Notes to the Consolidated Accounts

For the year ended 31 December 2022

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the Group) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Directors on 1 March 2023. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

Going concern

The financial statements have been prepared on a going concern basis. In adopting this basis, the Directors have considered the Group's business activities, principal risks and uncertainties, exposure to macroeconomic conditions, financial position, liquidity and borrowing facilities.

The Group continues to maintain a strong liquidity position, with £0.8bn in cash and undrawn committed facilities available to it as of 31 December 2022 and total committed facilities of £1.9bn at this date. Within the going concern outlook period, the only expiry of these facilities is a £400m sterling bond maturing in November 2023. In anticipation of this refinancing, the Group entered into a £400m bridge-to-bond facility in December 2022; this is for an initial period of 18 months and includes committed options to extend the maturity date until December 2025.

The Group has positive relationships and regular dialogue with its lenders. Certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. The Group negotiated a series of waivers and amendments to these covenants as it navigated the impact of the Covid-19 pandemic, with the final remaining amendment relating to the December 2022 gearing covenant, which was relaxed to ≤5.0x. The original gearing covenant of ≤3.5x will apply to subsequent tests. The interest cover covenant had already reverted to pre-amendment levels of ≥3.5x during 2022. Covenant metrics are calculated on the basis of Underlying profits, in line with the definition agreed with lenders, and therefore exclude the impact of separately disclosed items (refer to page 210 for further details of separately disclosed items).

The Group has performed strongly throughout 2022, demonstrating a sustained recovery in passenger demand, with patronage in the final quarter surpassing pre-pandemic levels in several areas of the Group. This has delivered record revenue and rebuilt profitability as the benefit of operational leverage flows through. At the same time, the Directors remain confident in the longer-term outlook for the Group, underlined by the 35 new contract wins, an acquisition, and expansion into a new country achieved during 2022, and an ambition to selectively pursue further growth opportunities from a strong pipeline of over £2.5bn of annualised revenue of opportunities. This growth ambition is strengthened by government policy which is highly supportive of public transport as part of the solution to climate change.

In the base case projections, which cover the period to March 2024, we assume an ongoing increase in passenger demand across the Group, in line with the progress seen throughout 2022 and the exit velocity into 2023. The key points of note regarding the base case are as follows:

- In the UK, we will continue to rebuild the white coach network throughout the first half of 2023, sustaining revenue above pre-pandemic levels throughout the year, while the Bus business will benefit from Bus Service Improvement Plan (BSIP) funding to maintain low fares, enabling us to grow commercial patronage and offer a lower cost travel alternative in the face of a rising cost of living.
- In ALSA, we will grow revenue as demand for Long Haul and Regional services grows, and through expansion into new contracts such as the Lisbon urban bus contract which began in June 2022, the Porto urban bus contract due to start in mid-2023, and the acquisition of Vitalia which completed in June 2022, representing our first entry into the Spanish paratransit market. We remain protected from significant inflation by CPI-linked indexation clauses in most of our contracted revenue streams.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

- In North America School Bus, we began the 2022/23 school year with around 10% of routes being unable to be operated due to driver shortages; we have made demonstrable progress in reducing this shortfall throughout 2022 and the base case assumes a further improvement in 2023, although not returning to full run-rate until the beginning of school year 2023/24. School Bus wage increases of 10% on average have been made in 2022, which is helping to recruit and retain drivers. The base case anticipates a further low-to-mid single digit wage increase for school year 2023/24. Where contracts have been renewed, this wage inflation has been passed on through price increases. Where contracts are not due for renewal until the 2023/24 school year or later, the base case assumes we secure rate increases which offset the cumulative impact of this wage inflation, but only from September 2023 onwards. This means that School Bus profitability will be subdued in the first half, as we are yet to recover the entire impact of wage increases across the portfolio and continue to return routes to service. We are engaging with all customers on non-expiring contracts to work collaboratively and secure contributions towards wage inflation in order to accelerate the return of services, and have already secured significant contributions outside of the contract renewal cycle for a large number of routes.
- In North America Transit and Shuttle, 2022 exit run-rate volumes have progressively recovered throughout 2022 but remain slightly below pre-Covid levels; we anticipate further improvement in 2023. The business also continues to selectively bid for attractive opportunities, with a c.$0.5bn pipeline of asset-light contract opportunities available to continue scaling the business.
- Around the Group, our base case takes account of latest expectations of wage and cost inflation, and our estimate of the extent to which we can pass these on in price, either at our discretion or through contractual protection mechanisms. Wage inflation remains most acute in North America School Bus; elsewhere it averages mid-single digit percentage increases.
- Reliance on government funding continues to diminish, with the only material incremental funding stream in 2023, relative to pre-pandemic periods, being the BSIP support in the UK. This is part of a nationwide scheme to improve bus services outside London, as opposed to being Covid-specific funding. Covid-related government funding is assumed to taper down significantly in 2023.
- We expect to re-finance the £400m sterling bond in late 2023, and are cognisant of the recent volatility of debt markets. Our base case assumes a refinancing at rates significantly higher than that of the expiring bond, based on current prevailing rates.

Although we continued to be affected throughout 2022 by some knock-on effects of the pandemic such as driver shortages in North America, the impact on the Group's operations from mobility restrictions and reticence to travel has subsided. While continuing to monitor the impact of the pandemic, the Directors no longer consider that this represents a significant threat to the Group within the going concern assessment period. Therefore, the reasonable worst case (RWC) has instead been formed around the following three themes, all of which relate to the prevailing macroeconomic conditions:

1. Driver shortages: despite the expected increase in unemployment due to upcoming recession, we assume that labour shortages become deeper and broader, affecting the Group's ability to deliver services, losing between 2% and 5% of revenue (compared to the base case) across most divisions and reducing profitability.
2. Reduced demand: lower household disposable incomes due to high inflation and poor consumer confidence due to fears of a recession may affect customer demand in, in particular, discretionary services such as long haul coach and touristic services. We have also prudently assumed other services are also impacted on the basis of contract win/retention rates dropping due to public authorities cutting budgets.
3. Inflation: we assume that cost inflation is between 2% and 3% higher than that already modelled in the base case, and that in most divisions we are only able to pass on around half of this to customers in the form of price increases or contractual margin protection mechanisms.

These downsides have been modelled for each division in turn, taking into account the current economic situation in each market, including the relative labour market and inflation dynamics between geographies, which has been corroborated against independent external forecasts. Where we have assumed a reduction in revenue (items 1 and 2 above), we have triangulated this with the Group's actual experience throughout the 2008-10 Global Financial Crisis, and in most cases have assumed a total revenue reduction equal to or in excess of that seen during the last recession. We believe that this is a prudent view, since we expect that the higher cost of fuel compared to the previous recession and squeeze on household budgets from high inflation at present would encourage more people to switch to public transport and therefore offset any impact from reduced spending on discretionary travel.

In addition to these wider downside themes described above, we further assume failure to win certain new growth contracts, a shortfall in government funding, and higher interest rates on variable borrowings or the new £400m bond (due to be taken out in September 2023), as a result of central banks' efforts to curtail high inflation.

Consistent with prior assessments, against the RWC the Group has again assumed further mitigations in the form of further reductions in expenditure, over and above those reflected in the base case, primarily around discretionary spending and back office cost savings. Additional cash flow mitigating actions have also been assumed, including curtailment of capital expenditure, deferral of payment of the hybrid coupon due in February 2024, or, in the event of a significant downturn in trading, suspension of the FY22 final dividend payment.

2 Accounting policies continued

The Directors have reviewed the base case and reasonable worst case projections, which were used to evaluate liquidity headroom and compliance with covenants. In both the base case and reasonable worst case scenarios the Group has a strong liquidity position over the next 12 months and significant headroom on all of its covenant tests.

In addition to the base case and reasonable worst case scenarios, the Directors have reviewed reverse stress tests, in which the Group has assessed the set of circumstances that would be necessary for the Group to either breach the limits of its borrowing facilities or breach any of the covenant tests. These reverse stress tests have focused on both the level of revenue reduction and the level of cost inflation that could be absorbed prior to breaching liquidity or EBITDA/interest cost headroom against covenants.

In applying a reverse stress test to liquidity the Directors have concluded that the set of circumstances required to exhaust it are so extreme as to be considered clearly remote. As ever, covenants that include EBITDA as a component are more sensitive to reverse stress testing; the Directors have therefore conducted in-depth stress testing on all covenant tests at June 2023 and December 2023. In doing so, the Directors have considered all cost mitigations that would be within their control, and indeed would have no alternative but to pursue, if faced with another short-term material EBITDA reduction and no lender support to amend or waive EBITDA-related covenants. In light of the recent volatility in interest rate markets, we have also performed further reverse stress tests on the interest cover covenants, including modelling the impact of lower EBITDA on sustained higher interest cost levels, and the impact of higher market interest rates on both variable rate debt (which is only 19% of the Group's total debt) and on the planned re-financing of the £400m bond. Taking all of these reverse stress tests into account, the Directors concluded that the circumstances that would be necessary for covenants to be breached were remote.

In any case, should there be a more severe set of circumstances than those assumed in the reasonable worst case, a number of further mitigating actions are available to the Group, including: deeper and broader cost cutting measures, seeking further amendments or waivers of covenants, raising further equity, sale and leaseback of vehicles, disposal of properties and disposal of investments or other assets.

In conclusion, 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. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

Changes in accounting policies and the adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for changes arising from new standards and amendments to existing standards that have been adopted in the current year.

The following amendments and interpretations have been applied for the first time with effect from 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018-2020 – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3

These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Prior year restatement of deferred tax balances

The Group has deferred tax assets which were not recognised in full in previous years. The asset arose on a reorganisation of the Spanish group structure which gave rise to future goodwill amortisation for tax purposes. A deferred tax asset was recognised initially, only to the extent which the Directors at the time felt there was sufficient assurance of future profitability to enable the utilisation of the deferred tax asset. However, over time it has become clear that there is sufficient profitability in ALSA such that the deferred tax asset should have been recognised in full, based on the tax laws substantially enacted at each balance sheet date.

In addition, an exercise undertaken in the current year to check the accuracy of deferred tax liabilities in North America has highlighted an overstatement of prior years' deferred tax liabilities by £8.8m. While the impact on the prior year is not material for the Group accounts individually, the Directors have elected to include it in the restatement of prior year balances.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

This has been corrected by restating the earliest comparative period within this report, with the Financial Statement line items impacted as follows:

Group Income Statement

	Reported			Restated		
	Underlying result 2021 £m	Separately disclosed items (note 5) 2021 £m	Total 2021 £m	Underlying result 2021 £m	Separately disclosed items (note 5) 2021 £m	Total 2021 £m
Profit/(loss) before tax	39.7	(124.6)	(84.9)	39.7	(124.6)	(84.9)
Tax (charge)/credit	(12.8)	19.8	7.0	(12.0)	19.8	7.8
Profit/(loss) for the year	26.9	(104.8)	(77.9)	27.7	(104.8)	(77.1)
Basic EPS			(16.8)p			(16.6)p
Diluted EPS			(16.8)p			(16.6)p

Group Statement of Comprehensive Income

	Reported 2021 £m	Adjustment £m	Restated 2021 £m
Loss for the year	(77.9)	0.8	(77.1)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations	(55.7)	(1.5)	(57.2)
Other comprehensive income for the year	50.2	(1.5)	48.7
Total comprehensive expenditure for the year	(27.7)	(0.7)	(28.4)
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders	(30.1)	(0.7)	(30.8)
Non-controlling interests	2.4		2.4
	(27.7)	(0.7)	(28.4)

Group Balance Sheet

	Reported 31 December 2021 £m	Adjustment £m	Restated 31 December 2021 £m	Reported 31 December 2020 £m	Adjustment £m	Restated 31 December 2020 £m
Deferred tax assets	150.6	8.8	159.4	140.5	8.8	149.3
Total non-current assets	3,268.6	8.8	3,277.4	3,370.0	8.8	3,378.8
Total assets	4,291.1	8.8	4,299.9	4,489.1	8.8	4,497.9
Deferred tax liabilities	(39.2)	24.7	(14.5)	(40.7)	25.4	(15.3)
Total non-current liabilities	(1,636.4)	24.7	(1,611.7)	(1,769.2)	25.4	(1,743.8)
Total liabilities	(2,842.9)	24.7	(2,818.2)	(3,013.1)	25.4	(2,987.7)
Net assets	1,448.2	33.5	1,481.7	1,476.0	34.2	1,510.2
Retained earnings	(45.8)	29.6	(16.2)	9.6	28.8	38.4
Translation reserve	71.7	3.9	75.6	127.4	5.4	132.8
Total equity	1,448.2	33.5	1,481.7	1,476.0	34.2	1,510.2

As there was no impact on cash and cash equivalents, the statement of cash flows has not been re-presented.

2 Accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires the Group to make estimates and judgements that affect the application of the Group's accounting policies and reported amounts.

Critical accounting judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Management considered, throughout the year, the financial reporting impact associated with our identified principal risks, which includes the effects of climate change and inflation.

(i) Critical accounting judgements

Separately disclosed items

The Directors believe that the profit and earnings per share measures before separately disclosed items provide additional useful information to shareholders on the performance of the Group. These measures are consistent with how business performance is measured internally by the Board and the Group Executive Committee. In addition, the lender covenant calculations follow the accounting recognition for separately disclosed items and therefore the accounting judgment can also have an impact on covenant headroom.

The classification of separately disclosed items requires significant management judgement after considering the nature, cause of occurrence and the scale of the impact of that item on reported performance. The Group's definition of separately disclosed items is outlined on page 210. Note 5 provides further details on current year separately disclosed items.

(ii) Key sources of estimation uncertainty

Management have considered the following are key sources of estimation uncertainty during the year.

ALSA and North America goodwill impairment

Determining whether assets are impaired requires an estimation of the value in use of the cash-generating units and requires the entity to estimate the future cash flows expected to arise, the growth rate to extrapolate cash flows into perpetuity and a suitable discount rate in order to calculate present value. Cash flow projections involve the use of estimates, notably revenue levels, operating margins and the proportion of operating profit converted to cash in each year. Given that there is an impairment of ALSA goodwill and a reduced level of headroom in North America this year, as well as volatility in the discount rate (particularly interest rates, risk-free rates of return and equity risk premiums, including country-specific risk premiums), we consider impairment to be a key source of estimation uncertainty with respect to both our ALSA and North America divisions. The key assumptions used and their sensitivities are included in note 14.

Recognition of deferred tax assets

At 31 December 2022 the Group had a $112.7m deferred tax asset in relation to federal tax losses and $39.9m deferred tax asset in relation to state tax losses in North America. This is a total deferred tax asset on losses of $152.6m (£125.5m). The total deferred tax asset on federal tax losses of $112.7m is calculated as 21%, being the substantially enacted rate set by US Federal governments at the balance sheet date, multiplied by trading losses of $536.7m. The majority of these losses may be carried forward indefinitely under US tax rules. There are other deferred tax liabilities in the NA business such as carried forward interest previously tax restricted and other short term timing differences of $57.8m (£48.3m), offset by deferred tax liabilities on accelerated tax depreciation of $106.0m (£87.6m), giving a total US deferred tax asset at 31 December 2022 of $104.4m (£86.2m).

In assessing the probability of recovery of these losses, and the overall deferred tax asset, management have looked at the last three years financial performance as well as future financial projections. While the North America business as a whole has made additional tax losses in the last three years, management believe these were attributable to a one-off, non-recurring, event that was the global Covid pandemic. Internal business modelling demonstrates that without the pandemic, the business would have been profitable in all three years.

As a result of increased route recovery anticipated in 2023, we are expecting a return to taxable profits in North America in the year ended 31 December 2023 and beyond. As such, our financial projections based upon our strategic plans indicate that these tax losses will be utilised in full by 2029 and so these losses have been recognised as a deferred tax asset. It is also expected that the other deferred tax assets will be utilised against these future taxable profits.

We have performed sensitivity analysis which shows that, even if our US profits fall by 25% from our financial projections, these losses will still be utilised in full by 2030.

2 Accounting policies continued

In addition, at the 31 December 2022 the Group has a £88.8m deferred tax asset in relation to past losses in the UK business. This is calculated as 25%, being the substantially enacted tax rate set by the UK government from April 2023, multiplied by UK losses of £356m. These losses are made up of £269.3m post-2017 tax losses (which can be used against any future UK profits), plus £86.7m pre-2017 tax losses (which may only be used against future income in the legal entity in which they arose). Both of these types of losses may be carried forward indefinitely under UK tax rules.

In assessing the probability of recovery of these losses, management have looked at the last three years financial performance as well as future financial projections. While the UK business has made additional tax losses in the last three years, management believe these were attributable to a one-off, non-recurring, event that was the global Covid pandemic. Internal business modelling demonstrates that without the pandemic, the business would have been profitable in all three years. As such, it is reasonable to rely upon future projections when assessing the probability of recovery of these losses. Based upon future financial projections, we estimate post-2017 tax losses in the UK business will be utilised by 2028 and the pre-2017 losses by 2029.

The following remain key sources of estimation uncertainty, consistent with the prior year.

Insurance and other claims

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. The estimation of the claims provision is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries. At 31 December 2022 the claims provision was £77.4m (2021: £84.4m).

In certain rare cases, additional disclosure regarding these claims may seriously prejudice the Group's position and consequently this disclosure is not provided. Given the differing types of claims, their size, the range of possible outcomes and the time involved in settling these claims, there is a reasonably possible chance that a material adjustment would be required to the carrying value of the claims provision in the next financial year. These different factors also make it impracticable to provide sensitivity analysis on one single measure and its potential impact on the overall claims provision. For further information see note 26.

Pensions

The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. At 31 December 2022 the UK defined benefit pension liability was £39.7m (2021: £96.1m). The key area of estimation uncertainty is in respect to the discount rate and rate of inflation. While the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may significantly change the pension obligation. The Group makes assumptions with the assistance of advice from independent qualified actuaries. Details of the assumptions are set out in note 33 to these Financial Statements, along with their sensitivities.

Consideration of climate change

In preparing the Financial Statements we have considered the impact of climate change, particularly in the context of the disclosures included in the Strategic Report. There has not been a material impact on the financial reporting judgements and estimates arising from our considerations, consistent with our assessment that climate change is not expected to have a meaningful financial impact on the Group in the medium term, and in the longer term is expected to be a net opportunity to the Group. This conclusion has been arrived at with reference to the climate risk assessment exercise carried out during the year – see the TCFD disclosures in the Strategic Report. We have specifically considered the impact of climate change on the carrying value of fixed assets (see note 15) and in our goodwill impairment assessment (see note 14).

Basis of consolidation

These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

The Consolidated Income Statement includes the results of subsidiaries and businesses purchased from the date control is assumed and excludes the results of disposed operations and businesses sold from the date of disposal.

Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

2 Accounting policies continued

Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities over which the Company has control. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing control.

Interests in joint ventures

The Group has a contractual arrangement to share control of an entity. The Group recognises its interest in the assets and liabilities of the entity using the equity method of accounting. The Group Balance Sheet includes the appropriate share of the joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial Statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint venture. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest Financial Statements under the equity method of accounting.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The Balance Sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange prevailing at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

Presentation of Income Statement and separately disclosed items

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the underlying results of the Group. The Group's policy is to separately disclose items that are considered significant in nature and value, not in the normal course of business, or are consistent with items that were treated as separately disclosed in prior periods. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further details relating to separately disclosed items are provided in note 5 and a full listing of the Group's alternative performance measures (APMs) are provided in the glossary on page 292.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with a customer and is recognised when the performance obligations of the contract have been fulfilled.

Contract revenues

For the purposes of disclosures, the Group has applied the term 'contract revenues' to describe documented contracts that typically cover periods of at least one year, excluding concessions and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and coach contracts in the UK. In addition, in Germany, Spain and North America, the Group has a number of Service Concession arrangements for the provision of transport services.

Revenues relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract. Revenue relating to any additional performance measures in the contract are recognised when the performance has been met and in accordance with the terms of the contract.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring services to the customer. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is resolved and when it becomes highly probable that a significant revenue reversal will not occur.

Passenger revenues

Passenger revenues primarily relate to ticket sales in the UK, the RME German Rail contract, intercity coach services in Spain and urban bus services in Morocco.

Passenger revenue is recognised in the Income Statement in the period in which the related travel occurs. Revenue from tickets that cover more than one day, for example monthly travelcards and season tickets, is initially deferred as a contract liability and released to the Income Statement on a straight-line basis over the applicable period of the ticket.

Contract liabilities are reduced when an eligible cancellation arises. Also, where applicable, contract liabilities are reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

Other ancillary revenues relating to ticket sales are recognised at point of sale or, if material and related to a future performance period, recognised by reference to that period.

Passenger revenue in the German Rail RME contract is allocated between the various transport providers in each region by the tariff authority responsible for that region, and is recognised based on passenger counts, tariff authority estimates and historical trends.

Private hire

Private hire operations are contracts provided in the UK, ALSA and North America divisions and are typically of a short duration. Revenue is recognised over the period in which the private hire is provided to the customer.

Other revenues

Other revenues primarily comprise non-passenger services in Spain, maintenance revenues in North America and advertising revenues. Other revenue also includes sub-leasing income where the Group acts as the lessor.

Revenues for non-passenger services are recognised when the performance of the service has been fulfilled and in accordance with the terms of the contract. Advertising revenue is recognised over the period of the advertising contract.

Contract costs

Costs to obtain a contract

The incremental costs to obtain a contract with a customer are recognised within 'contract costs' if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Costs to fulfil a contract

Costs that relate directly to a contract, generate resources that will be used in satisfying the contract and are expected to be recovered are recognised within 'contract costs' on the Balance Sheet. Contract fulfilment costs covered within the scope of another accounting standard, such as property, plant and equipment or intangible assets, are not capitalised as contract fulfilment assets but are treated according to those standards.

Contract costs are amortised on a straight-line basis over the term of the specific contract they relate to, consistent with the pattern of recognition of the associated revenue.

Contract assets and liabilities

Contract assets are recognised where the Group has performed its obligations to allow the recognition of revenue. However, it exceeds the amounts received or receivable from a customer at that time.

Contract liabilities are recognised when amounts are advanced by customers and the Group has not yet met the performance obligation under the contract to allow the recognition of the balance as revenue. Contract liabilities are recognised as revenue when the Group performs such obligations under the contract.

2 Accounting policies continued

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attached to it.

Grants and subsidies relating to the provision of transport services are included within revenue when the terms of the agreement specify that they are intended to compensate the Group for services rendered, or to subsidise a revenue shortfall. The grants and subsidies are recognised as the services are provided. When the grant is awarded to compensate the business for incurring expenses, it is recognised in operating costs within the Income Statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Where the grant is not prescriptive, management applies judgement to determine the most appropriate allocation of grant income between revenue and costs to match the intended nature of the award.

