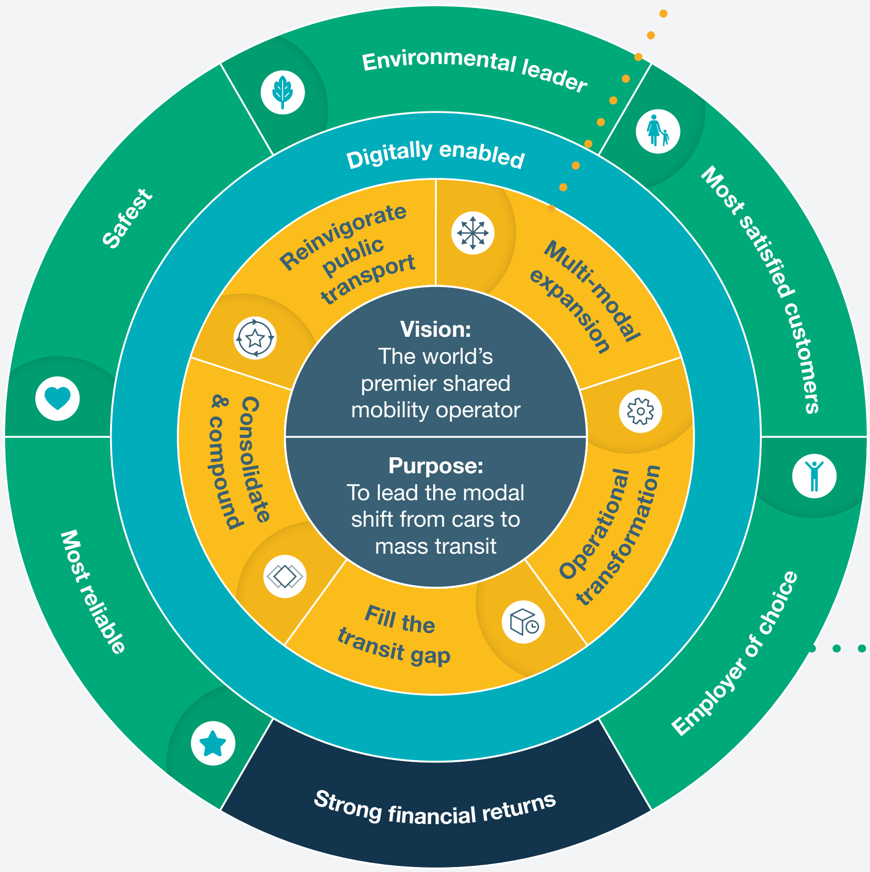
The UK Climate Change Committee predicts that 9-12% of car journeys could be switched to bus by 2030, with 17-24% being switched by 2050.

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
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

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,

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%

ALSA

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

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

North America

Revenue
£872.0m
2020: £869.2m

Underlying Operating Profit
£74.4m
2020: £12.4m

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

Underlying Operating Margin
8.5%
2020: 1.5%

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

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

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

* 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.

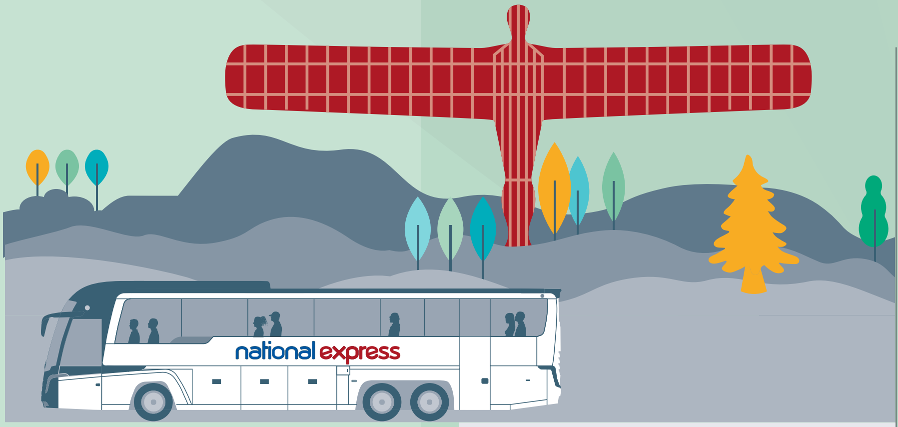
In Transit, we will continue to focus our bidding activity in paratransit opportunities, which are typically both asset light and higher margin: we are actively exploring a number of tenders that will come up for bid in the next 12-18 months, worth around $200 million of revenue.

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.

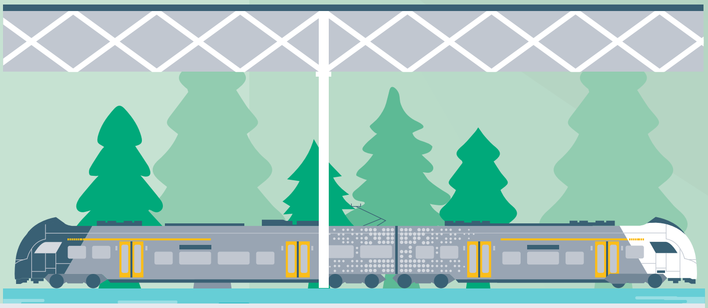
We have the most ambitious net zero emission fleet targets for a large public transport operator in the UK. We have made further progress towards those targets in the year, where, in partnership with Birmingham City Council, we are now operating 20 hydrogen buses around Birmingham, the first city in 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



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)%

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).

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.

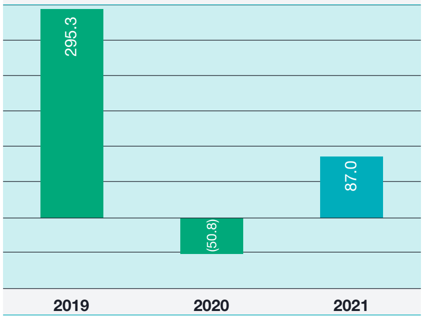
Measuring our progress

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%.

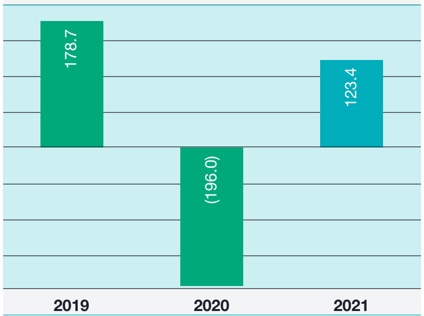
Remuneration linkage

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.

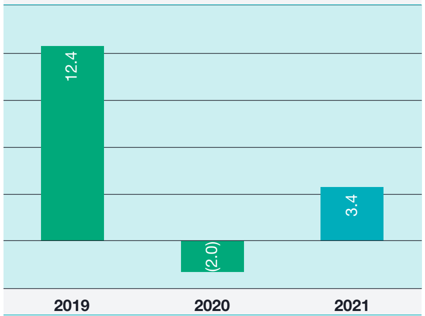
Remuneration linkage

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

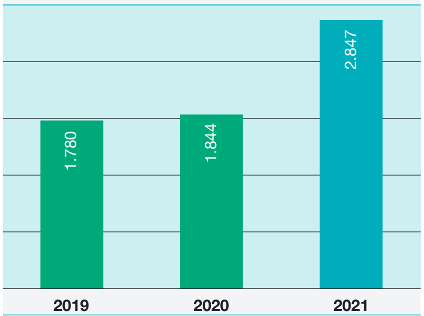
ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.

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.

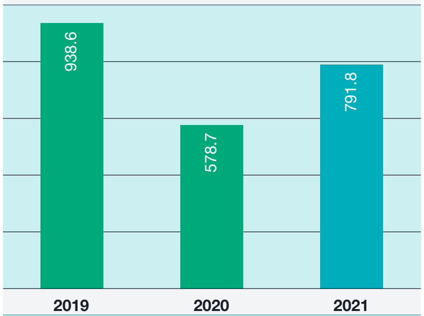
Remuneration linkage

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.