Where the grant relates to property, plant and equipment, the value is included in liabilities as deferred income and credited to the Income Statement over the expected useful economic life of the assets concerned.

Government grants received in excess of the amounts recognised in the Income Statement are held as deferred grant income within trade and other payables, whereas government grants recognised in the Income Statement that are yet to be received are held as grant receivables in trade and other receivables.

For government grants that do not explicitly outline what the award is compensating, management applies its judgement as to whether it should be recognised within revenue or operating costs. Typically grants targeted at maintaining service levels are recognised within operating costs and those intended to compensate reduced fares or patronage are recognised within revenue.

Service concession arrangements

In Germany, Spain, Morocco, Portugal and North America, the Group provides services through public-private partnerships with public authorities responsible for the provision of public transport services.

Concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated facilities supplied by the Group, or made available to it for or without consideration.

The characteristics of these contracts vary depending on the country and activities concerned.

Financial asset model

The Group applies the financial asset model when the concession grantor contractually guarantees the payment of amounts specified in the contract or the shortfall, if any, between amounts received from users of the public service and amounts specified.

Financial assets resulting from the application of IFRIC 12 Service Concession Arrangements are recorded in the Group Balance Sheet as financial assets or liabilities within working capital. These financial assets are assessed for impairment in line with the provisions of IFRS 9.

Income received from the public authorities is recognised in line with the requirements of IFRS 15. In Germany, subsidy income from the Public Transport Authority (PTA) is recognised over the life of the franchise and by using the input method to measure progress against the performance obligation. The amount recognised in each period is based on a percentage of completion, applying net costs incurred as a proportion of total expected net costs, which is what the subsidy is intended to compensate. In accordance with IFRS 15, costs payable to the PTA are netted against subsidy income. In ALSA and North America, subsidy income from the local authority is recognised as the services are provided and in accordance with the terms of the contract.

Intangible asset model

The Group applies the intangible asset model when income is directly received from the passengers and there is no contractual guarantee from the concession grantor. The intangible asset corresponds to the right granted by the public authority to the Group to charge passengers of the public service. In addition, when the concession grantor has an option to purchase infrastructure assets at the end of the contract term, an intangible asset is recognised.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Group Balance Sheet and are amortised on the basis of the expected pattern of consumption applicable over the term of the concession.

Income received from passengers is recognised in line with the requirements of IFRS 15 and the policy detailed on page 196.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

Infrastructure assets provided by the Group are either purchased or subject to a 'lease style' arrangement. Where the Group purchases the assets on its standard supplier terms (typically one year), the related liability is recorded in contract liabilities until it is settled. Where the assets are 'leased', the liability is recorded at the present value of the future payments in contract liabilities in accordance with IFRIC 12, as opposed to IFRS 16. Where lease payments on infrastructure assets are directly reimbursed from the customer, the asset is recorded according to the underlying classification of the IFRIC 12 contract (as set out above).

Taxes

Current tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the balance sheet date.

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax base and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions, as well as assumptions on the tax elections within the Group's control.

Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

On the acquisition of a business, identifiable assets and liabilities acquired are measured at their fair value. Contingent liabilities assumed are measured at fair value unless this cannot be measured reliably, in which case they are not recognised but are disclosed in the same manner as other contingent liabilities.

The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued. Any contingent consideration is recognised at fair value at the acquisition date and subsequently until it is settled.

The cost of the acquisition in excess of the Group's interest in the net fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management is committed to the sale and the sale is expected to complete within one year from the date of classification. Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2 Accounting policies continued

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or is a subsidiary acquired exclusively for resale.

Discontinued operations are excluded from the results of continuing operations and presented as a single amount after tax. Comparatives are also represented to reclassify the operation as discontinued.

Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Goodwill arising on the acquisition of an associate or joint venture is recognised within the carrying amount of the investment.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is identified at the lowest aggregation of assets that generate largely independent cash inflows, and which is reviewed by management for monitoring and managing the Group's business operations.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Customer contracts

Customer contracts acquired as part of a business combination are initially recorded at the fair value attributed to those contracts on acquisition.

Service concessions

Service concession intangible assets represent a right to charge passengers for the use of the public service. See page 197 for further details.

Contract costs

Contract costs include costs to obtain and costs to fulfil a contract. See page 196 for further details.

Software

Acquired and internally developed software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software or fair value if acquired as part of a business combination. Computer software that is integral to a tangible fixed asset is recognised within property, plant and equipment.

Amortisation is charged on a straight-line basis over the expected useful lives of the assets as follows:

Customer contracts	–	over the life of the contract (1 to 33 years)
Contract costs	–	over the term of the specific contract (1 to 15 years)
Software	–	over the estimated useful life (3 to 7 years)

The useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Repairs and maintenance costs are expensed as incurred.

Freehold land is not depreciated. All other property, plant and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Land and buildings	–	15 to 50 years
Public service vehicles	–	8 to 20 years
Plant and equipment, fixtures and fittings	–	3 to 15 years

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Specifically, as the Group transitions away from diesel powered vehicles towards zero emissions vehicles, the impact on the useful life, and residual value of diesel vehicles is reviewed. In addition, as new vehicles are purchased, useful lives are set considering these factors.

An item of property, plant and equipment is derecognised upon disposal with any gain or loss arising included in the Income Statement in the period of derecognition.

Impairment

Intangible assets with definite useful lives, and property, plant and equipment are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable. Goodwill is subject to an impairment test on an annual basis, or more frequently if there are indicators of impairment. Assets that do not generate independent cash flows are combined into cash-generating units.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the country-specific weighted average cost of capital (WACC). The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets, the growth rate used to extrapolate the cash flows beyond the three-year period and discount rates applied in calculating the value in use.

Impairment losses relating to goodwill cannot be subsequently reversed.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group determines the classification of its financial instruments at initial recognition.

Financial assets

Financial assets are classified at initial recognition as (i) subsequently measured at amortised cost, (ii) fair value through Other Comprehensive Income or (iii) fair value through profit and loss. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through Profit and Loss

Financial assets at fair value through Profit or Loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through Profit or Loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the Group Balance Sheet at fair value, with net changes in fair value recognised in the Income Statement within finance costs. Transaction costs arising on initial recognition are expensed in the Income Statement.

Financial assets at fair value through Other Comprehensive Income

The Group has elected to recognise its non-listed equity investments at fair value through Other Comprehensive Income. Gains and losses on these financial assets are never recycled to the Income Statement. Dividends are recognised as other income in the Income Statement when the right of payment has been established. Where there is no active market for the Group’s investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. Equity instruments designated at fair value through Other Comprehensive Income are not subject to impairment assessment.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2 Accounting policies continued

The Group's financial assets at amortised cost include trade and other receivables and cash and cash equivalents in the Balance Sheet.

Financial liabilities

Financial liabilities are classified at initial recognition as (i) financial liabilities at fair value through profit or loss, (ii) loans and borrowings, (iii) payables or (iv) derivatives designated as hedging instruments, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised. Amortisation is included as finance costs in the Income Statement. This category applies to interest-bearing loans and borrowings.

For some contracts where the cash flows are back ended, the Group enters into a non-recourse factoring arrangement with a bank to factor the future cash flows in advance of invoicing the customer, with the resultant liability with the bank recorded in loans and borrowings. On subsequent receipt of the cash from the customer this is then immediately repaid to the bank. Both the cash receipt and the repayment to the bank are recorded within cash flows from financing activities in the Statement of Cash Flows.

Put liabilities

Put liabilities are recognised by the Group when put options have been issued by the Group in a business combination. Liabilities are recorded at the present value of the purchase price upon acquisition. The present value of purchase price is re-measured at each reporting date, with subsequent changes recorded in profit and loss. Unwind of the discount of the liability is recorded within interest costs.

Equity instruments

Hybrid instruments

Hybrid instruments issued by the Group are classified on initial recognition according to the substance of the arrangement. Hybrid instruments are recorded within equity where the contractual terms of the instruments allow the Group to defer coupon payments and the repayment of the principal amount indefinitely. These features give the Group the unconditional right to avoid the payment of cash or another financial asset for the principal or coupon and consequently are classified as equity instruments. These equity instruments are not re-measured from period to period. Coupon payments made are treated the same as an equity dividend distribution and, where not made, are accrued within the hybrid reserve, with a corresponding reduction in retained earnings.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as fuel derivatives, interest rate derivatives, foreign exchange forward contracts and cross currency interest rate swaps to hedge its risks associated with fuel price, interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

The Group's interest rate derivatives are designated as either fair value hedges or cash flow hedges. For fair value hedges, the gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk-free interest rate.

The Group's fuel derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

Foreign exchange forward contracts and cross currency interest rate swaps are used to hedge the Group's net investment in foreign currency denominated operations, and, to the extent they are designated and effective as net investment hedges, are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold.

The Group also uses foreign exchange forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period. Similarly, any material ineffective portion of the Group's cash flow and net investment hedges is recognised in the Income Statement.

Movements in the fair value of the hedging instrument arising from costs of hedging for cash flow and net investment hedges are recognised in equity, disclosed separately and amortised to the Income Statement over the term of the hedge relationship on a rational basis.

Any material ineffectiveness is recognised in the Income Statement within operating costs for fuel derivatives and finance costs for all other derivatives.

Hedge accounting is discontinued when the hedging instrument or hedged item expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fuel derivatives, this can arise due to a change in the highly probable forecast transaction as a result of a change in divisional volume requirements. In such instances, accumulated fair value gains or losses are transferred from Other Comprehensive Income to the Income Statement for affected trades when hedge accounting has been discontinued.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in, first out basis, after making due allowance for obsolete or slow moving items.

Trade and other receivables

Trade and other receivables are recognised and carried at the transaction price determined under IFRS 15, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. The Group uses provision matrices based on historical ageing of receivables and credit loss experience, adjusted as necessary for any forward-looking factors specific to the debtors and economic environment.

Trade receivables are derecognised where the Group enters into factoring arrangements without recourse and the risks and rewards have been fully transferred. The Group classifies the cash flows from receivable factoring arrangements within cash from operating activities in the Statement of Cash Flows.

Cash and cash equivalents

Cash and cash equivalents as defined for the Statement of Cash Flows comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception, and bank overdrafts. In the Consolidated Balance Sheet, cash and cash equivalents are presented net of bank overdrafts where there is a legal right of offset, and otherwise are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Accounting policies continued

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material using a pre-tax discount rate. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the Financial Statements where the expected future outflow is not probable.

Onerous contracts

An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e. both incremental costs and an allocation of costs directly related to contract activities).

Where the Group assesses that a contract is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss on assets dedicated to that contract.

Insurance claims

The Group's policy is to not insure low value, high frequency claims within the businesses. To provide protection against higher value claims, the Group purchases insurance cover from a selection of proven and financially strong insurers.

Provisions in respect of claims risk include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data and are discounted to take account of the expected timing of future cash settlements. To the extent insurance liabilities are insured and awaiting settlement, a separate asset is recognised in other receivables.

Leases

Group as a lessee

Lease identification

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Non-lease components and contracts which do not contain a lease are expensed in the Income statement on a systematic basis over the contract term.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

As a lessor, the Group continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Where the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset it is classified as a finance lease and if not is an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Where the sub-lease is classified as a finance lease, the right-of-use asset with respect to the head lease is derecognised and a finance lease receivable is recognised equal to the net investment in the sub-lease. The net investment in the lease is calculated as the present value of the aggregate of lease payments receivable and any unguaranteed residual value. Where the interest rate implicit in the sub-lease cannot be readily determined, the Group uses the discount rate used for the head lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Retirement benefits

Defined contribution schemes

Payments to defined contribution schemes are charged to the Income Statement as they fall due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Defined benefit schemes

Plan assets, including qualifying insurance policies, are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the Group Balance Sheet as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

Current service costs are recognised within operating costs in the Income Statement. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately as the plan amendment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs.

Re-measurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in Other Comprehensive Income and are not reclassified to profit or loss in subsequent periods.

Full actuarial valuations are carried out triennially and are updated for material transactions and other material changes in circumstances up to the end of the reporting period.

2 Accounting policies continued

Share-based payments

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or re- issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

New standards and interpretations not applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group:

- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Amendments to IFRS 17
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

These standards are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

3 Exchange rates

The most significant exchange rates to UK Sterling for the Group are as follows:

	2022 Closing rate	**2022 Average rate**	2021 Closing rate	2021 Average rate
US Dollar	**1.21**	**1.24**	1.35	1.38
Canadian Dollar	**1.64**	**1.61**	1.71	1.72
Euro	**1.13**	**1.17**	1.19	1.16

If the results for the year to 31 December 2021 had been retranslated at the average exchange rates for the year to 31 December 2022, North America would have achieved underlying operating profit of £82.5m on revenue of £967.4m, compared with underlying operating profit of £74.4m on revenue of £872.0m as reported, and ALSA would have achieved a underlying operating profit of £56.2m on revenue of £712.3m, compared with underlying operating profit of £56.6m on revenue of £718.4m as reported.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

4 Revenue and segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and the nature of services that they provide. Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. Group financing activities and income taxes are managed on a Group basis and are not allocated to reportable segments.

The principal services from which each reportable segment derives its revenues are as follows:

- UK – bus and coach operations
- German Rail – rail operations
- ALSA (predominantly Spain and Morocco) – bus and coach operations
- North America (USA and Canada) – school bus, transit and shuttle operations

Further details on the activities of each segment are described in the Strategic Report.

Central functions is not a reportable segment but has been included in the segmental analysis for transparency and to enable a reconciliation to the consolidated Group.

(a) Revenue

Revenue is disaggregated by reportable segment, class and type of service as follows:

	2022					
Analysis by class and reportable segment:	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
UK	41.6	388.4	65.0	15.8	17.5	528.3
German Rail	–	38.3	228.4	–	1.8	268.5
ALSA	175.9	510.1	176.6	51.3	48.6	962.5
North America	988.5	–	–	54.1	5.6	1,048.2
Central functions	–	–	–	–	–	–
Total revenue	1,206.0	936.8	470.0	121.2	73.5	2,807.5
Analysis by major service type:						
Passenger transport	1,206.0	936.8	470.0	121.2	13.1	2,747.1
Other products and services	–	–	–	–	60.4	60.4
Total revenue	1,206.0	936.8	470.0	121.2	73.5	2,807.5

Grants recognised within revenue

Included in grants and subsidies is £19.6m (2021: £92.8m) of grant income recognised in the UK in response to Covid-19, principally from the Bus Recovery Grant (BRG) for the current year. Replacing the Covid Bus Services Support Grant (CBSSG) from 1 September 2021, the BRG intended to compensate UK bus operators for continuing bus services during the Covid-19 recovery period, and whereby funding has been allocated to the operators according to revenue and mileage operated.

Included in the prior year is Covid-19 support from the CBSSG, of which £80.6m has been recognised within revenue. Grant income has been recognised in the Income Statement in the same period that the related revenue shortfall occurred and to the extent that there is reasonable assurance that the Group will comply with the conditions of the grant and that it will be received and retained (taking account of the potential adjustments to grant payments as a result of the review process).

During the year, the West Midlands Combined Authority (WMCA), supported by our UK Bus business (UK Bus) and other regional operators, applied for and was awarded a grant by the Department for Transport (DfT) under the UK government's Bus Service Improvement Plan (BSIP). The total amount awarded was £87.8m and is available to WMCA and regional bus operators in return for delivering certain improvements to bus services in the West Midlands. The BSIP runs for three years from April 2022 to March 2025.

4 Revenue and segmental analysis continued

A pre-application condition for the BSIP grant set by DfT was either the existence of an Enhanced Partnership Plan (EPP) and an Enhanced Partnership Scheme (EPS) between WMCA and regional bus operators or progress towards regional bus franchising. An EPP and EPS, which included UK Bus and other regional bus operators, were in place for the West Midlands prior to the commencement of the BSIP, and now incorporate the objectives of the West Midlands region's bus service improvement plan (West Midlands BSIP) as those have been agreed between WMCA and regional bus operators. These objectives are underpinned by the need to maintain a comprehensive bus network in order to build bus patronage.

As UK Bus is an operator within the WMCA Enhanced Partnership and supported the WMCA BSIP Grant Application in 2022 we supported the EPS with a number of commitments such as freezing bus fares, maintaining bus network levels and developing bus passenger recovery plans as part of this grant application.

As at 31 December 2022, WMCA had not yet received cash funding from the DfT and so had not disbursed funds to the relevant operators at that point in time. However, the grant was awarded by the DfT on 12 December 2022 and UK Bus has received written confirmation from WMCA that they will be paying this grant award on to the operators in line with the Enhanced Partnership agreement. As a result, the £12.0m grant income recognised is recorded within current other receivables. The amount recognised is following IAS 20 Accounting for Government Grants and Disclosure of Government Assistance requirements, having concluded that the Group has (a) complied with any conditions attached to the grant under the EPP up to 31 December 2022 and expect to continue to comply through to the end of the grant in March 2025, and (b) the grant is expected to be received.

The total amount of £12.0m represents 9/36th of the total three-year grant funding available in respect of the elements of the West Midlands BSIP that UK Bus delivered on in 2022, which totals £48.0m out of the total £87.8m. Of this, £4.0m of income has been recorded in revenue representing the portion of the grant income designed to compensate the business for freezing passenger fares. A further £8.0m is recorded to reduce expenditure to reflect the elements of the BSIP programme compensating the business for the costs incurred in maintaining the bus network during the period (note 6).

Also included in grants and subsidies is £15.1m (2021: £15.9m) of additional subsidies in Germany in respect of the Federal Framework Regulation on Aid to Public Transport. Under this arrangement, additional subsidies may be claimed by public transport operators in Germany to compensate for the loss of passenger revenue due to Covid-19. Similarly, a further £22.0m (2021: £54.2m) was recognised in ALSA from Public Transport Authorities to compensate for revenue shortfalls due to Covid-19. In both cases, subsidy income has been recognised in the same period in the Income Statement to match the period in which the related shortfall of revenue occurred and to the extent there is reasonable assurance that the Group has complied with the conditions.

In German Rail, at the commencement of the Rhine-Münster Express (RME) contract in 2015, a fixed amount of subsidy was agreed with the PTA for the life of the contract and the amount recognised each year was measured by considering the proportion of contract costs incurred at each balance sheet date. As it does every year, the Group has reforecast the contract out-turn and reassessed its estimate of the stage of completion. This reassessment concluded a re-phasing adjustment of revenue was not required in year (2021: £3.8m).

Included in ALSA's prior year results is revenue of £10.8m for additional services provided to a customer between 2015 and 2020. In previous years it was considered uncertain as to whether such amounts could be recovered, and therefore such amounts were constrained. Following an agreement with the customer during the prior year, the uncertainty was resolved and the revenue recognised in full.

There have been no other material amounts of revenue recognised in the year that relate to performance obligations satisfied or partially satisfied in previous years. Revenue received where the performance obligation will be fulfilled in the future is classified as deferred income or contract liabilities and disclosed in notes 24 and 25.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

4 Revenue and segmental analysis continued

There are no material inter-segment sales between reportable segments.

	2021					
Analysis by class and reportabale segment:	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
UK	49.3	195.3	136.5	7.0	9.7	397.8
German Rail	–	45.2	136.7	–	0.2	182.1
ALSA	159.5	323.6	175.1	30.4	29.8	718.4
North America	831.3	–	–	33.4	7.3	872.0
Central functions	–	–	–	–	–	–
Total revenue	1,040.1	564.1	448.3	70.8	47.0	2,170.3
Analysis by major service type:						
Passenger transport	1,040.1	564.1	448.3	70.8	18.7	2,142.0
Other products and services	–	–	–	–	28.3	28.3
Total revenue	1,040.1	564.1	448.3	70.8	47.0	2,170.3

(b) Operating profit/(loss)

Operating profit/(loss) is analysed by reportable segment as follows:

	Underlying operating profit/(loss) 2022 £m	**Separately disclosed items 2022 £m**	**Segment result 2022 £m**	Underlying operating profit/(loss) 2021 £m	Separately disclosed items 2021 £m	(Restated) Segment result 2021[1] £m
UK	**25.6**	**(7.5)**	**18.1**	(22.6)	(23.8)	(46.4)
German Rail	**17.6**	**(10.4)**	**7.2**	5.0	(29.1)	(24.1)
ALSA	**103.9**	**(274.1)**	**(170.2)**	56.6	(26.4)	30.2
North America	**68.4**	**(55.7)**	**12.7**	74.4	(27.9)	46.5
Central functions	**(18.2)**	**(8.1)**	**(26.3)**	(26.4)	(16.0)	(42.4)
Operating profit/(loss)	**197.3**	**(355.8)**	**(158.5)**	87.0	(123.2)	(36.2)
Share of results from associates and joint ventures	**(0.4)**	**–**	**(0.4)**	(1.0)	–	(1.0)
Net finance costs	**(51.0)**	**–**	**(51.0)**	(46.3)	(1.4)	(47.7)
Profit/(loss) before tax	**145.9**	**(355.8)**	**(209.9)**	39.7	(124.6)	(84.9)
Tax (charge)/credit			**(10.8)**			7.8
Loss for the year			**(220.7)**			(77.1)

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

4 Revenue and segmental analysis continued

(c) Depreciation

Depreciation is analysed by reportable segment as follows:

	2022 £m	2021 £m
UK	32.5	35.0
German Rail	4.3	3.9
ALSA	62.9	60.8
North America	103.1	99.3
Central functions	0.7	0.7
	203.5	199.7

(d) Non-current assets

Non-current assets and additions are analysed by reportable segment as follows:

	Intangible assets 2022 £m	Property, plant and equipment 2022 £m	Total non-current assets 2022 £m	Non-current asset additions 2022 £m	Intangible assets 2021 £m	Property, plant and equipment 2021 £m	Total non-current assets 2021 £m	Non-current asset additions 2021 £m
UK	54.2	249.5	303.7	35.3	54.7	249.9	304.6	21.3
Central functions	13.7	1.4	15.1	2.8	12.1	1.5	13.6	2.0
Total UK	67.9	250.9	318.8	38.1	66.8	251.4	318.2	23.3
German Rail	7.9	14.9	22.8	8.0	8.5	11.5	20.0	7.6
ALSA	695.8	355.8	1,051.6	90.0	910.3	336.7	1,247.0	52.7
North America	849.3	553.7	1,403.0	81.5	792.9	530.0	1,322.9	72.8
Total overseas	1,553.0	924.4	2,477.4	179.5	1,711.7	878.2	2,589.9	133.1
Total	1,620.9	1,175.3	2,796.2	217.6	1,778.5	1,129.6	2,908.1	156.4

(e) Geographical information

	Revenue from external customers		Non-current assets	
	2022 £m	2021 £m	2022 £m	2021 £m
UK	528.3	397.8	318.8	318.2
Germany	268.5	182.1	22.9	20.0
Spain	788.1	591.5	905.4	1,154.1
Morocco	139.9	115.1	119.9	80.9
USA	980.7	815.8	1,280.8	1,202.4
Canada	67.5	56.2	122.1	120.5
Switzerland & Other[1]	34.5	11.8	26.3	12.0
	2,807.5	2,170.3	2,796.2	2,908.1

1 Other includes France and Portugal as presented to the Group Executive Committee

Due to the nature of the Group's businesses, the origin and destination of revenue are the same. No single external customer amounts to 10% or more of the total revenue.

Information reported to the Group Executive Committee does not regularly include an analysis of assets and liabilities by segment.

The financial impact of risks associated with climate change will not have a material impact on the Group given the geographical spread of its operating locations, as outlined in the TCFD section.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

5 Separately disclosed items

As set out in our accounting policies, we report underlying measures because we believe they provide both management and stakeholders with useful additional information about the financial performance of the Group's businesses.

The total separately disclosed items before tax for the year ended 31 December is a net charge of £355.8m (2021: £124.6m). The items excluded from the underlying result are:

	2022 £m	2021 £m
Goodwill impairment of ALSA (a)	260.6	–
Intangible amortisation for acquired businesses (b)	37.2	38.8
	297.8	38.8
Re-measurements of onerous contracts and impairments resulting from the Covid-19 pandemic (c)	7.6	41.0
Re-measurement of the Rhine-Ruhr onerous contract provision (d)	9.3	27.9
Onerous contract provision charges and impairments in respect of North America driver shortages (e)	31.4	–
Restructuring and other separately disclosed items (f)	9.7	15.5
	58.0	84.4
Separately disclosed operating cost items	355.8	123.2
Interest charges (g)	–	1.4
Total separately disclosed items	355.8	124.6

Included within the above separately disclosed items are the following onerous contract costs and impairments:

Movement in onerous contract provision

	Re-measurements of onerous contracts and impairments resulting from the Covid-19 pandemic (c) £m	Re-measurement of the Rhine-Ruhr onerous contract provision (d) £m	Onerous contract provision charges and impairments in respect of North America driver shortages (e) £m	Total £m
At 1 January 2022	18.5	21.2	–	39.7
Provided in the year	13.8	9.3	19.2	42.3
Released in the year	(5.1)	–	(2.6)	(7.7)
Charged to the Income Statement	8.7	9.3	16.6	34.6
Utilised in the year	(15.2)	(9.6)	(12.0)	(36.8)
Exchange differences	–	1.0	0.1	1.1
At 31 December 2022	12.0	21.9	4.7	38.6

Total charge to the Income Statement

	Re-measurements of onerous contracts and impairments resulting from the Covid-19 pandemic (c) £m	Re-measurement of the Rhine-Ruhr onerous contract provision (d) £m	Onerous contract provision charges and impairments in respect of North America driver shortages (e) £m	Total £m
Onerous contract provision charged to the Income Statement	8.7	9.3	16.6	34.6
Impairments of assets:				
Tangible assets	0.3	–	7.4	7.7
Intangible assets	(1.4)	–	7.4	6.0
Total impairment (reversal)/charge	(1.1)	–	14.8	13.7
Total charge to the Income Statement	7.6	9.3	31.4	48.3

5 Separately disclosed items continued

(a) Goodwill impairment of ALSA

The Group performs a goodwill impairment on each cash-generating unit annually. During the year, discount rates have increased significantly due to the significant increase in risk-free interest rates. Additionally, a country risk premium for Spain was applied to the ALSA discount rate for the first time, given the current heightened geopolitical and macroeconomic uncertainty in the Eurozone at the time of the assessment. This has led to a non-cash impairment of £260.6m being recognised in ALSA, bringing the carrying value of goodwill to its recoverable amount (see note 14 for further information). The impairment does not relate to any change in the forecast trading performance of ALSA. This is separately disclosed due to both size and nature and is excluded to enable the users of the financial statements to provide greater clarity on the current and future performance of the Group's results.

(b) Intangible amortisation for acquired businesses

Consistent with previous periods, the Group classifies the non-cash amortisation for acquired intangibles as a separately disclosed item by virtue of its size and nature. Its exclusion enables comparison and monitoring of divisional performance by the Group Executive Committee regardless of whether through acquisition or organic growth. Equally, it improves comparability of the Group's results with those of peer companies.

(c) Re-measurement of onerous contracts and impairments resulting directly from the Covid-19 pandemic

As a result of Covid-19, a number of onerous contract provisions and impairments were recorded in previous years. For the contracts which the Group was still operating during the year, and remains committed to at the period end, the onerous contract provision has been re-measured, resulting in a net cost of £8.7m, with a tangible fixed asset impairment of £0.3m for assets which are dedicated to the contract. On these contracts, £15.2m provision has been utilised during the year, with a remaining provision of £12.0m at the period end, of which £7.7m is expected to be utilised within 12 months. Other than the contracts referenced in section (e) below no new onerous contracts were identified in the year.

In addition, assets which have been previously impaired due to the pandemic have been reassessed for indicators of further impairment, or reversal of impairment. This has resulted in a reversal of previous impairment of customer contract assets of £1.4m, reflecting improved profitability on those contracts.

In the prior year, included in the amounts attributable to the Covid-19 pandemic was the loss on re-measurement of the liability for the put options over the remaining 20% shares of WeDriveU of £11.5m. In the current year the liability has been re-measured by management with no resulting gain or loss.

(d) Rhine-Ruhr Express onerous contract provision

At December 2021, the Group had an onerous contract provision of £21.2m remaining with respect to the Rhine-Ruhr Express contract, having previously impaired all dedicated assets. At December 2022 the contract profitability was reassessed taking into account the first full year of operation of all lines as well as the surge in energy costs, and the commercial energy price capping in place. This reassessment resulted in an increase in the provision of £9.3m, principally due to energy costs. The provision at 31 December 2022 is £21.9m for the remainder of the contract term until 2033, following utilisation during the year of £9.6m.

(e) Onerous contract provision charges and impairments in respect of North America driver shortages

During the period, the Group has identified a series of new onerous contracts in North America in relation to nationwide driver shortages, principally in the school bus market. These shortages have resulted in both an increase in wages (to retain and recruit) and a reduction in service levels, and hence a reduction in profitability of certain contracts. An exceptional expense of £16.6m has been recognised in relation to onerous contracts and a further non-cash £7.4m expense for the impairment of dedicated right-of-use assets on these contracts. The remaining provision at the period end of £4.7m is expected to be utilised within the next 12 months.

In addition, the decrease in profitability of customer contracts has had an impact on the recoverability of intangible assets associated to the customer contracts. This has led to a net impairment of intangible assets of £7.4m in North America.

Driver shortages in North America are considered by management to be an acute and short-term problem rather than business as usual, and have had a material impact, and therefore the total expense has been recorded within separately disclosed items based on its size and nature.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

5 Separately disclosed items continued

(f) Restructuring and other separately disclosed items

During the year, the Group incurred £9.7m of costs in respect of Group-wide strategic initiatives and restructuring, as well as transaction fees in respect of the Group's aborted plans for a potential combination with Stagecoach. These one-off charges are not considered to be part of the day-to-day operational costs of the Group and therefore have been treated as separately disclosed on this basis.

(g) Interest charges

The prior year interest charges primarily related to fees associated with the gearing covenant waivers on the Group's borrowing facilities. These costs are not considered to be a normal finance cost of the Group.

6 Operating costs

	2022 £m	2021 £m
Cost of inventories recognised in expense	**67.4**	78.6
Staff costs	**1,395.5**	1,156.4
Depreciation – owned assets	**145.8**	133.8
– leased assets	**57.7**	65.9
Intangible asset amortisation – intangibles from acquired businesses (note 5)	**37.2**	38.8
– other intangible assets	**18.3**	15.4
Gain on disposal of property, plant and equipment	**(10.5)**	(8.0)
Gain on disposal of intangible assets	**(5.1)**	(0.6)
Amortisation of fixed asset grants	**(2.1)**	(3.2)
Leases (note 34) – variable lease payments not included in the measurement of lease liabilities	**0.6**	0.1
– expenses relating to short-term leases	**6.5**	4.3
– expenses relating to leases of low-value assets	**2.9**	3.0
Separately disclosed items[1] (note 5)	**318.6**	84.4
Other charges	**933.2**	637.6
Total operating costs	**2,966.0**	2,206.5

1 Excludes amortisation from intangibles from acquired businesses which is included within intangible asset amortisation above

Grants recognised within operating costs

Where the Directors have reasonable assurance that we have complied with the conditions of the grant, and the grant will be received, we have recognised grant income. As noted in accounting policies, where the nature of the grant is to compensate us for certain costs incurred, they have been recognised to offset those costs in the same place.

On 12 August 2021 the Group was granted an award under the Coronavirus Economic Relief for Transportation Services (CERTS) in North America, a scheme designed to provide relief to retain jobs, hire back employees previously laid off and cover applicable overhead and operational expenses. In the year ending 31 December 2022 the Group has recognised £40.6m (2021: £45.7m) as a reduction in operating expenses (mostly staff costs) based on eligible costs incurred during the period.

The Group has also recognised £15.3m in North America in respect of Covid-19 Employee Retention Credits (ERC). The amounts recognised in year relate to claims made to the Internal Revenue Service in the current and previous periods, for employee costs incurred in 2020 and 2021. Amounts have been recognised in the current year following submission of the grant claim in the current year, or the Director's gaining reasonable assurance during the year that we will be entitled to receive the grant, following submission of the grant claim in prior periods.

The UK has recognised a credit of £19.1m (2021: £nil) in respect of Stabilisation Funding (£12.8m) and Network Protection Funding (£6.3m) designed to provide relief to UK bus operators for maintaining pre-pandemic service levels as patronage numbers continue to recover and while the Birmingham Commonwealth Games 2022 took place. The grant terms did not define whether the grants were specifically awarded to cover revenue shortfall or network running costs, therefore management exercised judgement to determine where in the Income Statement the grants should be recorded. As the primary condition of the grant, as outlined in the funding agreement, was to maintain a stable bus network, management has allocated the credits against staff costs and operational expenses for the period they are intended to cover.

6 Operating costs continued

In addition, the UK Bus business (UK Bus) has recognised grant income under the Bus Service Improvement Plan (BSIP). Included in operating costs above is £8.0m grant income reflecting the elements of the BSIP programme compensating the business for the costs incurred in maintaining the bus network during the period. A further £4.0m of income has been recorded in revenue representing the portion of the grant income designed to compensate the business for freezing passenger fares. See note 4 for further details.

Included within 2021 is £18.3m of the government grant Coronavirus Job Retention Scheme (CJRS) in the UK and the US CARES Act in North America, in response to the Covid-19 pandemic. The amounts recognised reflect the grants receivable in respect of the year ended 31 December 2021 and relate to the costs reclaimable for employees furloughed or retained to the extent that it is reasonably certain that the grant will be received. These grants were netted within staff costs.

7 Auditor's remuneration

An analysis of fees paid to the Group's auditor is provided below:

	2022 £m	2021 £m
Audit of the financial statements	1.4	1.5
Audit of subsidiaries	1.0	0.9
Audit-related assurance services	0.3	0.1
	2.7	2.5

8 Employee benefit costs

	2022 £m	2021 £m
Wages and salaries	1,203.9	1,001.0
Social security costs	180.7	143.5
Pension costs (note 33)	9.7	10.9
Share-based payment (note 9)	1.2	1.0
	1,395.5	1,156.4

The average number of employees, including Executive Directors, during the year was as follows:

	2022	2021
Managerial and administrative	4,590	4,426
Operational	41,309	41,022
	45,899	45,448

Details of key management compensation can be found in note 36.

9 Share-based payments

The charge in respect of share-based payment transactions included in the Group's Income Statement for the year is as follows:

	2022 £m	2021 £m
Expense arising from share and share option plans	1.2	1.0

9 Share-based payments continued

Details of options or awards outstanding at the end of the year under the Group's share schemes are as follows:

	Number of share options 2022	Number of share options 2021	Exercise price	Future exercise periods
Long-Term Incentive Plan	7,617,535	6,181,699	nil	2023–2027
West Midland Travel Long Service Option Scheme	118,051	136,776	175p–412p	2023–2030
Executive Deferred Bonus Plan	86,315	–	nil	2023
	7,821,901	6,318,475		

During the year ended 31 December 2022, the Group had three share-based payment arrangements, which are described below.

(i) Long-Term Incentive Plan (LTIP)

The LTIP is open to Executive Directors and certain senior managers with awards made at the discretion of the Remuneration Committee, normally on an annual basis and in the form of a nil cost option over a certain number of shares in the Company.

The vesting of shares on or around the third anniversary of grant is subject to the Group's achievement of specific performance conditions set at the date of grant. These typically comprise underlying diluted earnings per share (EPS), return on capital employed (ROCE), certain environmental targets and the relative total shareholder return (TSR) of the Group against a relevant comparison. Please refer to the Director's Remuneration Report for details of the performance conditions which are attached to the awards which are in flight at the end of the year and vested during the year. All targets are measured over the three-year financial period commencing with the year of grant. Unvested shares automatically lapse.

An accrual entitlement in respect of dividends paid by the Company during the vesting period attaches to vested shares and is paid to participants on vesting. Similarly, an accrual entitlement in respect of dividends is payable on unexercised vested shares held by Executive Directors during their compulsory two-year holding period, which runs from the date of vesting (in parallel with the two-year exercise period).

The LTIP allows for the grant to UK participants of an HMRC-approved share option over shares with a market value of up to a maximum of £30,000 outstanding at any time. These are awarded at the same time as, and with the same performance conditions as, the LTIP awards and work by way of set-off versus the vested LTIP share value on exercise with the excess LTIP option award being forfeited.

Vested shares for all LTIP awards are normally delivered in the form of market purchased shares held in the Company's Employee Benefit Trust (the Trust). No cash settlement alternative is available.

(ii) Executive Deferred Bonus Plan (EDBP)

The delivery of the annual bonus award for Executive Directors is structured in two distinct parts: an initial cash payment under the annual bonus plan and a one-year deferred payment award in the form of forfeitable shares in the Company granted under the EDBP. Release of the shares on the first anniversary of grant is not subject to any additional performance condition, save for continuing employment. Participants are entitled to receive any dividends paid by the Company on the shares while they are held in the Trust during the deferred period.

(iii) West Midlands Travel Long Service Option Scheme (WMT LSOS)

The WMT LSOS was used to reward WMT employees who attained 25 years' service. The market-value option award over a certain number of shares in the Company is exercisable between the third and tenth anniversary of grant. There are no performance conditions and shares are delivered on exercise through the Trust. No cash settlement alternative is available. The scheme is closed to new participants, with exercises on previous awards possible until 2030.

9 Share-based payments continued

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2022		2021	
	Number of share options	Weighted average exercise price p	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	136,776	283	160,859	283
Granted during the year	–	–	–	–
Forfeited during the year	(3,695)	304	(2,000)	175
Exercised during the year	(212)	252	(3,828)	224
Expired during the year	(14,818)	299	(18,255)	301
Outstanding at 31 December	118,051	287	136,776	283
Exercisable at 31 December	80,051	342	86,776	318
Options with a nil exercise price:				
At 1 January	6,181,699	nil	5,347,246	nil
Granted during the year	4,383,239	nil	2,752,151	nil
Forfeited during the year	(1,295,429)	nil	(333,116)	nil
Exercised during the year	(251,394)	nil	(398,416)	nil
Expired during the year	(1,314,265)	nil	(1,186,166)	nil
Outstanding at 31 December	7,703,850	nil	6,181,699	nil
Exercisable at 31 December	6,714	nil	258,107	nil
Total outstanding at 31 December	7,821,901		6,318,475	
Total exercisable at 31 December	86,765		344,883	

The options outstanding at 31 December 2022 had exercise prices that were between 175p and 412p (2021: between 175p and 412p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2022 Number	2021 Number
100-300	61,431	71,772
301-350	27,120	29,604
351-450	29,500	35,400
	118,051	136,776

The options have a weighted average contractual life of one year (2021: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 238p (2021: 291p). The aggregate gains of the Executive Directors arising from any exercise of options during the year totalled £nil (2021: £0.2m).

The fair value of the share options granted during the year was calculated using the Monte Carlo method, with the following assumptions and inputs:

	2022	2021
Risk-free interest rate	1.32%	0.12%
Expected volatility	70%	66%
Peer group volatility	29%–45%	36%–62%
Expected option life in years	3 years	3 years
Expected dividend yield	0.00%	0.00%
Weighted average share price at grant date	224p	305p
Weighted average exercise price at grant date	nil	nil
Weighted average fair value of options at grant date	206p	281p

The risk-free interest rate was calculated based on zero-coupon government bond yields in the United Kingdom, with a time- to-maturity commensurate with the remaining performance period, at the date of grant.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

9 Share-based payments continued

Expected volatility was calculated based on the historical volatility of the share prices of National Express and the comparator companies in the peer group (on a daily basis) over a period commensurate with the remaining performance period, at the date of grant.

Expected dividend yield was excluded from the model, given each participant is entitled to receive a dividend equivalent.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

10 Net finance costs

	2022 £m	2021 £m
Bond and bank interest payable	**35.5**	32.0
Lease interest payable (note 34)	**9.4**	10.5
Other interest payable	**3.0**	2.7
Unwind of discounting (note 26)	**3.4**	2.5
Net interest cost on defined benefit pension obligations (note 33)	**1.9**	1.8
Finance costs before separately disclosed items	**53.2**	49.5
Separately disclosed finance costs (note 5)	**–**	1.4
Total finance costs	**53.2**	50.9
Lease interest income (note 34)	**(0.5)**	(0.7)
Other financial income	**(1.7)**	(2.5)
Total finance income	**(2.2)**	(3.2)
Net finance costs	**51.0**	47.7
Of which, from financial instruments:		
Financial assets measured at amortised cost	**(1.6)**	(1.5)
Financial liabilities measured at amortised cost	**44.4**	44.0
Derivatives	**1.9**	(1.8)
Loan fee amortisation	**1.1**	1.2

11 Taxation

(a) Analysis of taxation charge/(credit) in the year

	2022 £m	(Restated) 2021[1] £m
Current taxation:		
UK corporation tax	**1.2**	2.8
Overseas taxation	**19.3**	16.3
Current income tax charge	**20.5**	19.1
Adjustments with respect to prior years – UK and overseas	**(1.0)**	0.2
Total current income tax charge	**19.5**	19.3
Deferred taxation (note 27):		
Origination and reversal of temporary differences	**(7.0)**	(23.5)
Adjustments with respect to prior years – UK and overseas	**(1.7)**	(3.6)
Deferred tax credit	**(8.7)**	(27.1)
Total tax charge/(credit) for the Group	**10.8**	(7.8)
The tax charge/(credit) for the Group comprises:		
Tax charge on profit before separately disclosed items	**30.3**	12.0
Tax credit on separately disclosed items	**(19.5)**	(19.8)
	10.8	(7.8)

[1] Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

11 Taxation continued

The tax credit on separately disclosed items of £19.5m (2021: £19.8m credit) comprises of £9.1m tax credit (2021: £10.3m) on intangibles, £14.5m tax credit (2021: £14.9m) on tax deductible expenditure on exceptional costs and a £4.1m charge (2021: £5.4m charge) on exceptional tax items.

The tax relief relating to intangible amortisation is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2022 £m	2021 £m
Deferred taxation:		
Deferred tax charge on actuarial gains	**12.7**	2.7
Deferred tax (credit)/charge on cash flow hedges	**(5.2)**	9.5
Deferred tax credit on foreign exchange differences	**(1.3)**	(0.5)
Deferred tax credit on accrued hybrid instrument payments	**(5.3)**	(4.4)
Deferred tax charge/(credit) on share-based payments	**0.4**	(0.3)
	1.3	7.0

(c) Reconciliation of the total tax charge/(credit)

	2022 £m	(Restated) 2021[1] £m
Loss before income tax	**(209.9)**	(84.9)
Notional credit at UK corporation tax rate of 19% (2021: 19%)	**(39.9)**	(16.1)
Recurring items:		
Non-deductible intangible amortisation and impairment	**0.2**	–
Effect of overseas tax rates	**(12.1)**	(1.1)
Tax incentives	**(0.5)**	(1.3)
State taxes/Minimum tax	**0.4**	3.7
Non-recurring items:		
Non-deductible goodwill amortisation and impairment	**65.2**	0.3
Adjustments to prior years within current and deferred tax (excluding significant items)	**(2.7)**	0.2
Prior year adjustment – write-off of deferred tax asset on German losses	**–**	8.6
Prior year adjustment – release of tax provisions	**–**	(0.6)
Prior year adjustment – effect of reduction in UK tax rate	**(0.3)**	(11.6)
Non-creditable withholding tax on pension surplus	**1.1**	2.6
Effect of reduction in tax rates	**–**	(2.0)
Non-deductible income/expenditure	**(0.3)**	5.6
Overseas financing deductions	**–**	(1.5)
Non-taxable loss on disposal of Investment	**0.3**	0.2
(Utilisation)/recognition of a deferred tax asset for previously unrecognised tax losses	**(0.6)**	5.2
Total tax charge/(credit) reported in the Income Statement (note 11(a))	**10.8**	(7.8)

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Included within the tax reconciliation are a number of non-recurring items, including the effect of a reduction in recognition of current year Moroccan losses (£4.5m) and recognition of prior year unrecognised German losses due to the improvement of future forecasts (£4.6m). Items expected to recur in the tax reconciliation for 2022 include the difference in rates between the UK and our overseas markets and tax incentives on re-investment credits.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

11 Taxation continued

As at 31 December 2022 deferred tax in the UK was held at 25% due to the substantively enacted 25% rate due to come in on 1 April 2023. A number of items reversed during 2022, when the corporation tax was still at 19%, therefore a tax credit of £0.3m was included in the current year reconciliation to show this change in rate effect on current year profits.

(d) Tax provisions

At 31 December 2022, the Group held no tax provisions (2021: £1.8m). All UK corporation tax returns up to 2021 have been submitted and agreed by HMRC. There has been a net decrease of £1.8m which represents the release of tax reserves. Based on the experience of the Group Tax department and after discussions of the various tax uncertainties with our tax advisers, the year-end tax provision represents management's best estimate of the tax uncertainties of which we are aware.

(e) Temporary differences associated with Group investments

There are no unremitted earnings of subsidiaries, associates and joint ventures, and so no deferred tax (2021: nil) has been recognised. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2021: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

(f) Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Based on current forecasts, it is estimated that the losses recognised for deferred tax purposes will be utilised within three to four years. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements relates to gross losses of £105.9m (restated 2021: £98.1m), which arise in companies where the Group does not expect to generate sufficient suitable future taxable profits.