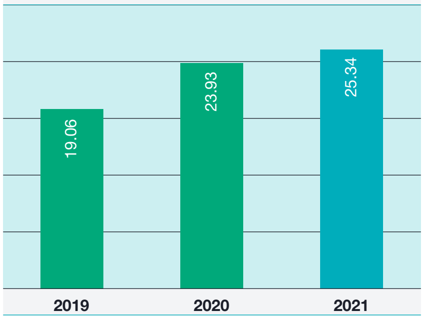
Remuneration linkage

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

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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

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.

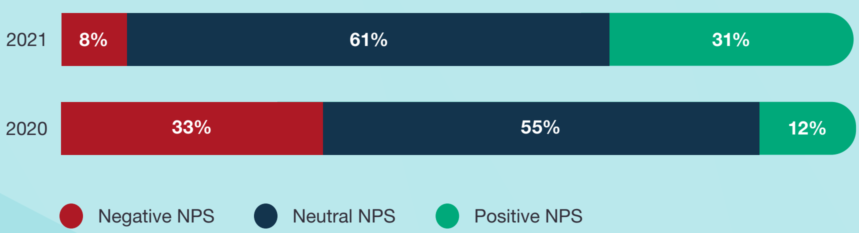
Through detailed analysis of our operations, we identified driver behaviour and scheduling as the key issues.

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

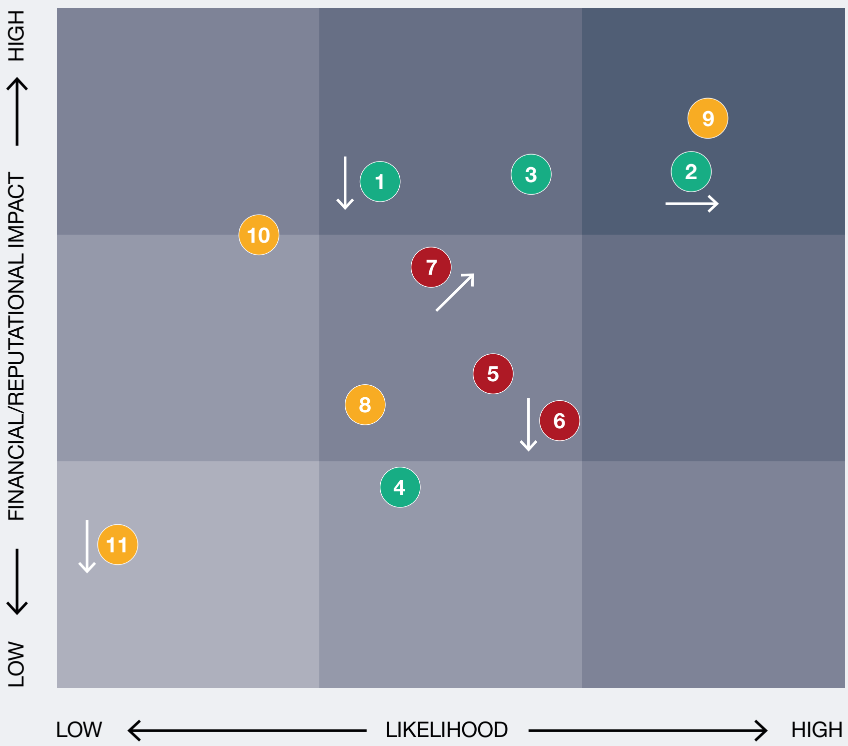
In line with the TCFD requirements, a climate-related risk assessment has been undertaken across the Group during 2021 and its results have been reviewed by the Board.

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



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

Key

↑ Denotes movement in risk during the year

Key

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

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.

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 in risk during the year

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 in risk during the year

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