2022 Unrecognised tax losses	**UK £m**	**Germany £m**	**Spain £m**	**Morocco £m**	**Switzerland £m**	**Other £m**	**Total £m**
Gross	**18.2**	**21.5**	**14.6**	**43.1**	**3.7**	**4.8**	**105.9**
Tax	**4.5**	**6.7**	**3.7**	**13.4**	**0.9**	**1.2**	**30.4**

2021 Unrecognised tax losses (Restated)[1]	UK £m	Germany £m	Spain £m	Morocco £m	Switzerland £m	Other £m	Total £m
Gross	18.0	27.0	10.5	35.4	3.1	4.1	98.1
Tax	4.5	8.5	2.6	11.0	0.8	0.7	28.1

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

(g) Deferred tax included in the Income Statement

	2022 £m	(Restated) 2021[1] £m
Accelerated capital allowances	**(3.4)**	23.5
Other short-term temporary differences	**17.7**	1.8
Recognition of losses	**(23.0)**	(52.4)
Deferred tax credit (note 11(a))	**(8.7)**	(27.1)

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Details on the Balance Sheet position of deferred tax are included in note 27.

12 Dividends paid and proposed

No interim or final dividends were declared and paid during the period (2021: £nil). A final ordinary dividend of 5.0 pence per share (2021: nil), equating to a cash outflow of £30.6m (2021: £nil), has been proposed but not recognised as a liability at 31 December 2022.

13 Earnings per share

	2022	(Restated) 2021[1]
Basic earnings per share	**(39.7)p**	(16.6)p
Underlying basic earnings per share	**15.0p**	0.2p
Diluted earnings per share	**(39.7)p**	(16.6)p
Underlying diluted earnings per share	**15.0p**	0.2p

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Basic EPS is calculated by dividing the earnings attributable to equity shareholders, a loss of £243.1m (2021 restated: £102.0m loss), by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust (note 32) which are treated as cancelled. Earnings attributable to equity shareholders is inclusive of amounts accruing to the holders of the hybrid instrument and are calculated as follows:

	2022 £m	(Restated) 2021[1] £m
Loss attributable to equity shareholders	**(221.8)**	(80.8)
Accrued payments on hybrid instrument	**(21.3)**	(21.2)
Earnings attributable to equity shareholders	**(243.1)**	(102.0)

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

For diluted EPS, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The reconciliation of basic and diluted weighted average number of ordinary shares is as follows:

	2022	2021
Basic weighted average shares	**612,772,081**	613,117,132
Adjustment for dilutive potential ordinary shares[1]	**339,199**	345,497
Diluted weighted average shares	**613,111,280**	613,462,629

1 Potential ordinary shares have the effect of being anti-dilutive in 2022 and 2021, and have been excluded from the calculation of diluted earnings per share

The underlying basic and underlying diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33 since, in the opinion of the Directors, they reflect the underlying performance of the business' operations.

The reconciliation of the earnings and earnings per share to their underlying equivalent is as follows:

	2022			(Restated) 2021[1]		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Earnings attributable to equity shareholders inclusive of hybrid instrument	**(243.1)**	**(39.7)**	**(39.7)**	(102.0)	(16.6)	(16.6)
Separately disclosed items	**355.8**	**58.1**	**58.1**	124.6	20.3	20.3
Separately disclosed tax	**(19.5)**	**(3.2)**	**(3.2)**	(19.8)	(3.2)	(3.2)
Separately disclosed non-controlling interests	**(1.1)**	**(0.2)**	**(0.2)**	(1.6)	(0.3)	(0.3)
Underlying profit attributable to equity shareholders	**92.1**	**15.0**	**15.0**	1.2	0.2	0.2
Amounts accruing to the holders of the hybrid instrument	**21.3**			21.2		
Underlying profit attributable to equity shareholders excluding the hybrid instrument	**113.4**			22.4		

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

14 Intangible assets

	Goodwill £m	Customer contracts £m	Infrastructure investment intangible £m	Software £m	Contract costs £m	Total £m
Cost:						
At 1 January 2022	1,552.1	843.6	78.1	130.6	35.0	2,639.4
Acquisitions	4.7	4.8	–	–	–	9.5
Additions	–	0.7	22.0	10.4	0.2	33.3
Disposals	–	(0.3)	–	(0.2)	–	(0.5)
Foreign exchange	118.1	65.5	(0.5)	9.7	1.8	194.6
At 31 December 2022	1,674.9	914.3	99.6	150.5	37.0	2,876.3
Amortisation and impairment:						
At 1 January 2022	45.4	684.9	9.3	93.7	27.6	860.9
Charge for year	–	34.5	7.4	12.8	0.8	55.5
Disposals	–	(0.2)	–	(0.2)	–	(0.4)
Impairment	260.6	6.0	–	–	–	266.6
Foreign exchange	12.7	51.4	(0.2)	7.5	1.4	72.8
At 31 December 2022	318.7	776.6	16.5	113.8	29.8	1,255.4
Net book value:						
At 31 December 2022	1,356.2	137.7	83.1	36.7	7.2	1,620.9
At 1 January 2022	1,506.7	158.7	68.8	36.9	7.4	1,778.5

Goodwill arising on acquisitions of £4.7m comprises £6.9m with respect to the in-year acquisition of Vitalia and £1.3m in respect of the in-year acquisition of BMG Sevirama (see note 19 for further details). There is also an adjustment to goodwill of £3.5m relating to a fair value adjustment on acquisition in previous years (note 19).

The impairment charge includes a non-cash impairment of the goodwill of the ALSA division following an updated assessment of the value in use of the cash-generating unit caused by changes to the risk-free discount rate. See below for details of the goodwill impairment assessment performed.

In addition, £7.4m of customer contract intangibles in North America were impaired following reduced profitability in customer contracts due to driver shortages and changes in customer demand. In addition, previous impairments of customer contract intangibles in ALSA of £1.4m were reversed due to improved profitability in contracts. In the prior year, impairment charge included £10.6m of customer contracts which arose following strategic reviews in the North America and UK divisions, and with respect to onerous contracts, £0.2m of customer contract intangibles in ALSA and £4.8m franchise contract costs in German Rail.

The Group recognises infrastructure investment intangibles for public service vehicles where the Group has the right to charge passengers of the public service in accordance with IFRIC 12 Service Concession Arrangements. Note 37 includes further details of the Group's service concession arrangements.

Customer contracts includes the following individually material assets, all of which arose through past acquisitions.

Segment	Nature of contract	Remaining useful economic life at 31 December 2022	Net book value at 31 December 2022 £m	Remaining useful economic life at 31 December 2021	Net book value at 31 December 2021 £m
North America	School bus and paratransit service contract in North America	9 years	20.8	10 years	20.6
North America	Employee shuttle contracts in North America	7 years	11.3	8 years	16.9
North America	Paratransit bus service contracts in North America	10 years	11.3	11 years	12.1
ALSA	Urban and charter bus service contracts in Spain	3 years	7.3	4 years	10.5

14 Intangible assets continued

Goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	2022 £m	2021 £m
UK	52.4	52.4
North America	743.2	669.5
ALSA	560.6	784.8
	1,356.2	1,506.7

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows into perpetuity beyond the five-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows into perpetuity	
	2022	2021	2022	2021
UK	11.2%	7.9%	2.7%	2.4%
North America	10.3%	7.2%	3.4%	2.9%
ALSA	13.9%	7.8%	3.0%	2.9%

Discount rates have increased significantly due to the increase in underlying risk-free interest rates. Additionally, a country risk premium for Spain was applied to the ALSA discount rate for the first time, given the heightened geopolitical and macroeconomic uncertainty in the Eurozone at the time of the assessment.

The key estimates applied in the impairment review are the forecast level of revenue, operating margins and the proportion of operating profit converted to cash in each year. Forecast revenue and operating margins are based on past performance and management's expectations for the future. A growth rate for each division has been consistently applied in the impairment review for all cash-generating units based on respective long-term country-specific GDP growth rates. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital (WACC), principally derived from external sources. Capital expenditure is projected over the first five years using a detailed, contract-by-contract level forecast of the capital requirements of the Group for new and replacement vehicles and other assets. In the extrapolation of cash flows into perpetuity (the terminal value), capital expenditure is assumed to be a 1:1 ratio to depreciation. A non-cash impairment of £260.6 million has been recognised in ALSA, bringing the carrying value of goodwill to its recoverable amount. In the previous year there had been £425.9 million of headroom on the assessment. The impairment in the latest assessment is due to the significant increase in the discount rates noted above and is not due to a change in the assessment of the trading prospects for the division. Sensitivity analysis on the key assumptions made is provided below.

The value in use of the North America division exceeds its carrying amount by £225.9m (2021: £812.0m); the reduction compared to the prior year being driven by the increased discount rate.

The assumptions behind the cash flow projections also take account of the climate change risk assessment exercise carried out during the year, from which the pertinent conclusions are as follows:

- While the global temperature rise above pre-industrial levels increases the likelihood of extreme weather events, the geographical diversity of the Group means that the risk to the Group as a whole is unlikely to be material. We have, nonetheless, factored in an assumption of financial impact from extreme weather disruption, albeit not to the extent of the extreme scenario disclosed in the TCFD section of the Strategic Report.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

14 Intangible assets continued

- The Group's planning assumption is that input costs will not rise significantly above inflation on the basis that, for electric vehicles for example, supply will increase to match demand, and technological advances will also help decrease manufacturing costs. Furthermore, the Group assumes, based on its detailed modelling of electric versus diesel buses in the UK, that the total cost of ownership of zero emission vehicles will be no worse than their diesel equivalents. This assessment is inclusive of the cost of new electric vehicle infrastructure and assumes no government funding. The Group expects to utilise hydrogen vehicles in the transition to a zero emission fleet in long haul coach services and, while hydrogen vehicle technology is not currently as well developed as electric, the Group assumes that total cost of ownership for these vehicles will also be no worse than at parity with their diesel equivalents, albeit may require some level of government subsidies on the capital cost and/or the hydrogen fuel.
- The Group already has ambitious targets for the transition to zero emission fleets. These targets are expected to result in the Group having a zero emission fleet before any potential ban on diesel vehicles is imposed by governments. The Group has assessed as very low the risk of the current fleet having a net book value higher than their residual value at the Group's targeted transition dates and has therefore concluded that no changes to the useful economic lives of the Group's current fleet are required.
- The opportunity from modal shift from private cars to public transport is potentially significantly more material than that assumed in the Group's long-term cash flow projections as central governments, transport authorities and city councils introduce measures to tackle congestion, pollution and emissions.

Sensitivities to key and other assumptions

(i) ALSA

For ALSA, a sensitivity analysis showing the increase in impairment of a change in each key assumption has been provided in the table below.

ALSA	Sensitivity	Additional Impairment £m
Base case		–
WACC	Increase of 1%	(65.1)
Perpetual Growth rate	Decrease of 1%	(45.6)
Underlying Operating Profit Margin	Decrease of 2%	(192.7)
Long Haul Underlying Operating Profit Margin	Decrease of 2%	(17.3)

The Group operates coach services on certain long haul routes in Spain under concession arrangements with the government's transport department. These concessions are subject to renewal over the next few years, which brings uncertainty over the long-term margins of this business. Accordingly, we have included the Long Haul margins in the sensitivity analysis

(ii) North America

For North America, sensitivity analysis has been completed on each key assumption in isolation. This analysis indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 110 basis points (2021: 250 basis points) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 120 basis points (2021: 270 basis points).

In addition, for North America, a reduction in operating profit margin of 130 basis points (2021: 360 basis points) will result in the value in use of the division being equal to its carrying amount.

Management has also performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the key assumptions would have on the recoverable amount of the North America division. In combination, a 20% reduction in the cash flows in 2023 and 2024, a 100 basis points reduction in the long-term growth rate and a 100 basis points increase in the pre-tax discount rate would lead to a £178m impairment in North America.

The Directors have concluded that there is no risk of impairment for the UK and therefore, as permitted by IAS 36, have not provided sensitivity disclosure.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

14 Intangible assets continued

	Goodwill £m	Customer contracts £m	Infrastructure investment intangible £m	Software £m	Contract costs £m	Total £m
Cost:						
At 1 January 2021	1,574.1	861.8	77.4	126.9	36.8	2,677.0
Acquisitions	23.1	7.1	–	–	–	30.2
Additions	–	1.4	3.2	8.9	1.6	15.1
Disposals	–	(0.1)	–	(4.7)	–	(4.8)
Reclassifications	(0.9)	–	–	0.2	(1.2)	(1.9)
Foreign exchange	(44.2)	(26.6)	(2.5)	(0.7)	(2.2)	(76.2)
At 31 December 2021	1,552.1	843.6	78.1	130.6	35.0	2,639.4
Amortisation and impairment:						
At 1 January 2021	48.7	662.8	4.8	85.2	23.7	825.2
Charge for year	–	35.4	4.7	13.0	1.1	54.2
Disposals	–	(0.1)	–	(4.6)	–	(4.7)
Impairment	–	10.8	–	–	4.8	15.6
Reclassifications	(0.9)	–	–	0.6	(0.5)	(0.8)
Foreign exchange	(2.4)	(24.0)	(0.2)	(0.5)	(1.5)	(28.6)
At 31 December 2021	45.4	684.9	9.3	93.7	27.6	860.9
Net book value:						
At 31 December 2021	1,506.7	158.7	68.8	36.9	7.4	1,778.5
At 1 January 2021	1,525.4	199.0	72.6	41.7	13.1	1,851.8

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

15 Property, plant and equipment

	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:				
At 1 January 2022	320.6	2,135.2	183.9	2,639.7
Acquisitions	–	1.5	–	1.5
Additions	66.9	103.5	13.9	184.3
Disposals	(10.0)	(158.5)	(2.2)	(170.7)
Assets transferred to held for sale	0.2	0.7	(0.2)	0.7
Reclassifications	–	8.0	–	8.0
Foreign Exchange	19.3	155.1	7.0	181.4
At 31 December 2022	397.0	2,245.5	202.4	2,844.9
Depreciation:				
At 1 January 2022	153.5	1,221.2	135.4	1,510.1
Charge for the year	35.2	155.6	12.7	203.5
Disposals	(9.6)	(152.1)	(2.1)	(163.8)
Impairments	7.4	0.3	–	7.7
Assets transferred to held for sale	0.1	(0.3)	(0.1)	(0.3)
Reclassifications	–	8.0	–	8.0
Foreign exchange	10.8	88.6	5.0	104.4
At 31 December 2022	197.4	1,321.3	150.9	1,669.6
Net book value:				
At 31 December 2022	199.6	924.2	51.5	1,175.3
At 1 January 2022	167.1	914.0	48.5	1,129.6

During the year, construction was completed on a new bus depot in the UK and this was transferred from assets under construction. At 31 December 2022 there were no assets under construction (2021: £3.9m).

The impairment charge includes £7.4m impairments of assets which are dedicated to contracts which became onerous due to driver shortages in North America. A further £0.3m (2021: £6.4m) arose following onerous contract reassessments in the UK division. No further impairments were identified in Spain with respect to assets relating to onerous contracts in the ALSA division (2021: £1.2m). The total impairment charge of £7.7m is included in separately disclosed items in the Income Statement; see note 5 for further information.

Depreciation on public service vehicles is calculated using the straight-line method to write off the cost or fair value at acquisition of each asset to its residual value over its estimated useful life (or lease term, if shorter). The estimated useful lives for owned public service vehicles range from 8 to 20 years depending on the type of vehicle. The majority of the Group's public service vehicles are diesel powered, although the Group expects that, over time, an increasing proportion of its vehicle fleet will be zero emission; likely to be a combination of electric and hydrogen-powered vehicles. The actual useful lives of diesel-powered vehicles could be affected by measures taken by governments to tackle climate change and improve air quality by restricting the use of such vehicles.

While governments across the Group's geographical locations are consulting on a date after which the sale of new diesel-powered vehicles will be prohibited, at this time there is no set date from which diesel vehicles are prohibited from being used. The estimated useful lives applied are consistent with the previous year and, taking account of the latest proposals from governments and our own internal targets (as described in the Strategic Report), the Directors consider that those estimates of useful lives remain appropriate.

Other than in UK Bus, the estimated carrying value of vehicles in each of the Group's divisions at the Group's targeted date of transition to a fully zero emission fleet is £nil. In UK Bus, where the target date is 1 January 2030, the remaining net book value of existing diesel vehicles at transition is estimated to be £35.0m, assuming no change to the useful lives. Considering that our transition target is significantly ahead of the earliest expected date that the UK would ban the use of diesel vehicles and also that the UK vehicles impacted are Euro 6 diesel buses (the most environmentally friendly variant of diesel vehicles), the Directors consider that they will be able to recover such value through their sale. This assumption is further supported by the sales of diesel buses during the year at greater than carrying value. However, in a more extreme scenario, assuming the vehicles were not able to be sold and therefore the residual value was nil at transition, a £5.0m increase in the annual depreciation charge would be required from 1 January 2023.

15 Property, plant and equipment continued

In an alternative scenario whereby no diesel-powered vehicle could be used anywhere in the Group after 31 December 2034, in addition to the 2030 transition for UK Bus, the annual depreciation expense from 1 January 2023 would increase by a further £0.7m.

Details of leased assets included within property, plant and equipment are provided in note 34.

	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:				
At 1 January 2021	313.6	2,194.3	187.3	2,695.2
Acquisitions	0.5	–	–	0.5
Additions	33.7	99.3	8.3	141.3
Disposals	(18.4)	(125.4)	(7.6)	(151.4)
Assets transferred to held for sale	–	(8.4)	–	(8.4)
Reclassifications	(4.2)	0.7	–	(3.5)
Foreign exchange	(4.6)	(25.3)	(4.1)	(34.0)
At 31 December 2021	320.6	2,135.2	183.9	2,639.7
Depreciation:				
At 1 January 2021	140.8	1,186.8	134.4	1,462.0
Charge for the year	31.9	155.0	12.8	199.7
Disposals	(13.9)	(108.4)	(7.2)	(129.5)
Impairments	1.2	6.4	–	7.6
Assets transferred to held for sale	–	(7.4)	–	(7.4)
Reclassifications	(4.5)	0.8	(0.9)	(4.6)
Foreign exchange	(2.0)	(12.0)	(3.7)	(17.7)
At 31 December 2021	153.5	1,221.2	135.4	1,510.1
Net book value:				
At 31 December 2021	167.1	914.0	48.5	1,129.6
At 1 January 2021	172.8	1,007.5	52.9	1,233.2

16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 39, along with the addresses of their registered offices. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

		% equity interest	
Incorporated in England and Wales		**2022**	2021
National Express Limited	Operation of coach services	**100**	100
The Kings Ferry Limited	Operation of coach services	**100**	100
West Midlands Travel Limited	Operation of bus services	**100**	100

		% equity interest	
Incorporated in the United States		**2022**	2021
Durham School Services LP	Operation of school bus services	**100**	100
Petermann Ltd	Operation of school bus services	**100**	100
National Express Transit Corporation	Operation of transit bus services	**100**	100
National Express Transit Services Corporation	Operation of transit bus services	**100**	100
WeDriveU Inc.	Operation of shuttle services	**80**	70

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

16 Subsidiaries continued

Incorporated in Canada		% equity interest 2022	2021
Stock Transportation Limited	Operation of school bus services	100	100

Incorporated in Spain		% equity interest 2022	2021
General Tecnica Industrial S.L.U.[1]	Holding company for operating companies		
NEX Continental Holdings S.L.	Holding company for operating companies	100	100

Incorporated in Morocco		% equity interest 2022	2021
Groupe Alsa Transport S.A.	Operation of bus services	100	100
Transport de Voyageurs en Autocar Maroc S.A.	Operation of bus services	100	100
Alsa Tanger S.A.	Operation of bus services	100	100
Alsa City Agadir S.A.	Operation of bus services	100	100
Alsa Citybus Rabat-Salé-Temara	Operation of bus services	51	51
Alsa Al Baida S.A	Operation of bus services	100	100

Incorporated in Germany		% equity interest 2022	2021
National Express Rail GmbH	Operation of train passenger services	100	100

1 The main holding companies of the ALSA Group

17 Non-current financial assets

	2022 £m	2021 £m
Financial assets at fair value through Other Comprehensive Income – unlisted ordinary shares	**16.8**	13.9
Derivative financial instruments – fuel derivatives	7.4	9.1
Derivative financial instruments – cross currency swaps	2.7	9.6
Derivative financial instruments included in non-current assets	**10.1**	18.7
Total non-current financial instruments	**26.9**	32.6
Derivative financial instruments – fuel derivatives	12.5	20.3
Derivative financial instruments – interest rate derivatives	–	0.1
Derivative financial instruments – cross currency swaps	8.0	2.4
Derivative financial instruments – foreign exchange derivatives	17.2	8.2
Derivative financial instruments included in current assets	**37.7**	31.0

Further information on the Group's use of derivatives is included in note 31.

Financial assets at fair value through Other Comprehensive Income

	2022 £m	2021 £m
Fair value:		
At 1 January	13.9	12.9
Additions in the year	0.4	0.2
Disposals in the year	(0.5)	–
Fair value movement in the year	1.7	1.2
Foreign exchange	1.3	(0.4)
At 31 December	**16.8**	13.9

17 Non-current financial assets continued

The principal financial assets at fair value through Other Comprehensive Income are as follows:

Name	Segment	2022 Proportion held %	2021 Proportion held %
Metros Ligeros de Madrid, S.A.	ALSA	**15**	15
Transit Technologies Holdco	North America	**8.8**	8.8
Other small investments within ALSA	ALSA	**1–16**	1–16

Financial assets at fair value through Other Comprehensive Income comprise holdings in equity shares of non-listed companies. The Group elected to designate the non-listed equity investments at fair value through Other Comprehensive Income as the Group considers these investments to be strategic in nature.

The fair value measurement of non-listed equity investments is categorised within Level 3 (i.e. the fair values are determined by reference to significant unobservable inputs), with the fair value of the two most significant investments totalling £15.9m at 31 December 2022 (2021: £13.9m). For the first of these, the fair value was determined using recent earnings. A 10% increase/(decrease) in earnings would result in a £1.0m increase/(decrease) respectively in the fair value of the investment. For the second investment, the fair value was determined using an estimate of the discounted future cash flows. Future cash flows are estimated based on inputs including passenger growth, consumer price inflation and operating margin. The fair value is most sensitive to changes in inflation assumptions. A 2% increase in inflation would result in a £5.4m increase in fair value, and a 2% decrease in inflation would result in a £4.5m decrease in the fair value of the investment.

No dividends were received from the investments during 2022 (2021: £nil).

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2022 £m	2021 £m
Joint ventures	**8.4**	9.0
Associates	**5.5**	4.7
Total investments accounted for under the equity method	**13.9**	13.7

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2022 £m	2021 £m
Share of joint venture's (loss)/profit	**(0.4)**	0.1
Share of associates' loss	**–**	(1.1)
Total share of results from associates and joint ventures	**(0.4)**	(1.0)

(a) Investments in joint ventures

The Group has one interest in a joint venture as follows:

Name	Country of registration	Activity	Proportion held % 2022	Proportion held % 2021
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	**50**	50

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

18 Investments accounted for using the equity method continued

The summarised financial information for the joint venture is set out below:

	Bahrain Public Transport Company W.L.L.	
Share of the joint venture's Balance Sheet and results	2022 £m	2021 £m
Non-current assets	4.7	8.0
Current assets	6.2	5.4
Share of gross assets	10.9	13.4
Non-current liabilities	(0.7)	(0.8)
Current liabilities	(1.8)	(3.6)
Share of gross liabilities	(2.5)	(4.4)
Net assets	**8.4**	**9.0**
Revenue	6.0	5.0
Operating profit	(0.1)	0.5
(Loss)/profit after tax	(0.4)	0.1
(Loss)/profit for the year and total comprehensive income	**(0.4)**	**0.1**

A reconciliation of the above summarised information to the carrying amount in the Group's Financial Statements is as follows:

	Bahrain Public Transport Company W.L.L.	
	2022 £m	2021 £m
Group share of net assets of the joint venture	8.4	9.0
Carrying amount	8.4	9.0
Dividends received from the joint venture	1.1	1.0

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
ALSA associates	Spain	17–50
North America associates	North America	20

ALSA's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations. North America associates include a start-up company offering app-based rideshare and childcare services in the San Francisco area and a software company which provides scheduling, dispatch and time management functions in the student transportation sector.

The summarised aggregated financial information for individually immaterial associates is set out below:

	2022 £m	2021 £m
Share of operating loss	–	(1.1)
Share of loss for the year and total comprehensive income and expenditure	–	(1.1)

19 Business combinations, disposals and assets held for sale

(a) Acquisitions – ALSA

During the year, the ALSA division acquired both 100% control of Vitalia, a provider of paratransit services (Madrid, Spain) and the remaining 70% control of Sevirama, a touristic bus and regional concession provider (Sevilla, Spain).

The provisional fair values, along with final fair value adjustments in respect of the acquisition of Transportes Rober group acquired during 2021, are presented in aggregate below:

	£m
Intangibles	4.8
Property, plant and equipment	1.5
Inventory	0.1
Trade and other receivables	2.4
Cash and cash equivalents	0.4
Borrowings	(1.7)
Trade and other payables	(4.5)
Deferred tax liability	(0.9)
Net assets acquired	2.1
Goodwill	4.7
Total consideration	6.8
Represented by:	
Cash consideration	5.2
Deferred consideration	1.6
	6.8

As permitted by IFRS 3 Business Combinations, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

Trade and other receivables had a fair value and a gross contracted value of £2.4m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £4.7m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our operations in ALSA, along with growth benefits associated with entry into the paratransit sector and further growth within the touristic and regional concession market in Sevilla. None of the goodwill recognised is expected to be deductible for income tax purposes.

During the year the fair value adjustments relating to the intangibles acquired in 2021 as part of the Transportes Rober Group in 2021 were finalised. This resulted in an increase in the fair value of intangibles acquired, a corresponding deferred tax liability, and a reduction in goodwill of £3.5m.

Included in the consideration shown above is contingent consideration of £1.6m. The Group is required to pay contingent consideration upon pre-determined revenue thresholds being met up to 2023 and other post-closing conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £1.6m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £7.4m of revenue and £0.2m profit to the Group's result for the period between acquisition and the balance sheet date. Had the acquisition been completed on the first day of the financial year, the Group's revenue would have been £2,812.3m and the Group's statutory operating loss would have been £158.2m.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

19 Business combinations, disposals and assets held for sale continued

(b) Acquisitions – further information

Deferred consideration of £3.2m was paid in the period relating to acquisitions in ALSA in earlier years. Total cash outflow in the period from acquisitions in the ALSA division was £8.0m, comprising consideration for current year acquisitions of £5.2m and deferred consideration of £3.2m, less cash acquired in the businesses of £0.4m.

In North America deferred consideration of £0.5m was paid in the period relating to acquisitions in earlier years. Transaction costs of £0.1m were incurred in the period to 31 December 2022 (2021: £0.1m).

During the year to 31 December 2022, the movement in the Group's carrying value of goodwill principally relates to the acquisition of Vitalia.

The Group measures deferred contingent consideration at fair value through profit and loss and by reference to significant unobservable inputs, i.e. classified as Level 3 in the fair value hierarchy. The significant unobservable inputs used to determine the fair value of the contingent purchase consideration are typically forecast earnings or estimating the likelihood that contracts will be renewed over a fixed period. The fair value movement in deferred contingent consideration in the year is as follows:

	2022 £m	2021 £m
Fair value:		
At 1 January	13.4	28.8
Additions in the year	1.6	5.6
Payments during the year	(3.7)	(13.0)
Fair value movement in the year	(0.4)	(7.9)
Foreign exchange	0.8	(0.1)
At 31 December	11.7	13.4

(c) Disposals

The Group disposed of several subsidiaries during the year, no cash was received for the disposals of these companies, nor a gain or loss recognised in the Income Statement.

(d) Assets held for sale

In ALSA, a building with a carrying value of £18.6m (2021: £17.6m) has met the held for sale IFRS 5 criteria and been recognised within current assets. Included in the 31 December 2021 balance are also public service vehicles in the UK with a carrying value of £1.0m.

20 Non-current assets – trade and other receivables

	2022 £m	2021 £m
Contract assets	145.3	128.1
Prepayments	12.0	6.7
Other receivables	16.2	12.3
	173.5	147.1

Contract assets have increased primarily in North America due to the recognition of infrastructure assets for public service vehicles where the concession grantor guarantees the contract performance in accordance with IFRIC 12 Service Concession Arrangements. Note 37 includes further details of the Group's service concession arrangements. In addition, contract assets includes amounts in Germany and ALSA that are expected to be settled after 12 months.

Other receivables includes £5.5m (2021: £5.5m) of property disposal proceeds that are payable to the Group on vacant possession and £5.4m (2021: £5.0m) of insurance recoveries.

21 Inventories

	2022 £m	2021 £m
Raw materials and consumables	32.4	28.8

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

	2022 £m	2021 £m
Trade receivables	257.5	190.5
Grant receivables	47.5	58.0
Contract assets	131.8	97.1
Amounts due from associates and joint ventures (note 36)	2.1	3.2
Amounts due from other related parties (note 36)	0.6	1.2
Trade and grant receivables and contract assets	439.5	350.0
Less: provision for impairment of receivables (note 30)	(43.2)	(39.3)
Trade and grant receivables and contract assets	396.3	310.7
Other receivables	102.0	78.1
Prepayments	55.4	38.1
Accrued income	7.0	1.4
	560.7	428.3

Trade receivables excludes £62.5m (2021: £48.5m) that was subject to factoring arrangements without recourse and for which no customer payment had been received at year end.

Contract assets have increased primarily in German Rail due to the additional contract which was awarded at the end of the prior year. The increased levels of activity have led to a corresponding increase in contract assets. In addition, in ALSA and North America contract assets have increased comparatively to the prior year due to higher levels of services performed at the end of the year.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Information about the credit risk exposure of the Group's trade receivables is shown in note 30.

23 Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank and in hand	171.7	268.1
Overnight deposits	6.6	0.4
Other short-term deposits	113.5	239.9
Cash and cash equivalents	291.8	508.4

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The prior year cash and cash equivalents included £11.9m which was subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. These amounts held were not readily available for other purposes within the Group.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

23 Cash and cash equivalents continued

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents and bank overdrafts in notional cash pooling arrangements are presented net. Bank overdrafts form an integral part of the Group's cash management strategy as they arise from the Group's cash pooling arrangement with its bank. Net cash and cash equivalents comprise as follows:

	2022 £m	2021 £m
Cash at bank and in hand	291.8	508.4
Bank overdrafts (note 28)	(58.7)	(132.2)
Net cash and cash equivalents	**233.1**	376.2

24 Current liabilities – trade and other payables

	2022 £m	2021 £m
Trade payables	296.5	209.0
Contract liabilities	107.2	130.8
Amounts owed to associates and joint ventures (note 36)	0.4	0.5
Amounts owed to other related parties (note 36)	1.5	1.3
Other tax and social security payable	43.8	39.7
Accruals and deferred income	251.8	230.2
Other payables	128.3	158.5
Put liability	45.0	17.7
	874.5	787.7

Trade payables are normally settled on 30 to 60 day terms and other payables have an average term of four months.

Contract liabilities represents amounts advanced by customers where the Group has not yet met the performance obligation to allow the recognition of the balance as revenue, for example season ticket or advance ticket sales which cross over the year end date or payments on account. It also includes amounts outstanding with respect to the purchase of infrastructure assets under IFRIC 12 arrangements. Of the £107.2m contract assets at the end of 2022, £69.6m will be recognised in revenue within the next 12 months as the Group completes its performance obligations. The remaining liability of £37.6m relates to payments for IFRIC 12 infrastructure assets which will be made within the next 12 months. Contract liabilities have decreased year-on-year in ALSA following payments made for liabilities associated with the purchase of infrastructure assets, and increased in Germany, due to higher levels of payments on account having been receipted prior to completion of our performance obligations. During the year the Group has recognised revenue of £34.2m which was included in contract liabilities at the end of 2021.

Other payables includes £87.3m (2021: £103.0m) for the purchase of property, plant and equipment. The Group settles these amounts in accordance with the supplier's standard payment terms, typically one year.

Other payables also includes deferred fixed asset grants from government or other public bodies of £2.3m (2021: £2.8m), deferred expense-related grants of £7.1m (2021: £39.0m) and £5.3m (2021: £2.4m) of deferred contingent consideration for businesses acquired, of which £0.3m (2021: £nil) relates to businesses acquired in the year (note 19).

The put liability has been derived from an internal valuation, using forecast earnings over the exercise period (consistent with the base case projections used for going concern). The first tranche of options, over 10% of the equity of WeDriveU, was settled during 2021. The second tranche, for a further 10% of the equity, was exercised during 2021 and settled during 2022.

The remaining option, over 20% of equity, was exercised at the final opportunity, being 31 December 2022. The final element of the liability is expected to be paid within the next 12 months.

25 Other non-current liabilities

	2022 £m	2021 £m
Deferred fixed asset grants	8.9	19.3
Contract liabilities	89.9	44.8
Other payables	22.4	19.6
Put liability	–	40.1
	121.2	123.8

Contract liabilities have primarily increased year-on-year in ALSA and North America due to liabilities associated with the purchase of IFRIC 12 infrastructure assets which are expected to be settled over the life of the contract.

Other payables includes £6.4m (2021: £11.0m) of deferred contingent consideration for businesses acquired, of which £1.3m (2021: £5.6m) relates to businesses acquired in the year (note 19), expense related grants of £15.3m (2021: £7.3m) and £nil (2021: £1.3m) for the purchase of property, plant and equipment.

26 Provisions

	Claims provision £m	Onerous contract provisions	Other £m	Total £m
At 1 January 2022	84.4	39.7	33.7	157.8
Charged to the Income Statement	34.9	34.6	2.4	71.9
Amounts settled through insurers	(6.8)	–	–	(6.8)
Utilised in the year	(46.4)	(36.8)	(13.1)	(96.3)
Unwinding of discount	3.4	–	–	3.4
Exchange difference	7.9	1.1	2.3	11.3
At 31 December 2022	77.4	38.6	25.3	141.3
Current 31 December 2022	50.2	12.3	13.1	75.6
Non-current 31 December 2022	27.2	26.3	12.2	65.7
	77.4	38.6	25.3	141.3
Current 31 December 2021	47.6	24.8	16.6	89.0
Non-current 31 December 2021	36.8	14.9	17.1	68.8
	84.4	39.7	33.7	157.8

Claims provision

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

Onerous contracts

Provisions for onerous contracts relate to loss making contracts in ALSA, North America, Germany and UK. With the exception of the provision in Germany, the remaining amounts are expected to be utilised within the next 1-2 years. The provision in Germany is in respect of the Rhine-Ruhr Express contract. The Group's latest assessment identified a further reduction in the contracts' profitability, and, accordingly, a provision of £21.9m (2021: £21.2m), following utilisation of £9.6m during the year, was recorded at the end of the year to cover the losses associated with running the contract for the remainder of the term (see note 5 for further details).

Other

Other includes provisions for potential reclaim of subsidies in ALSA of £12.2m (2021: £16.0m) all of which is expected to be utilised over the next three years, and restructuring provisions in the UK, ALSA and North America of £3.1m (2021: £6.4m), all of which are expected to be utilised within the next 12 months.

When the effect is material, the provisions are discounted to their net present value.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

27 Deferred tax

	2022 £m	(Restated) 2021[1] £m
At 1 January	**144.9**	134.0
Credit to the Income Statement (note 11a)	**8.7**	27.1
Charge to Other Comprehensive Income or Equity (note 11b)	**(1.3)**	(7.0)
Exchange differences	**7.2**	0.9
Acquired in business combinations (note 19)	**(0.9)**	(1.0)
Acquired in business combinations – adjustment to goodwill (note 14)	**–**	(9.1)
Net deferred tax asset at 31 December	**158.6**	144.9

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

	2022			
Deferred tax assets	**UK £m**	**North America £m**	**Germany £m**	**Total £m**
Accelerated tax depreciation	**(11.5)**	**(87.6)**	**–**	**(99.1)**
Losses carried forward	**88.8**	**125.5**	**26.9**	**241.2**
Pensions	**9.8**	**–**	**–**	**9.8**
Other short-term temporary differences	**1.2**	**48.3**	**(15.9)**	**33.6**
	88.3	**86.2**	**11.0**	**185.5**

	(Restated) 2021[1]			
Deferred tax assets	UK £m	North America £m	Germany £m	Total £m
Accelerated tax depreciation	(12.9)	(61.5)	–	(74.4)
Losses carried forward	77.7	97.2	20.0	194.9
Pensions	23.0	–	–	23.0
Other short-term temporary differences	(2.7)	29.9	(11.3)	15.9
	85.1	65.6	8.7	159.4

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

	2022		
Deferred tax liabilities	**Canada £m**	**Spain £m**	**Total £m**
Accelerated tax depreciation	**(5.9)**	**(110.0)**	**(115.9)**
Losses carried forward	**2.3**	**18.4**	**20.7**
Intangibles and deductible goodwill	**–**	**24.7**	**24.7**
Taxation credits	**–**	**1.3**	**1.3**
Other short-term temporary differences	**1.1**	**41.2**	**42.3**
	(2.5)	**(24.4)**	**(26.9)**

	(Restated) 2021[1]		
Deferred tax liabilities	Canada £m	Spain £m	Total £m
Accelerated tax depreciation	(6.2)	(102.6)	(108.8)
Losses carried forward	2.7	19.4	22.1
Intangibles and deductible goodwill	–	27.2	27.2
Taxation credits	–	1.8	1.8
Other short-term temporary differences	1.2	42.0	43.2
	(2.3)	(12.2)	(14.5)

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

27 Deferred tax continued

The Group has recognised deferred tax assets across the UK, North America, Spanish and German businesses amounting to £373.7m (2021 restated: £328.1m) that are considered to be able to be offset against the Group's future taxable profits. Management has based its assessment on the latest forecast budget approved by the Board which reflects improved trading performance across all divisions largely due to the expansion of the business along with a restructuring of intra-group finance and management charges. Further details of management's assessment are provided on 193.

28 Borrowings and derivative financial liabilities

	2022 £m	2021 £m
Non-current		
Bank loans	113.4	90.8
Bonds	221.3	640.9
Lease liabilities	139.7	168.7
Private placements	411.9	393.9
Non-current borrowings	886.3	1,294.3
Fuel derivatives	4.8	0.2
Cross currency swaps	–	5.2
Interest rate derivatives	17.6	5.7
Non-current derivative financial instruments	22.4	11.1
Non-current borrowings and derivative financial liabilities	908.7	1,305.4
Current		
Bank overdrafts	58.7	132.2
Bank loans	82.4	100.3
Bonds	400.1	–
Lease liabilities	58.0	67.0
Accrued interest on borrowings	2.8	2.8
Current borrowings	602.0	302.3
Fuel derivatives	12.6	0.5
Cross currency swaps	15.6	4.5
Interest rate derivatives	9.2	0.7
Foreign exchange derivatives	4.5	18.8
Current derivative financial instruments	41.9	24.5
Current borrowings and derivative financial liabilities	643.9	326.8

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

	2022 £m	Maturity	Effective interest rate	2021 £m	Maturity	Effective interest rate
Bank overdrafts	58.7	–	–	132.2	–	–
Bank overdrafts	58.7			132.2		
7-year Sterling bond	400.1	November 2023	2.54%	400.1	November 2023	2.54%
9-year Sterling bond[1]	221.3	November 2028	GBP SONIA + 1.98%	240.8	November 2028	GBP SONIA + 1.98%
Bonds	621.4			640.9		
European bank loans at fixed rate	–	–	–	2.4	2022–2025	2.03%
European bank loans at floating rate	1.8	2023–2025	EURIBOR + 1.05%	10.8	2022–2025	EURIBOR + 0.86%
Moroccan bank loans	69.5	2023–2029	4.20%	26.0	2022–2026	4.28%
US asset backed bank loans	74.3	2023–2028	2.55%	74.0	2022–2029	2.28%
Advance factoring liabilities	50.2	2023	3.45%	77.9	2022	0.99%
Bank loans	195.8			191.1		
US Dollar leases at fixed rate	103.7	2023–2028	2.99%	122.7	2022–2028	3.03%
European leases at fixed rate	14.8	2023–2030	3.46%	19.7	2022–2035	1.43%
European leases at floating rate	1.1	2023–2024	EURIBOR + 0.90%	2.9	2022–2024	EURIBOR + 1.00%
Sterling leases at fixed rate	78.1	2023–2108	1.84%	90.4	2022–2037	3.02%
Leases	197.7			235.7		
Private placements	411.9	2027–2032	1.92%	393.9	2027–2032	1.92%
Accrued interest – Bonds	2.1			2.1		
Accrued interest – Private placement	0.7			0.7		
Accrued interest on borrowings	2.8			2.8		
Total	1,488.3			1,596.6		

1 Bond is shown as floating as there is a fixed to floating interest rate swap in place until November 2025. Subsequent to this the bond reverts to a fixed rate of 2.38% until maturity.

The Group currently has £527.0m of unsecured committed revolving credit facilities, of which £32.0m matures in 2023, £15.0m matures in 2024 and £480.0m matures in 2025. During the year, the Group entered into a new £32.0m unsecured committed revolving credit facility which matures in 2023. This facility contains a margin linked to ESG targets, being emissions reduction and additional number of ZEVs in service or on order.

At 31 December 2022, there was £nil (2021: £nil) drawn down on the facilities, with £1.2m of capitalised deal fees remaining, which are classified within other receivables.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under those facilities becoming immediately repayable. These covenants specify maximum covenant net debt to EBITDA and minimum EBITDA to net interest payable. In light of the impact of the pandemic on EBITDA generation, the Group renegotiated its covenants to obtain waivers or amendments on its gearing and interest cover covenant tests.

The gearing covenant was amended to (no greater than) 5.0x for both the 30 June 2022 and 31 December 2022 tests, with no amendment to the interest cover covenant. From 2023 onwards, the gearing covenant reverts to the pre-amended test of 3.5x.

29 Interest-bearing borrowings continued

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits, including other debt receivables and finance lease receivables:

As at 31 December 2022	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(81.5)	(24.5)	(27.4)	(23.1)	(21.0)	(16.5)	(194.0)
Bonds	(400.1)	–	–	–	–	–	(400.1)
Finance lease receivables	4.3	3.1	1.5	0.5	0.6	4.0	14.0
Lease liabilities	(57.2)	(34.8)	(22.9)	(17.3)	(8.2)	(55.5)	(195.9)
Private placements	–	–	–	–	(239.0)	(172.9)	(411.9)
Floating rate							
Cash assets	291.8	–	–	–	–	–	291.8
Other debt receivables	2.6	0.2	–	–	–	–	2.8
Bank overdrafts	(58.7)	–	–	–	–	–	(58.7)
Bank loans	(0.9)	(0.9)	–	–	–	–	(1.8)
Bonds	–	–	–	–	–	(221.3)	(221.3)
Lease liabilities	(0.8)	(0.5)	(0.1)	(0.1)	(0.1)	(0.2)	(1.8)

As at 31 December 2021	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(99.4)	(17.4)	(16.0)	(16.6)	(13.1)	(17.8)	(180.3)
Bonds	–	(400.1)	–	–	–	–	(400.1)
Finance lease receivables	4.1	3.8	3.1	1.0	0.5	4.3	16.8
Lease liabilities	(65.5)	(46.2)	(31.9)	(17.1)	(13.3)	(58.8)	(232.8)
Private placements	–	–	–	–	–	(393.9)	(393.9)
Floating rate							
Cash assets	508.4	–	–	–	–	–	508.4
Other debt receivables	0.8	0.2	–	–	–	–	1.0
Bank overdrafts	(132.2)	–	–	–	–	–	(132.2)
Bank loans	(0.9)	(1.0)	(8.7)	(0.1)	(0.1)	–	(10.8)
Bonds	–	–	–	–	–	(240.8)	(240.8)
Lease liabilities	(1.5)	(1.0)	(0.4)	–	–	–	(2.9)

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

30 Financial risk management objectives and policies

Financial risk factors and management

The Group is exposed to risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Chief Financial Officer and the Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Chief Financial Officer and the Audit Committee on its activities.

Foreign currency

The Group has major foreign operations in the USA, Canada, Spain and Morocco, and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets.

The Group seeks to reduce this foreign currency exchange movement risk by using a combination of foreign currency borrowings and entering into derivative financial instruments, such as cross currency interest rate swaps and foreign exchange forward contracts.

At the year end, the Group had outstanding foreign exchange derivatives for net investment purposes of USD 30.0m, and cross currency interest rate swaps of USD 290.0.0m, CAD 46.0m and EUR 376.7m. These foreign exchange forward contracts and cross currency interest rate swaps are derivative financial instruments designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

The Group expects changes in value of both the hedging instrument and the hedged net investment to offset and systematically move in opposite directions and that there will be a 1:1 hedge ratio, given that the critical terms are closely aligned.

The Group applies the 'forward rate method' under IFRS 9 such that the effective portion of changes in fair value of forward points are retained in Other Comprehensive Income. The currency basis is excluded from the hedging instrument, and the actual currency basis on inception of the trade is treated as the 'cost of hedging' and recognised in profit or loss over the life of the hedging relationship on a straight-line basis. Any changes in the currency basis since inception will be deferred into a separate component of Other Comprehensive Income.

In these hedge relationships, the main source of ineffectiveness results from movements in the Group's or the derivative counterparty's credit spread resulting in fair value movements in the hedging instrument that are not reflected in the fair value movements of the hedged net investment.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of the derivative contracts. These movements would be offset by an opposite movement in the translated value of the related portion of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £56.4m (2021: £27.8m).

		2022		2021	
As at 31 December	Strengthening/ (weakening) in currency	**Effect on (loss)/profit before tax £m**	**Effect on translation reserve £m**	Effect on (loss)/profit before tax £m	Effect on translation reserve £m
US Dollar	10%	**–**	**(46.9)**	–	(37.0)
Euro	10%	**–**	**(8.8)**	–	12.2
Canadian Dollar	10%	**–**	**(0.7)**	–	(3.0)
US Dollar	(10)%	**–**	**46.9**	–	37.0
Euro	(10)%	**–**	**8.8**	–	(12.2)
Canadian Dollar	(10)%	**–**	**0.7**	–	3.0

30 Financial risk management objectives and policies continued

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year-on-year impact of interest rate fluctuations over the medium term. To achieve the desired fixed:floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2022, the proportion of the Group's gross debt at floating rates was 19% (2021: 18%).

The Group expects changes in value of both the hedging instrument and the hedged transaction to offset and systematically move in opposite directions and that there will be a 1:1 hedge ratio, given that the critical terms are closely aligned.

In these hedge relationships, the main sources of ineffectiveness are:

- movement in the Group's and the derivative counterparty's credit spread, resulting in fair value movements in the hedging instrument that are not reflected in fair value movements in the hedged transaction; and
- any changes in the critical terms of the hedged transaction such that they no longer match those of the hedging instrument.

During the year, inflation and fiscal policy have impacted the interest rate on the floating portion of debt. The table overleaf demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments were increased by 100 basis points, it is estimated that the Group's profit before taxation would decrease by approximately £2.5m relating to Sterling. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2022.

		2022		2021	
As at 31 December	Increase/ (decrease) in basis points	Effect on (loss)/profit before tax £m	Effect on reserves £m	Effect on (loss)/profit before tax £m	Effect on reserves £m
Sterling	100	(2.2)	–	(0.3)	–
US Dollar	100	–	–	–	–
Euro	100	–	–	(0.1)	–
Sterling	(100)	2.2	–	0.3	–
US Dollar	(100)	–	–	–	–
Euro	(100)	–	–	0.1	–

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year-on-year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives. At 31 December 2022, the Group had hedged approximately 100% of its 2023 expected usage, 56% of its expected usage in 2024 and 7% of its expected usage in 2025.

Fuel derivatives are designated as cash flow hedges, with the effective portion of changes in fair value of the hedging instrument being recorded within a separate component of equity, and recycled to the Income Statement as the hedged item impacts the Income Statement.

Risk component hedging has been adopted under IFRS 9, such that the hedged price risk component of the purchased fuel matches that of the underlying derivative commodity. The hedged risk component, being the commodity index of each location where fuel is purchased, is considered to be separately identifiable and reliably measurable. The use of commodity derivatives to hedge the fuel exposure is expected to result in a 1:1 hedge ratio as the notional value of the hedging instrument is consistent with the designated amount of the underlying exposure.

In these hedge relationships, the main source of ineffectiveness is changes in the actual settlement date and/or settlement amount.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

30 Financial risk management objectives and policies continued

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and, accordingly, on the Group's profit before tax and the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 10% increase or decrease in all prices would have been £20.2m at 31 December 2022. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

		2022		2021	
As at 31 December	Increase/ (decrease) in price	**Effect on (loss)/ profit before tax £m**	**Effect on hedging reserve £m**	Effect on (loss)/profit before tax £m	Effect on hedging reserve £m
Sterling denominated diesel	10%	**–**	**6.3**	–	3.6
US Dollar denominated diesel	10%	**–**	**3.7**	–	2.2
US Dollar denominated gasoline	10%	**–**	**1.3**	–	1.5
Euro denominated diesel	10%	**–**	**8.9**	–	4.6
Sterling denominated diesel	(10%)	**–**	**(6.3)**	–	(3.6)
US Dollar denominated diesel	(10%)	**–**	**(3.7)**	–	(2.2)
US Dollar denominated gasoline	(10%)	**–**	**(1.3)**	–	(1.5)
Euro denominated diesel	(10%)	**–**	**(8.9)**	–	(4.6)

Credit risk

(i) Risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and divisional management, and arises from cash and cash equivalents, derivative financial instruments and credit exposures to amounts due from outstanding receivables and committed transactions. The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets, which comprises trade and other receivables of £432.9m (2021: £344.7m), cash and cash equivalents of £291.8m (2021: £508.4m), finance lease receivables of £14.0m (2021: £16.8m), investments of £13.9m (2021: £13.9m) and derivative financial instruments of £47.8m (2021: £49.7m); as well as its contract assets of £277.1m (2021: £225.2m).

Credit risk is primarily attributable to trade and other receivables and is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are local public (or quasi-public) bodies, including school boards in North America, municipal authorities in Spain and Morocco, West Midlands Combined Authority in the UK, and regional authorities in Germany. The Group does not consider these counterparties to pose a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group continues to monitor the economic environment and has taken actions to limit its exposure to customers that are severely impacted. As a minimum, the Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

Net cash and cash equivalents and derivative financial instruments are held with counterparties with a minimum of BBB- credit rating assigned by international credit rating agencies. The Group Treasury Committee continually assesses the credit risk of each counterparty, including monitoring credit ratings and tier 1 capital of each counterparty. Additionally, Group policy sets limits on counterparty exposure according to credit ratings.

30 Financial risk management objectives and policies continued

(ii) Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables (including grant receivables and contract assets) at each reporting date. Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The characteristics used to determine the groupings of customer segments are those that have the greatest impact on the likelihood of default. Given the diversity of characteristics of different customer segments, the Group applies different definitions of default for different groups of customers. The risk of default increases once the receivable is past due and increases in 30 day increments.

The majority of the Group's customers are governmental or similar bodies and hence there are not considered to be any issues with the recoverability of these receivables. Further, there have not been any significant issues with the recoverability of non-governmental receivables.

The table below shows the credit risk exposure on the Group's trade receivables as at 31 December 2022:

			Days past due			
31 December 2022	**Carrying amount £m**	**Current £m**	**Less than 30 days £m**	**Between 30 and 60 days £m**	**Between 61 and 90 days £m**	**Over 90 days £m**
Expected loss rate	7.4%	0.6%	2.5%	5.7%	5.0%	23.8%
Gross carrying amount – trade and grant receivables and contract assets (current and non-current)	584.8	344.9	36.0	21.1	24.2	158.6
Loss allowance	43.2	2.1	0.9	1.2	1.2	37.8

			Days past due			
31 December 2021	Carrying amount £m	Current £m	Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Expected loss rate	8.2%	0.7%	2.5%	2.3%	8.5%	21.9%
Gross carrying amount – trade and grant receivables and contract assets (current and non-current)	478.1	235.5	52.1	21.8	8.2	160.5
Loss allowance	39.3	1.7	1.3	0.5	0.7	35.1

Trade receivables over 90 days primarily comprises amounts due from public authorities in ALSA and receivables for school bus services in North America where amounts are settled on approval from the local governing bodies at the end of the school period. A loss provision of £37.8m (2021: £35.1m) is in place against these receivables. Given that these are predominantly ongoing contractual relationships and with public bodies, the Directors believe that the remaining amounts will be collected.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

30 Financial risk management objectives and policies continued

The closing loss allowance for trade receivables as at 31 December 2022 reconciles to the opening loss allowance as follows:

	2022 £m	2021 £m
At 1 January	**39.3**	46.3
Increase in loss allowance recognised in Income Statement during the year	**3.8**	6.4
Utilised in the year	**(2.2)**	(11.5)
Arising on acquisitions	**–**	0.1
Exchange difference	**2.3**	(2.0)
At 31 December	**43.2**	39.3

Trade receivables are written off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same item.

Impairment provisions in respect of cash and cash equivalents and finance lease receivables are also subject to the requirements of IFRS 9. As our cash and cash equivalents are held with counterparties with a minimum of BBB- credit rating, no impairment loss was identified at the reporting date. Similarly, no impairment loss was identified in relation to finance lease receivables.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

Funding for the Group is coordinated centrally by the treasury function and with the Group's forecast funding requirements and its debt facilities being reported to and monitored on an ongoing basis by the treasury function and formally via the monthly Treasury Committee. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12-month view, with minimum headroom of at least £300.0m maintained, taking into account market conditions and corporate activity, including acquisitions and organic growth plans. The minimum funding headroom assumes that factoring facilities are not available.

Short-term funding requirements are met through use of cash and cash equivalents and drawings under unsecured committed revolving credit facilities if required. Most of the Group's cash is held in the UK, the USA and Spain. In the UK the Group utilises a pooling arrangement with its main relationship bank to manage its cash on a net basis.

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. The prior year cash and cash equivalents included £11.9m which was subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. These amounts held were not readily available for other purposes within the Group.

The Group currently has £527.0m of unsecured committed revolving credit facilities, which mature between 2023 and 2025. During the year, the group entered into a new £32.0m unsecured committed revolving credit facility which matures in 2023. At 31 December 2022, there was £nil (2021: £nil) drawn-down on the facilities. The maximum draw down of the revolving credit facility during the year was £95.0m (2021: £nil), with no drawdowns in the prior year due to the additional liquidity facilities secured in the light of Covid-19, which matured during 2021.

Medium and long-term funding requirements are met through committed debt facilities as detailed in note 29.

30 Financial risk management objectives and policies continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 based on the contractual undiscounted cash flows, including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2022	Carrying amounts £m	Contractual cash flows £m	< 1 year £m	1-2 years £m	2-3 years £m	3-5 years £m	> 5 years £m
Non-derivative financial liabilities							
Bank overdrafts	(58.7)	(58.7)	(58.7)	–	–	–	–
Bank loans	(195.8)	(203.7)	(81.9)	(29.5)	(28.9)	(46.4)	(17.0)
Bonds	(621.4)	(693.6)	(414.6)	(5.9)	(5.9)	(11.9)	(255.3)
Lease liabilities	(197.7)	(202.1)	(64.2)	(37.6)	(21.1)	(25.5)	(53.7)
Private placements	(411.9)	(433.3)	(4.0)	(4.0)	(4.0)	(244.1)	(177.2)
Trade and other payables[1]	(765.0)	(765.0)	(757.9)	(7.1)	–	–	–
	(2,250.5)	(2,356.4)	(1,381.3)	(84.1)	(59.9)	(327.9)	(503.2)
Derivative financial liabilities							
Foreign exchange derivatives	(4.5)	(4.5)	(4.5)	–	–	–	–
Interest rate derivatives	(26.8)	(29.5)	(9.8)	(10.4)	(9.3)	–	–
Cross currency swaps	(15.6)	(13.4)	(13.4)	–	–	–	–
Fuel derivatives	(17.4)	(15.7)	(10.6)	(3.4)	(1.7)	–	–
	(64.3)	(63.1)	(38.3)	(13.8)	(11.0)	–	–

1 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense-related grants and deferred fixed asset grants

Year ended 31 December 2021	Carrying amounts £m	Contractual cash flows £m	< 1 year £m	1-2 years £m	2-3 years £m	3-5 years £m	> 5 years £m
Non-derivative financial liabilities							
Bank overdrafts	(132.2)	(132.2)	(132.2)	–	–	–	–
Bank loans	(191.1)	(196.2)	(100.6)	(19.9)	(25.9)	(31.5)	(18.3)
Bonds	(640.9)	(709.5)	(15.9)	(414.6)	(5.9)	(11.9)	(261.2)
Lease liabilities	(235.7)	(243.5)	(67.1)	(45.5)	(30.6)	(29.3)	(71.0)
Private placements	(393.9)	(420.5)	(3.9)	(3.9)	(3.9)	(7.7)	(401.1)
Trade and other payables[1]	(667.5)	(667.5)	(615.1)	(52.4)	–	–	–
	(2,261.3)	(2,369.4)	(934.8)	(536.3)	(66.3)	(80.4)	(751.6)
Derivative financial liabilities							
Foreign exchange derivatives	(18.8)	(18.8)	(18.8)	–	–	–	–
Interest rate derivatives	(6.4)	(6.5)	(0.6)	(2.1)	(2.1)	(1.7)	–
Cross currency swaps	(9.7)	(10.3)	(4.4)	0.3	0.3	0.3	(6.8)
Fuel derivatives	(0.7)	(0.7)	(0.4)	(0.2)	(0.1)	–	–
	(35.6)	(36.3)	(24.2)	(2.0)	(1.9)	(1.4)	(6.8)

1 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related grants and deferred fixed asset grants

30 Financial risk management objectives and policies continued

Capital risk management

The objective of capital management is to ensure that the Group is able to continue as a going concern while delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders.

The Group's capital structure consists of equity (refer to the Group Statement of Changes in Equity) and net debt (refer to note 39).

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Group Chief Financial Officer's review.

The Group also uses ROCE as a measure of its ability to drive better returns on the capital invested in the Group's operations, further details of which are provided in the Group Chief Financial Officer's review.

31 Financial instruments (including cash, trade receivables and payables)

Fair values

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. After initial fair value recognition, they are measured at amortised cost using the effective interest rate method. The fair value of these instruments approximates their carrying amounts, largely due to the short-term maturities.

Financial assets at fair value through Other Comprehensive Income relates to the Group's non-listed equity investments.

The Group's derivatives are measured at fair value. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value, with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement.

Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed of. For fair value hedges, all gains or losses are recognised in the Income Statement.

The fair value measurement of derivative instruments is categorised within Level 2 (i.e. the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, i.e. those that would be classified as Level 3 in the fair value hierarchy, other than the deferred contingent consideration disclosed in note 19 and financial assets at fair value through Other Comprehensive Income in note 17. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non- recurring fair value movements.

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the £250.0m bond. Consequently, the carrying value of the bond is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ from the fair value depending on movements in the Group's credit risk, movements in interest rates and unamortised fees. At 31 December 2022, the carrying value of the Group's bonds was £650.0m (2021: £650.0m) and compares with the fair value as presented in the table below.

All other liabilities, including the remaining bonds, private placements, leases, bank loans and trade and other payables (excluding contingent consideration) are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

31 Financial instruments (including cash, trade receivables and payables) continued

The following table illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2022:

Classification of financial instruments As at 31 December 2022	Assets and liabilities at amortised cost £m	At fair value through Other Comprehensive Income £m	Hedged item at fair value £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets						
Investments	–	16.8	–	–	–	16.8
Fuel derivatives	–	–	–	–	19.9	19.9
Cross currency swaps	–	–	–	–	10.7	10.7
Foreign exchange derivatives	–	–	–	16.4	0.8	17.2
Cash and cash equivalents	291.8	–	–	–	–	291.8
Other debt receivables	2.8	–	–	–	–	2.8
Finance lease receivables	14.0	–	–	–	–	14.0
Trade and other receivables[1]	432.9	–	–	–	–	432.9
	741.5	16.8	–	16.4	31.4	806.1
Liabilities						
Bank overdrafts	(58.7)	–	–	–	–	(58.7)
Bank loans	(195.8)	–	–	–	–	(195.8)
Bonds	(400.1)	–	(221.3)	–	–	(621.4)
Lease liabilities	(197.7)	–	–	–	–	(197.7)
Private placements	(411.9)	–	–	–	–	(411.9)
Fuel derivatives	–	–	–	–	(17.4)	(17.4)
Interest rate derivatives	–	–	–	(26.8)	–	(26.8)
Cross currency swaps	–	–	–	–	(15.6)	(15.6)
Foreign exchange derivatives	–	–	–	(4.5)	–	(4.5)
Trade and other payables[2]	(753.2)	–	–	(11.8)	–	(765.0)
	(2,017.4)	–	(221.3)	(43.1)	(33.0)	(2,314.8)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables

2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related grants and deferred fixed asset grants

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

31 Financial instruments (including cash, trade receivables and payables) continued

Classification of financial instruments As at 31 December 2021	Assets and liabilities at amortised cost £m	At fair value through Other Comprehensive Income £m	Hedged item at fair value £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets						
Investments	–	13.9	–	–	–	13.9
Fuel derivatives	–	–	–	–	29.4	29.4
Interest rate derivatives	–	–	–	0.1	–	0.1
Cross currency swaps	–	–	–	–	12.0	12.0
Foreign exchange derivatives	–	–	–	6.1	2.1	8.2
Cash and cash equivalents	508.4	–	–	–	–	508.4
Finance lease receivables	16.8	–	–	–	–	16.8
Trade and other receivables[1]	344.7	–	–	–	–	344.7
	869.9	13.9	–	6.2	43.5	933.5
Liabilities						
Bank overdrafts	(132.2)	–	–	–	–	(132.2)
Bank loans	(191.1)	–	–	–	–	(191.1)
Bonds	(400.1)	–	(240.8)	–	–	(640.9)
Lease liabilities	(235.7)	–	–	–	–	(235.7)
Private placements	(393.9)	–	–	–	–	(393.9)
Fuel derivatives	–	–	–	–	(0.7)	(0.7)
Interest rate derivatives	–	–	–	(6.4)	–	(6.4)
Cross currency swaps	–	–	–	–	(9.7)	(9.7)
Foreign exchange derivatives	–	–	–	(16.0)	(2.8)	(18.8)
Trade and other payables[2]	(654.1)	–	–	(13.4)	–	(667.5)
	(2,007.1)	–	(240.8)	(35.8)	(13.2)	(2,296.9)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables

2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related-grants and deferred fixed asset grants

Other receivables and other payables are to be settled in cash in the currency they are held in.

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2022, there was no objective evidence that would have necessitated the impairment of loans and receivables except the provision for impairment of receivables (see note 30).

Embedded derivatives

In accordance with IFRS 9 Financial Instruments, the Group has reviewed its contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value at the end of each reporting period. In line with IFRS 9, the Group classifies hedges as:

(i) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction; and (iii) hedges of a net investment in a foreign operation.

In 2022, the Group applied cash flow hedge accounting to hedge fuel price risk and to hedge foreign currency risk on a US dollar denominated private placement. The Group applied net investment hedge accounting to hedge net investments in its North American and European foreign operations.

31 Financial instruments (including cash, trade receivables and payables) continued

The movement on derivative financial instruments is detailed below:

	At fair value through profit and loss		Derivatives used for hedging			
	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net (liability)/asset at 1 January 2022	(6.3)	(9.9)	28.7	2.3	(0.7)	14.1
Movements through Income Statement	(20.5)	(17.6)	(70.1)	(3.0)	–	(111.2)
Movements through Other Comprehensive Income	–	–	70.1	(32.6)	(5.9)	31.6
Cash settlements	–	39.4	(26.2)	28.4	7.4	49.0
Net asset/(liability) at 31 December 2022	**(26.8)**	**11.9**	**2.5**	**(4.9)**	**0.8**	**(16.5)**

	At fair value through profit and loss			Derivatives used for hedging			
	Fuel swaps £m	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net (liability)/asset at 1 January 2021	(2.4)	1.5	4.6	(17.7)	(3.5)	30.2	12.7
Movements through Income Statement	2.4	(7.8)	(5.7)	(4.4)	(1.9)	–	(17.4)
Movements through Other Comprehensive Income	–	–	–	50.8	7.7	4.2	62.7
Cash settlements	–	–	(8.8)	–	–	(35.1)	(43.9)
Net asset/(liability) at 31 December 2021	–	(6.3)	(9.9)	28.7	2.3	(0.7)	14.1

A reconciliation of movements in the cash flow hedge reserve, cost of hedging reserve and net investment hedge reserve is shown in note 32.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

31 Financial instruments (including cash, trade receivables and payables) continued

A summary of the Group's hedging activities is as follows:

Hedge type	Net investment hedge	Fair value hedge	Cash flow hedge	Cash flow hedge
Risk	Foreign currency risk	Foreign currency risk	Interest Rate risk	Commodity price risk
Nominal amount of hedging	CAD 46.0 USD 320.0 EUR 616.7	USD 81.0	GBP 250.0	367.2m litres
Ageing of nominal amount:				
< 1 year	CAD 46.0 USD 320.0 EUR 376.7	–	–	220.3m litres
1-2 years	–	–	–	110.6m litres
2-5 years	EUR 43.0	USD 81.0	GBP 250.0	36.2m litres
> 5 years	EUR 197.0	–	–	–
Average hedged rate		2.43%	GBP SONIA + 1.98%	£0.58/litre
Maturity	2023 – 2032	2027	2025	2023 – 2025
Carrying amount of hedging instruments (£m)				
Assets – derivatives	7.5	3.2	–	19.9
Liabilities – derivatives	(15.6)	–	(26.8)	(17.4)
Liabilities – borrowings[1]	(212.3)	–	–	–
Carrying amount of hedged item – borrowings (£m)	–	(66.9)	(221.3)	–
Changes in fair value of hedged item for calculating hedge effectiveness[2]	14.7	(8.4)	19.9	26.5
Changes in fair value of hedged instrument used for calculating hedge effectiveness[2]	(14.7)	8.1	(19.7)	(26.9)
Amounts accumulated in reserves at 31 December 2022	15.1	(2.5)	–	(33.5)
Accumulated fair value hedge adjustment on borrowings	–	–	26.3	–

1 Represents the carrying value of the €240.0m Euro-denominated private placements

2 Inclusive of cash settlements for the period

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group, which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2022, the Group had designated EUR 616.7m of cross currency interest rate swaps, EUR 240.0m of private placements and EUR 376.7m of foreign exchange forward contracts as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD 30.0m of foreign exchange forward contracts, and USD 290.0m and CAD 46.0m of cross currency interest rate swaps were designated as a hedge of the net assets of the Group's North America subsidiaries. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Fuel swaps are used to match the timing, type of fuel and currency in which the domestic physical fuel is purchased as closely as possible, with hedges currently in place from 2023 through to 2025.

During the year, £70.1m of fair value gains (2021: £50.8m gains) have been transferred to the cash flow hedge reserve due to movements in market fuel prices. A fair value gain of £69.5m (2021: £1.9m gain) has been transferred from the cash flow hedge reserve to the Income Statement following settlement of fuel trades; this comprised a gain of £32.9m (2021: £16.0m loss), being the hedging reserve position at 1 January and a £36.6m gain (2021: £17.9 gain) generated during the year due to movements in market fuel prices. No material ineffectiveness was recognised in relation to these hedges.

31 Financial instruments (including cash, trade receivables and payables) continued

Fuel derivatives can be analysed as follows:

	31 December 2022 Fair value £m	31 December 2021 Fair value £m	31 December 2022 Volume million litres	31 December 2021 Volume million litres
Fuel derivatives				
Sterling denominated – UK	(5.2)	5.3	63.8	48.6
Euro denominated – ALSA	(3.3)	7.4	114.7	85.4
US Dollar and Canadian Dollar denominated – North America	8.4	7.1	41.8	65.5
Fuel derivatives included in current assets/(liabilities)	(0.1)	19.8	220.3	199.5
Sterling denominated – UK	0.9	3.0	41.1	42.6
Euro denominated – ALSA	0.2	3.6	69.5	61.8
US Dollar and Canadian Dollar denominated – North America	1.5	2.3	36.3	53.1
Fuel derivatives included in non-current assets/(liabilities)	2.6	8.9	146.9	157.5
Total fuel derivatives	2.5	28.7	367.2	357.0

Interest rate swaps at fair value through profit or loss

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. These interest rate swaps all pay fixed interest annually and receive floating interest (GBP SONIA + margin) annually with cash settlements matching that of the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the £250.0m bond. During the year, a fair value loss of £19.9m was recognised in the Income Statement and was offset by a fair value gain of £19.9m on the underlying hedged item due to changes in the risk-free interest rate.

Cash flow hedges

In June 2020, the Group entered into an $81.0m cross currency swap that pays fixed USD interest semi-annually and receives fixed GBP interest semi-annually. This is designated as a cash flow hedge of foreign currency risk with maturities matching an $81.0m private placement maturing in June 2027. No material ineffectiveness was recognised during the year.

32 Share capital and reserves

Issued and fully paid:	No. of shares	2022 £m	No. of shares	2021 £m
At 1 January and 31 December	614,086,377	30.7	614,086,377	30.7

The total number of share options exercised in the year by employees of the Company was 251,606 (2021: 402,244) of which all (2021: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 1,268,303 (2021: 1,489,069) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 120,082 (2021: 1,013,976) shares. 251,606 (2021: 402,244) shares were used to satisfy options granted under a number of the Company's share schemes, and a further 89,242 shares were transferred to the Executive Directors who purchased these shares using the cash element of their 2021 annual bonus awards. No shares (2021: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2022 was £1.6m (2021: £3.8m). No dividends were payable on these shares in either 2022 or 2021.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

32 Share capital and reserves continued

Hybrid reserves

The Group has in issue a Sterling denominated hybrid instrument of £500m, with an annual coupon rate of 4.25%. The contractual terms of the instrument allow the Group to defer coupon payments and the repayment of the principal indefinitely. However, any deferred payments must be made in the event of a dividend distribution. The instrument was issued in November 2020 and the terms also allow for the instrument to be redeemed at the option of the Group at five years after issue (first call date) and 10 years (second call date), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or change of control). As the Group has the unconditional right to avoid transferring cash or another financial asset in relation to this instrument, it is classified within equity. The annual coupon rate is fixed for the first five years, and thereafter reset according to the specific terms of the issuance.

Other reserves

	Capital redemption reserve £m	Merger reserve £m	Fair value reserve of financial assets at FVOCI £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Net investment hedge reserve £m	Translation reserve £m	Total £m
At 1 January 2022 (Restated)[1]	0.2	239.5	(0.3)	25.0	1.0	43.0	75.6	384.0
Exchange differences on retranslation of foreign operations	–	–	–	–	–	–	146.9	146.9
Gains on equity instruments classified as fair value through Other Comprehensive Income	–	–	1.7	–	–	–	–	1.7
Gains/(losses) on hedges	–	–	–	78.6	–	(57.6)	–	21.0
Hedging gains reclassified to Income Statement	–	–	–	(77.3)	(0.4)	–	–	(77.7)
Cost of hedging	–	–	–	–	(0.7)	–	–	(0.7)
Deferred tax	–	–	–	5.2	–	1.3	–	6.5
At 31 December 2022	0.2	239.5	1.4	31.5	(0.1)	(13.3)	222.5	481.7

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

The nature and purpose of the other reserves are as follows:

- The merger reserve included the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000 and the share issue during 2020.
- The cash flow hedge reserve and net investment hedge reserve records the movements on designated hedging instruments, offset by any movements recognised in equity on underlying hedged items.
- The cost of hedging reserve records the movements in the currency basis, which are excluded from the hedging instrument on the designated hedging instruments in the cash flow and net investment hedge reserves.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries and cost of hedging.
- The fair value reserve is for fair value movements on financial assets that are classified as fair value through Other Comprehensive Income.

32 Share capital and reserves continued

	Capital redemption reserve £m	Merger reserve £m	Fair value reserve of financial assets at FVOCI £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Net investment hedge reserve £m	(Restated) Translation reserve[1] £m	(Restated) Total[1] £m
At 1 January 2021 (Restated)[1]	0.2	239.5	(1.5)	(15.2)	1.4	16.0	132.8	373.2
Exchange differences on retranslation of foreign operations	–	–	–	–	–	–	(57.2)	(57.2)
Gains on equity instruments classified as fair value through Other Comprehensive Income	–	–	1.2	–	–	–	–	1.2
Gains on hedges	–	–	–	52.5	–	26.5	–	79.0
Hedging gains reclassified to Income Statement	–	–	–	(2.8)	(0.5)	–	–	(3.3)
Cost of hedging	–	–	–	–	0.1	–	–	0.1
Deferred tax	–	–	–	(9.5)	–	0.5	–	(9.0)
At 31 December 2021	0.2	239.5	(0.3)	25.0	1.0	43.0	75.6	384.0

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

33 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK division (UK) operates defined benefit pension schemes.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and maintains a small defined benefit scheme for National Express Services Limited. These post-employment benefits have been combined into the ‘Other’ category.

The UK, the Company and North America also operate or contribute into a number of defined contribution schemes.

The Company defined benefit scheme was subject to a buy-in transaction on 11 October 2018 whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Rothesay Life under which the benefits payable to defined benefit members became fully insured. On 23 September 2021, a full buy-out of the defined benefit section was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets (comprising the Rothesay Life insurance policy) and matching defined benefit liabilities were derecognised from the Group’s Balance Sheet. The buy-out transaction also triggered the return of surplus assets to the Company totalling £7.5m, with the remaining assets retained in the scheme to cover final expenses in completing its wind-up.

In 2020, the UK division agreed a new six-year annual deficit plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2024 with an average contribution of £7.6m per annum. The plan remains open to accrual for existing members only.

The assets of the defined benefit schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

The Group expects to contribute £10.2m into its defined benefit pension plans in 2023.

The total pension cost charged to underlying operating profit in the year for the Group was £9.7m (2021: £10.9m), of which £6.2m (2021: £6.0m) relates to the defined contribution schemes.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

The defined benefit pension (liability)/asset included in the Balance Sheet is as follows:

	2022 £m	2021 £m
Company	–	3.8
Other	0.4	–
Pension assets	0.4	3.8
UK	(39.7)	(96.1)
Other	(2.8)	(3.1)
Pension liabilities	(42.5)	(99.2)
Total	(42.1)	(95.4)

Through its defined benefit plans, the Group is exposed to a number of risks. As the only material scheme remaining in the Group, the risks, as detailed below, only relate to the UK scheme.

Investment risk

The present values of scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if the return on scheme assets is below this yield, it will create a deficit. The UK scheme holds a significant proportion of return- seeking assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.

Interest risk

A decrease in bond interest rates will increase scheme liabilities but this will be partially offset by an increase in the returns on the scheme assets.

Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk.

Longevity risk

The majority of the obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the liabilities. The UK scheme includes a buy-in policy covering part of the pensioner members' liabilities, which partly helps to mitigate longevity risk.

Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations, for example, reduced investment return through the ability to reclaim advance corporation tax, and decreases in obligations, for example, through the ability to use consumer price index (CPI) inflation instead of retail price index (RPI) to set pension increase rates. For the UK scheme the Group receives professional advice on the impact of legislative changes.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations for the principal schemes, and assumptions made, are as follows:

	UK
Date of actuarial valuation	31 March 2019
Rate of investment returns per annum	3.2%
Increase in earnings per annum	2.7%
Scheme assets taken at market value	£495.0m
Funding level	84%

33 Pensions and other post-employment benefits continued

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. Following the buy-out of the Company scheme there are no remaining pension liabilities at 31 December 2022 (2021: £nil) and therefore no assumptions are disclosed. The assumptions for the UK scheme are listed below:

	2022 UK	2021 UK
Rate of increase in salaries	2.5%	2.5%
Rate of increase of pensions in payment	2.5%	2.8%
Discount rate	4.8%	1.8%
Inflation assumption (RPI)	3.1%	3.4%
Inflation assumption (CPI)	2.5%	2.8%
Post-retirement mortality in years:		
Current pensioners at 65 – male	19.5	19.6
Future pensioners at 65 – male	20.9	21.0
Current pensioners at 65 – female	23.0	23.0
Future pensioners at 65 – female	24.5	24.6

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

(Increase)/decrease in the defined benefit obligation	UK 2022 £m	UK 2021 £m
Effect of a 0.5% increase in pensions in payment	(17.1)	(30.4)
Effect of a 0.5% increase in the discount rate	24.2	36.1
Effect of a 0.5% increase in inflation	(19.0)	(34.8)
Effect of a 1-year increase in mortality rates	(12.6)	(18.0)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK scheme, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2022 and 2021 are set out in the following tables:

Group Income Statement	UK 2022 £m	Company 2022 £m	Other 2022 £m	Total 2022 £m
Amounts credited:				
Current service cost	(3.5)	–	–	(3.5)
Net interest expense	(1.6)	–	(0.3)	(1.9)
Total credit to Income Statement	(5.1)	–	(0.3)	(5.4)

In addition, during the year £0.8m (2021: £1.2m) of administrative expenses were incurred.

Group Statement of Comprehensive Income	UK 2022 £m	Company 2022 £m	Other 2022 £m	Total 2022 £m
Actuarial gain during the period from obligations	176.5	–	1.6	178.1
Expected return on plan assets greater than discount rate	(125.1)	–	–	(125.1)
Net actuarial gain	51.4	–	1.6	53.0

The net interest expense has been included within finance costs (see note 10).

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

Group Income Statement	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Amounts (charged)/credited:				
Current service cost	(3.8)	–	–	(3.8)
Settlement gain	–	0.1	–	0.1
Net interest (expense)/income	(1.7)	0.1	(0.2)	(1.8)
Total charge/(credit) to Income Statement	(5.5)	0.2	(0.2)	(5.5)

Group Statement of Comprehensive Income	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Actuarial gain during the period from obligations	25.5	7.5	0.2	33.2
Expected return on plan assets greater than discount rate	15.8	(7.6)	0.5	8.7
Net actuarial gain/(loss)	41.3	(0.1)	0.7	41.9

In addition to the above actuarial movements, the 2021 Statement of Comprehensive Income included a £0.6m loss for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.

The amounts were recognised in the Balance Sheet at 31 December as follows:

As at 31 December 2022	**UK 2022 £m**	**Company 2022 £m**	**Other 2022 £m**	**Total 2022 £m**
Equities	**54.5**	**–**	**2.3**	**56.8**
Bonds and multi-asset credit	**77.0**	**–**	**0.9**	**77.9**
Insurance policy	**126.0**	**–**	**–**	**126.0**
Diversified growth fund	**21.9**	**–**	**–**	**21.9**
Liability-driven investment	**52.8**	**–**	**–**	**52.8**
Other	**14.9**	**–**	**–**	**14.9**
Fair value of scheme assets	**347.1**	**–**	**3.2**	**350.3**
Present value of liabilities and defined benefit obligation	**(386.8)**	**–**	**(5.6)**	**(392.4)**
Defined benefit pension deficit	**(39.7)**	**–**	**(2.4)**	**(42.1)**

None of the pension arrangements directly invest in any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group. The majority of the benefits within the plans are covered by insurance contracts. The insurance assets have been valued so as to match the defined benefit obligations. The fair value of the remaining equity and debt instruments have primarily been determined based on quoted prices in active markets.

As at 31 December 2021	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Equities	96.4	–	2.6	99.0
Bonds and multi-asset credit	63.8	–	0.9	64.7
Insurance policy	171.7	–	–	171.7
Diversified growth fund	98.3	–	–	98.3
Liability-driven investment	48.0	–	–	48.0
Other	1.5	3.8	0.1	5.4
Fair value of scheme assets	479.7	3.8	3.6	487.1
Present value of liabilities and defined benefit obligation	(575.8)	–	(6.7)	(582.5)
Defined benefit pension (deficit)/surplus	(96.1)	3.8	(3.1)	(95.4)

The movement in the present value of the defined benefit obligation in the year is as stated below.

The Group's defined benefit obligation comprises £389.7m (2021: £580.6m) arising from plans that are wholly or partly funded and £2.7m (2021: £1.9m) from unfunded plans.

33 Pensions and other post-employment benefits continued

The movement in the defined benefit obligations is as follows:

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2022	**(575.8)**	**–**	**(6.7)**	**(582.5)**
Current service cost	**(3.5)**	**–**	**–**	**(3.5)**
Benefits paid	**26.6**	**–**	**0.1**	**26.7**
Contributions by employees	**(0.6)**	**–**	**(0.4)**	**(1.0)**
Finance charge	**(10.2)**	**–**	**(0.4)**	**(10.6)**
Actuarial gain from changes in financial assumptions	**208.9**	**–**	**2.2**	**211.1**
Actuarial gain arising from changes in demographics	**4.2**	**–**	**–**	**4.2**
Actuarial loss arising from experience adjustments	**(36.4)**	**–**	**(0.4)**	**(36.8)**
Defined benefit obligation at 31 December 2022	**(386.8)**	**–**	**(5.6)**	**(392.4)**

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2021	(616.7)	(110.5)	(9.0)	(736.2)
Current service cost	(3.8)	–	–	(3.8)
Benefits paid	27.4	3.7	0.1	31.2
Contributions by employees	(0.5)	–	2.2	1.7
Finance charge	(7.7)	(1.1)	(0.2)	(9.0)
Gain on settlements	–	100.4	–	100.4
Actuarial gain from changes in financial assumptions	19.9	7.3	0.1	27.3
Actuarial gain arising from changes in demographics	8.6	0.2	0.1	8.9
Actuarial loss arising from experience adjustments	(3.0)	–	–	(3.0)
Defined benefit obligation at 31 December 2021	(575.8)	–	(6.7)	(582.5)

The movement in the fair value of scheme assets is as follows:

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2022	**479.7**	**3.8**	**3.6**	**487.1**
Expected return on plan assets	**8.6**	**–**	**0.1**	**8.7**
Expected return on plan assets greater/(less) than discount rate	**(125.1)**	**–**	**(0.4)**	**(125.5)**
Cash contributions – employer	**10.1**	**(3.1)**	**–**	**7.0**
Administrative expenses	**(0.1)**	**(0.7)**	**–**	**(0.8)**
Cash contributions – employee	**0.5**	**–**	**–**	**0.5**
Benefits paid	**(26.6)**	**–**	**(0.1)**	**(26.7)**
Fair value of scheme assets at 31 December 2022	**347.1**	**–**	**3.2**	**350.3**

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2021	475.1	122.8	3.2	601.1
Expected return on plan assets	6.0	1.2	–	7.2
Expected return on plan assets greater/(less) than discount rate	15.8	(7.6)	0.5	8.7
Cash contributions – employer	9.9	(7.5)	–	2.4
Administrative expenses	(0.1)	(1.1)	–	(1.2)
Cash contributions – employee	0.4	–	–	0.4
Loss on settlement	–	(100.3)	–	(100.3)
Benefits paid	(27.4)	(3.7)	(0.1)	(31.2)
Fair value of scheme assets at 31 December 2021	479.7	3.8	3.6	487.1

The employer cash contribution of £7.5m in the Company scheme in 2021 represents the surplus returned to the Group upon the buy-out transaction completing.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

History of experience gains and losses:	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
UK					
Fair value of scheme assets	**347.1**	479.7	475.1	458.0	453.0
Present value of defined benefit obligation	**(386.8)**	(575.8)	(616.7)	(557.1)	(580.3)
Deficit in the scheme	**(39.7)**	(96.1)	(141.6)	(99.1)	(127.3)
Experience adjustments arising on liabilities	**(36.4)**	(3.0)	6.7	52.2	(1.1)
Experience adjustments arising on assets	**(125.1)**	15.8	24.4	8.9	(30.0)
Company					
Fair value of scheme assets	**–**	3.8	122.8	109.3	98.6
Present value of defined benefit obligation	**–**	–	(110.5)	(95.1)	(83.7)
Surplus in the scheme	**–**	3.8	12.3	14.2	14.9
Experience adjustments arising on liabilities	**–**	–	1.0	0.3	(2.3)
Experience adjustments arising on assets	**–**	(7.6)	16.4	10.8	(35.6)
Other					
Fair value of scheme assets	**3.2**	3.6	3.2	3.0	2.7
Present value of defined benefit obligation	**(5.6)**	(6.7)	(9.0)	(8.1)	(7.1)
Deficit in the scheme	**(2.4)**	(3.1)	(5.8)	(5.1)	(4.4)
Experience adjustments arising on liabilities	**(0.4)**	–	–	–	–
Experience adjustments arising on assets	**(0.4)**	0.5	0.2	0.2	–

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £82.8m loss (2021: £135.8m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

34 Leases

Group as a lessee

The Group has lease contracts for various items of property, vehicles, plant and other equipment. Lease terms are negotiated on an individual basis, contain a wide range of different terms and conditions, and may include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The Group's obligations under its leases are secured by the lessor's title to the leased assets.

(a) Amounts recognised in the Balance Sheet

Set out below is the net book value of right-of-use assets and additions during the year (included in property, plant and equipment – note 15):

	2022				2021			
Right-of-use assets	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Additions	**40.3**	**2.9**	**0.5**	**43.7**	25.4	8.0	0.3	33.7
Depreciation charge	**(31.4)**	**(25.8)**	**(0.5)**	**(57.7)**	(28.8)	(36.5)	(0.6)	(65.9)
Net book value at 31 December	**104.6**	**79.5**	**0.2**	**184.3**	97.6	129.9	0.2	227.7

34 Leases continued

Set out below are the carrying amounts of lease liabilities (included in borrowings – note 28) at 31 December 2022:

Lease liabilities	2022 £m	2021 £m
Current	58.0	67.0
Non-current	139.7	168.7
	197.7	235.7

The maturity analysis of lease liabilities is presented in note 29.

(b) Amounts recognised in the Income Statement

	2022 £m	2021 £m
Depreciation expense on right-of-use assets (note 6)	57.7	65.9
Interest on lease liabilities (note 10)	9.4	10.5
Interest income on sub-leases (note 10)	(0.5)	(0.7)
Expenses relating to short-term leases (note 6)	6.5	4.3
Expenses relating to leases of low-value assets (note 6)	2.9	3.0
Variable lease payments not included in the measurement of lease liabilities (note 6)	0.6	0.1
Income from sub-leasing right-of-use assets (included in other revenue)	(4.5)	(3.5)

It is not expected that commitments for short-term leases will materially differ from those in place at 31 December 2022.

(c) Amounts recognised in the Cash Flow Statement

	2022 £m	2021 £m	Included within
Payment of interest	(9.4)	(10.5)	Cash flows from operating activities
Payment of principal	(85.9)	(118.2)	Cash flows from financing activities
Payments for short-term, low-value leases and variable lease payments	(10.0)	(7.4)	Cash generated from operations
Total cash outflow for leases	(105.3)	(136.1)	

(d) Extension and termination options

Some property and vehicle leases contain extension or termination options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension or termination options in new leases to provide operational flexibility. The extension and termination options held are exercisable only by the Group and not by the lessors. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension or termination options and reassesses these assumptions when there is a significant event or significant change in circumstances within its control. Where the Group determines it is reasonably certain that a termination option will be exercised, any termination penalty is included in the lease liability.

The Group has estimated that the potential future lease payments, should it exercise the extension or termination options, would result in an immaterial change in the lease liability.

(e) Variable lease payments

The Group has a variable lease arrangement in respect of public service vehicles in North America. The lease payments are fully variable based on miles driven, and there is no minimum mileage or fixed payment within the contract. Given the lease payments are fully variable, no lease liability has been recognised in the Balance Sheet. Instead, the variable lease payments are included in the Income Statement as incurred.

(f) Residual value guarantees

The Group has a number of leased vehicles with residual value guarantees. At the lease commencement date the amounts expected to be payable have been included in the lease liability.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

34 Leases continued

(g) Future lease commitments

In 2021 the Group entered into an availability agreement for the provision of 130 electric buses in the UK. At the year end, 45 vehicles have been made available to us, the remaining 85 expected to be delivered in 2023. The agreement includes a substitution clause whereby the service provider makes available to us a set number of vehicles each day from its wider pool of vehicles. In the Directors' view, the arrangement does not meet the definition of a lease. The service provider has control of the vehicles and has a substantive substitution right, having both the practical ability to substitute the vehicles and an economic incentive to do so. Consequently, no right-of-use asset or lease liability will be recognised on the Balance Sheet, and payments under the agreement will be charged to the Income Statement as incurred. These contracts will give rise to an estimated annual expense of £7.6m.

At the year end, the Group had commitments relating to leases not yet commenced with future lease payments of £0.3m (2021: £0.1m) within one year, £1.6m (2021: £0.7m) within five years and £nil thereafter (2021: £0.5m).

Group as a lessor

The Group has finance leasing arrangements as a lessor for certain vehicles to its customers. In addition, the Group sub-leases two properties which are no longer used by the Group. During 2022, the Group recognised interest income on lease receivables of £0.5m (2021: £0.7m).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

Net investment in the lease	2022 £m	2021 £m
Within one year	4.7	4.6
After one year but not more than five years	7.3	9.3
More than five years	6.7	5.6
Total undiscounted lease receivable	18.7	19.5
Unearned finance income	(4.7)	(2.7)
Finance lease receivable	14.0	16.8

The maturity analysis of the discounted lease payments are as follows:

Net investment in the lease	2022 £m	2021 £m
Current	4.3	4.1
Non-current	9.7	12.7
	14.0	16.8

The Group also sub-leases some of its property and public service vehicles. The Group has classified these sub-leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the right-of-use assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating lease receipts	2022 £m	2021 £m
Within one year	3.6	3.0
After one year but not more than five years	3.6	4.7
More than five years	–	–
	7.2	7.7

35 Commitments and contingencies

(a) Capital commitments

	2022 £m	2021 £m
Contracted	164.5	97.0

The Group is committed to vehicle purchases and various land and buildings improvements.

35 Commitments and contingencies continued

(b) Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £nil (2021: £3.7m) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2022, the Group had performance bonds in respect of businesses in the USA of £132.7m (2021: £113.7m), in Spain of £89.9m (2021: £88.1m), in Germany of £25.8m (2021: £30.0m) and in the Middle East of £10.3m (2021: £6.0m). Letters of credit have been issued to support insurance retentions of £179.8m (2021: £145.0m).

Legal

Through the ordinary course of our operations, the Group is party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Group's results, cash flows or financial position.

36 Related party transactions

	Amounts of transactions		Amounts due from related parties		Amounts due to related parties	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Joint ventures						
Bahrain Public Transport Company W.L.L.	**0.6**	0.5	**–**	–	**–**	–
Associates						
ALSA associates	**4.5**	3.5	**2.1**	3.2	**(0.4)**	(0.5)
North America associates[1]	**0.3**	0.4	**–**	–	**–**	
Total joint ventures and associates	**5.4**	4.0	**2.1**	3.2	**(0.4)**	(0.5)
Trade investments						
ALSA trade investments	**6.8**	4.7	**–**	0.8	**(1.3)**	(0.8)
North America trade investments[1]	**–**	0.6	**–**	–	**–**	–
Total investments	**6.8**	5.7	**–**	0.8	**(1.3)**	(0.8)
Property transactions						
ALSA property transactions	**7.0**	4.9	**0.6**	0.4	**(0.2)**	(0.5)
North America property transactions	**–**	2.0	**–**	–	**–**	–
Total property transactions	**7.0**	6.9	**0.6**	0.4	**(0.2)**	(0.5)
Total other related parties	**13.8**	12.6	**0.6**	1.2	**(1.5)**	(1.3)
Total	**19.2**	16.6	**2.7**	4.4	**(1.9)**	(1.8)

1 Included in North America associate transaction is £0.4m previously included within trade investments

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are at appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 33.

Compensation of key management personnel of the Group

The Group has determined key management personnel to constitute the Group Executive Committee and all other Board members of the parent entity. Further details are disclosed in the Directors' Remuneration Report:

	2022 £m	2021 £m
Short-term benefits[1]	**2.5**	2.6
Share-based payment (note 9)	**–**	0.2
	2.5	2.8

1 Included within the prior year short-term benefits is £0.7m relating to other Board members' compensation

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

37 Service concession arrangements

The following table sets out the nature and extent of the Group's service concession arrangements:

Concession	Description of the arrangement	Concession period	Concession commencement	Nature of infrastructure	Classification under IFRIC 12
German Rail	The Group operates two train services in Germany.	15 years	2015 – 2020	Rolling stock and tracks used in the operation of the service are provided by the delegating authority.	No financial or intangible asset is recognised for construction as the infrastructure is provided to the Group.
Moroccan Urban Bus	The Group has two contracts with the Moroccan authority for the operation of public transport bus services.	15 years	September 2019	Public service vehicles used in the operation are provided by the Group, some of which are subject to 'lease type' arrangements.	Intangible asset
		Up to 15 years	November 2019	Initially, public service vehicles used in operation are provided by the public authority. Replacement public service vehicles will be provided by the Group and public authority in future years.	Financial asset
Spanish Regional Bus	The Group has a contract with the Provincial Government of Bizkaia to operate regional services.	10 years	July 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Spanish Urban Bus	The Group has two contracts with Spanish Councils to operate urban commuter coach services in Spain.	10 years	August 2019	Public service vehicles used in the operation are provided by the Group.	Financial asset
		3 years	June 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Alaska Schoolbus	The Group has undertaken a contract for home to school transportation.	10 years	July 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
		10 years	July 2022	Public service vehicles used in the operation are provided by the Group.	Financial asset
Portugal Urban Bus	The Group has a contract with the Lisbon transport authority to operate urban commuter bus services.	7 years	June 2022	Public service vehicles are provided by the Group with a purchase option for the grantor to acquire the fleet at the end of the contract term.	Intangible asset

During the year, no revenue or profit was recognised in exchanging construction services for financial or intangible assets.

38 Cash flow statement

(a) Reconciliation of Group loss before tax to cash generated from operations

	2022 £m	2021 £m
Loss before tax	(209.9)	(84.9)
Net finance costs	51.0	47.7
Share of results from associates and joint ventures	0.4	1.0
Depreciation of property, plant and equipment	203.5	199.7
Intangible asset amortisation	55.5	54.2
Amortisation of fixed asset grants	(2.1)	(3.2)
Gain on disposal of property, plant and equipment	(10.5)	(8.0)
Gain on disposal of intangible assets	(5.1)	(0.6)
Share-based payments	1.2	1.0
Increase in inventories	(1.5)	(1.9)
Increase in receivables	(118.5)	(85.3)
Increase in payables	52.5	53.2
Receipts on settlement of fuel forward contracts	26.2	–
(Decrease)/increase in provisions	(23.9)	17.1
Decrease in pensions	(3.2)	–
Separately disclosed operating items[1]	318.6	84.4
Cash flows relating to separately disclosed items	(49.3)	(43.3)
Cash generated from operations	**284.9**	231.1

1 Excludes amortisation from acquired intangibles which is included within ‘intangible asset amortisation’

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

38 Cash flow statement continued

(b) Analysis of changes in net debt

Net debt is an alternative performance measure which is not defined or specified under the requirements of International Financial Reporting Standards. Please refer to the glossary on page 291 for further information.

	At 1 January 2022 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2022 £m
Components of financing activities:						
Bank and other loans[1]	(189.6)	10.7	(1.0)	(14.3)	(0.5)	(194.7)
Bonds[3]	(640.9)	–	–	–	19.5	(621.4)
Fair value of interest rate derivatives	(6.3)	–	–	–	(19.7)	(26.0)
Fair value of foreign exchange forward contracts	(9.9)	39.4	–	(17.6)	–	11.9
Cross currency swaps	2.6	28.4	–	(37.0)	–	(6.0)
Net lease liabilities[2]	(218.9)	85.9	(0.7)	(13.1)	(36.9)	(183.7)
Private placements[3]	(393.9)	–	–	(17.7)	(0.3)	(411.9)
Total components of financing activities	(1,456.9)	164.4	(1.7)	(99.7)	(37.9)	(1,431.8)
Cash	268.1	(115.4)	0.4	18.6	–	171.7
Overnight deposits	0.4	6.0	–	0.2	–	6.6
Other short-term deposits	239.9	(126.6)	–	0.2	–	113.5
Bank overdrafts	(132.2)	73.5	–	–	–	(58.7)
Net cash and cash equivalents	376.2	(162.5)	0.4	19.0	–	233.1
Other debt receivables	1.0	1.6	–	0.1	–	2.7
Remove: fair value of foreign exchange forward contracts	9.9	(39.4)	–	17.6	–	(11.9)
Net debt	(1,069.8)	(35.9)	(1.3)	(63.0)	(37.9)	(1,207.9)

1 Net of arrangement fees totalling £1.1m (2021: £1.5m) on bank and other loans

2 Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

3 Excludes accrued interest on long-term borrowings

Short-term deposits relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £886.3m (2021: £1,294.3m) as disclosed in note 28.

38 Cash flow statement continued

Other non-cash movements include lease additions and disposals of £36.9m (2021: £26.6m) and a £1.1m net reduction from the amortisation of loan and bond arrangement fees (2021: £1.2m). A £19.9m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings.

	At 1 January 2021 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2021 £m
Components of financing activities:						
Bank and other loans[1]	(101.8)	(89.6)	(2.0)	4.4	(0.6)	(189.6)
Bonds[3]	(647.0)	–	–	–	6.1	(640.9)
Fair value of interest rate derivatives	1.0	–	–	–	(7.3)	(6.3)
Fair value of foreign exchange forward contracts	4.6	(8.8)	–	(5.7)	–	(9.9)
Cross currency swaps	(5.7)	–	–	8.3	–	2.6
Net lease liabilities[2]	(311.3)	118.2	–	0.8	(26.6)	(218.9)
Private placements[3]	(476.8)	66.8	–	15.5	0.6	(393.9)
Total components of financing activities	(1,537.0)	86.6	(2.0)	23.3	(27.8)	(1,456.9)
Cash	241.2	28.7	0.2	(2.0)	–	268.1
Overnight deposits	49.7	(47.4)	–	(1.9)	–	0.4
Other short-term deposits	338.9	(98.4)	–	(0.6)	–	239.9
Bank overdrafts[5]	(109.3)	(22.9)	–	–	–	(132.2)
Net cash and cash equivalents	520.5	(140.0)	0.2	(4.5)	–	376.2
Other debt receivables	1.2	(0.1)	–	(0.1)	–	1.0
Remove: fair value of foreign exchange forward contracts	(4.6)	8.8	–	5.7	–	9.9
Net debt	(1,019.9)	(44.7)	(1.8)	24.4	(27.8)	(1,069.8)

1 Net of arrangement fees totalling £2.4m on bank and other loans

2 Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

3 Excludes accrued interest on long-term borrowings

(c) Reconciliation of net cash flow to movement in net debt

	2022 £m	2021 £m
Decrease in net cash and cash equivalents in the year	**(162.1)**	(139.8)
Cash inflow/(outflow) from movement in other debt receivables	**1.6**	(0.1)
Cash inflow from movement in debt and leases liabilities	**123.3**	93.4
Change in net debt resulting from cash flows	**(37.2)**	(46.5)
Change in net debt resulting from non-cash movements	**(100.9)**	(3.4)
Movement in net debt in the year	**(138.1)**	(49.9)
Opening net debt	**(1,069.8)**	(1,019.9)
Net debt	**(1,207.9)**	(1,069.8)

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2022 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of Incorporation	% equity interest
United Kingdom & Ireland	
Airlinks The Airport Coach Company Limited (a)	100
Airside Transport Services Limited (b)	100
Altram L.R.T. Limited (a)	100
Brooke Management Limited (a)	100
Central Trains Limited (a)	100
Clarkes Holdco Limited (a)	100
Coachman Limited (a)	100
Coliseum Coaches Limited (a)	100
E. Clarke & Son (Coaches) Limited (a)	100
Eurolines (U.K) Limited (a)	100
H. Luckett & Co. Limited (a)	100
London Eastern Railway Limited (a)	100
Lucketts Holdings Limited (a)	100
Lucketts Services Limited (a)	100
Maintrain Limited (a)	100
Midland Main Line Limited (a)	100
Mobiciti Limited (a)	100
Mobico Group Limited (a)	100
Mortons Travel Limited (a)	100
National Express Bus & Coach Services Limited (b)	100
National Express European Holdings Limited (05652775)* (a)	100
National Express Finance Company Limited (a)	100
National Express Financing LP** (a)	100
National Express Group Holdings Limited (04339932) (a)	100
National Express Holdings Limited (02156473)* (a)	100
National Express Intermediate Holdings Limited (a)	100
National Express International Limited (a)	100
National Express Leisure Limited (previously Lucketts Travel Limited) (a)	100
National Express Limited (a)	100
National Express Manchester Limited (a)	100
National Express Middle East Plc (a)	100
National Express North America Holdings Limited (07855182)* (a)	100
National Express Operations (Stansted) Limited (a)	100
National Express Operations Limited (02609812) (a)	100
National Express Petermann UK Limited (07855188)* (a)	100
National Express Rail Replacement Limited (a)	100
National Express Services Limited (a)	100
National Express Spanish Holdings Limited (a)	100
National Express Trains Limited (a)	100
National Express Transport Holdings Limited (04338163)* (a)	100
National Express UK Limited (a)	100
National Express UK Central Services Limited (a)	100
N E Canada Limited (08596333)* (a)	100
NE Durham UK Limited (08270480)* (a)	100

Name and country of Incorporation	% equity interest
NE Europe Finance Limited (07876047)* (a)	100
NE No.1 Ltd (a)	100
NE No.2 Ltd (a)	100
NE No. 3 Limited (a)	100
NE Trains South Limited (a)	100
NXEC Trains Limited (a)	100
Scotrail Railways Limited (a)	100
Silverlink Train Services Limited (a)	100
Solent Coaches Limited (a)	100
Speedlink Airport Services Limited (a)	100
Stewarts Coach Group Limited (a)	100
Stewarts Coaches Limited (a)	100
The Kings Ferry Limited (a)	100
Travel Coventry Limited (previously WM Card Systems Limited) (a)	100
Travel Merryhill Limited (a)	100
Travel West Midlands Limited (a)	100
Travel WM Limited (a)	100
Travel Yourbus Limited (a)	100
West Anglia Great Northern Railway Limited (a)	100
West Midlands Accessible Transport Limited (previously Travel Coventry Limited) (a)	100
West Midlands Travel Limited (a)	100
W M Property Holdings Limited (a)	100
WM Travel Limited (a)	100
W M Ventures Limited (a)	100
Wood's Coaches Limited (a)	100
Woods Reisen Limited (a)	100
Worthing Coaches Limited (a)	100
Bahrain	
Bahrain Public Transport Company W.L.L. (c)	50
Germany	
National Express Germany GmbH (d)	95
National Express Holding GmbH (d)	100
National Express Rail GmbH (e)	100
Süddeutsche Regionalbahn GmbH (d)	100
Czech Republic	
National Express Cz s.r.o. (f)	100
Netherlands	
National Express Holdings LLC BV (g)	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Andorra	
Estació 2017, S.A. (h)	11
Transports Dels Pirineus (h)	100
France	
(ABG) Alsa Bustours Gex (i)	100
Alsa Puerto Rico, LLC (j)	100
Iberolines (k)	46
SARL Chamexpress.com (l)	100
Morocco	
Alsa al Baida (m)	100
Alsa City Agadir S.A. (n)	100
Alsa City Sightseeing Maroc (o)	100
Alsa City Tour S.A.R.L. (o)	95
Alsa Citybus Rabat-Salé-Temara, S.A. (p)	51
Alsa Education a la Sécurité Routière S.A.R.L. (o)	98
Alsa Intercity Services, S.A. (q)	100
Alsa Khouribga S.A. (r)	100
Alsa Tanger S.A. (s)	100
Centre de Formation Techn. Profes. Transport S.A.R.L. (o)	99
Groupe Alsa Transport S.A. (o)	100
Immeubles Véhicules Accessoires Maroc S.A.R.L. (o)	80
Interprovincial Maroc S.A.R.L. (o)	100
Transport de Voyageurs en Autocar Maroc S.A. (o)	100
Portugal	
Alsa Metropolitano do Porto, Lda (t)	100
Tiac Viagens e Turismo Lda (u)	100
Alsa Todi Metropolitana de Lisboa (v)	65
Alsa Portugal – Aluguer de veicolos, Unipessoal, Lda. (v)	100
Slovakia	
Efc Spol s.r.o. (w)	80
Spain	
Agreda Bus, S.L (x)	70
Alianza Bus, S.L.U. (y)	100
Alsa Atlántica, S.L.U. (z)	100
Alsa Ferrocarril, S.A.U. (z)	100
Alsa Granada Airport S.L. (aa)	100
Alsa Grupo, S.L.U. (z)	100
Alsa Innovación y Proyectos de Movilidad, S.L. (ab)	100
Alsa Internacional, S.L.U. (z)	100
Alsa Metropolitana, S.A.U. (y)	100
Alsa-Mirat Extremadura, S.L. (ac)	50
Alsa Micromobility, S.L.U. (z)	50
Alsa Rail, S.L.U. (z)	100
Alsa Internacional, S.L.U. y Otros U.T.E. (y)	100
Alsa Transporte Sanitario, S.L. (ad)	60
Alsa Servicios Logísticos Ferroviarios, S.L. (ad)	100
Aplic. y Sist. Integrales Para el Transporte, S.A. (ae)	100

Name and country of Incorporation	% equity interest
Aragonesa de Estación de Autobuses, S.A. (af)	23
Argabus, S.A. (ag)	100
Artazo Servicios Integrales, S.L. (ah)	100
Asturies Berlinas de Luxu, S.L. (ai)	100
Autobuses Urbanos de Bilbao, S.A. (aj)	75
Autobuses Urbanos de León, S.A.U. (ak)	100
Autocares Castilla–Leon, S.A.U. (al)	100
Autocares de Badajoz, S.L. (am)	100
Autocares Discrecionales del Norte, S.L.U. (an)	100
Automóviles Luarca, S.A.U. (ao)	100
Automóviles Sigras Carral, S.A. (ap)	100
Autos Cal Pita, S.A. (ap)	97
Autos Pelayo, S.A.U. (z)	100
Autos Rodríguez Eocar, S.L. (aq)	80
Baleares Business Cars, S.L. (ai)	100
Baleares Consignatarios, S.L.U. (ar)	100
Baleares Consignatarios Tours, S.L.U. (ar)	100
Berlinas de Asturias, S.L. (ai)	100
Berlinas Calecar, S.L.U. (al)	100
Berlinas de Canarias, S.L. (ai)	100
Berlinas de Toledo, S.L. (ai)	100
Berlinas VTC de Cantabria, S.L.U. (as)	100
Bilboko Hiribus Jasangarría, S.L. (aj)	78
Buses de Palencia, S.L. (at)	100
Bus Metropolitano de Granada, S.L. (aa)	100
Busturialdea Lea Artibai Bus, S.A. (au)	65
Bus Urbano de Castro Urdiales, S.L. (as)	96
Canary Business Cars, S.L. (ai)	100
Cataluña Business Cars, S.L. (ai)	100
Cetralsa Formación, S.L.U. (z)	100
Cía. del Tranvía Eléctrico de Avilés, S.A. (av)	87
Compañia Navarra de Autobuses, S.A. (aw)	50
Compostelana, S.A.U. (ax)	100
Concesionario Estación Autobuses Logroño, S.A. (ay)	21
Ebrobus, S.L.U. (z)	100
Estación Autobuses de Cartagena, S.A. (az)	54
Estación Autobuses de Ponferrada, S.A. (ba)	49
Estación Central de Autobuses de Zaragoza, S.A. (bb)	19
Estación de Autobuses de Siero, S.L. (bc)	50
Estación de Autobuses Aguilar de Campoo, S.L. (bd)	67
Estación de Autobuses de Aranda de Duero, S.L. (be)	43
Estación de Autobuses de Astorga, S.L. (bf)	79
Estación de Autobuses de Aviles S.L. (bg)	100
Estación de Autobuses de León, S.A. (al)	89
Estación de Autobuses de Plasencia, S.A. (bh)	52
Estación de Autobuses de San Lorenzo del Escorial, S.A.U. (y)	100
Estación de Autobuses de Ribadeo, S.L. (bi)	50
Estación de Autobuses de Vitoria, S.L. (bj)	32
Estación de Líneas Regulares, S.L. (bk)	46
Estaciónes Terminales de Autobuses, S.A. (bl)	79

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Euska Alsa, S.L.U. (an)	100
Explotación Gasoleo Estación de Autobuses A Coruña, S.L. (bm)	40
Ezkerraldea-Meatzaldea Bus, S.A. (au)	65
Gal Bus. S.L. (ap)	100
G.S. Carretera (bn)	25
General Técnica Industrial, S.L.U. (z)	100
Gestión de Movilidad Intermodal, S.L. (ad)	100
Gorbea Representaciones, S.L. (an)	100
Guaguas Gumidafe, S.L. (ah)	100
Grupo Enatcar, S.A. (y)	100
Ibero-Euro Sur, S.L. (y)	20
Intercambiadores Europeos, S.L. (z)	60
Intercar Business Cars, S.L. (bo)	100
International Business Limousines, S.A.U. (bp)	100
Interurbana de Autocares, S.A.U. (z)	100
Irubus, S.A.U. (y)	100
Jimenez Lopera, S.A.U. (bp)	100
La Unión Alavesa, S.L. (bj)	50
La Unión de Benisa, S.A. (bq)	98
Lineas Europeas de Autobuses, S.A. (br)	43
Los Abades de la Gineta, S.L.U. (y)	100
Mybustest, S.L (z)	50
Mai Tours, S.L.U. (bs)	100
Manuel Vázquez, S.L. (bt)	60
Movelia Tecnologias, S.L. (bu)	78
Movilidad Balear, S.L.U (bv)	100
Movilidad Multimodal, S.L. (ad)	100
Movilidad Peninsular, S.L. (ad)	100
Mundaka Consultoria, S.L.U. (an)	100
NEX Continental Holdings, S.L.U. (z)	100
NX Middle East, S.L.U. (bw)	100
Proyectos Unificados, S.A.U. (z)	100
Publi Imagen Granada, S.L.U. (aa)	100
Representaciones Mecánica, S.A.U. (an)	100
Return Viajes, S.L. (bx)	50
Rutas a Cataluña, S.A. (by)	28
Rutas del Cantábrico, S.L. (an)	95
Semarvi (z)	34
Serviareas 2000, S.L.U (z)	100
Servicios Auxiliares del Transporte C.B. (bz)	100
Servicios del Principado, S.A.U. (z)	100
Servicios El Temple, S.L. (ap)	100
Servicios Empresariales Especiales, S.L.U. (an)	100
Setra Ventas y Servicios, S.A.U. (bp)	100
Sevirama, S.L. (ca)	30
Sociedad Anónima Unipersonal Alsina Graells de A.T. (cb)	100
Sociedad Concesionaria Interurbano Tolosa Buruntzaldea S.L. (cc)	25
Takselia, S.L. (cd)	60
Técnicas en Vehículos Automóviles, S.L.U. (y)	100
Terminal de Autobuses de Garellano, S.L. (ce)	41

Name and country of Incorporation	% equity interest
Tibus, S.A. (cb)	60
Tibus Berlines de Luxe, S.L.U. (cb)	100
Tibus Business Cars, S.L.U. (cb)	100
Tibus Business Limousines, S.L.U. (y)	100
Tibus Luxury Services, S.L.U. (cb)	100
Transporte Colectivos, S.A.U. (cf)	100
Transportes Accesibles Peninsulares, S.L. (cg)	100
Transportes Adaptados Andaluces, S.A.U. (ch)	100
Transportes Adaptados Regionales, S.L.U. (al)	100
Transportes Adaptados Cántabros, S.A. (ci)	98
Transportes Bacoma, S.A.U. (cb)	100
Transportes Rober, S.A.U. (aa)	100
Transportes de Viajeros de Aragón, S.A. (bb)	59
Transportes Santo Domingo, S.L.U. (cj)	100
Viajes ALSA, S.A.U. (z)	100
Transportes Terrestres Cantabros, S.A. (ci)	93
Transportes Unidos de Asturias, S.L. (ck)	100
Transportes Urbanos de Cantabria, S.L.U. (ci)	100
Transportes Urbanos de Cartagena, S.A. (cl)	97
Tranvía de Vélez, S.A.U. (cm)	100
Transportes Urbanos de Guadalajara, S.L. (cn)	100
Tranvías Metropolitanas de Granada, S.A.U. (co)	100
Tury Express, S.A. (an)	100
Viajes Por Carretera, S.A.U. (an)	100
Ute Ea Alicante (dg)	50
Ute Ea Cordoba (dh)	50
Ute Mundiplan (dj)	17
Vitalia Servicios Sanitarios, S.L. (cp)	60
Voramar el Gaucho S.L.U. (cq)	100
Switzerland	
AlpyBus S.a.r.l. (cr)	100
Eggmann Frey (cs)	100
GVA Transfers.com SARL (ct)	100
Linien Abfertigung GmbH (cs)	80
Odier Excursions, S.A. (cu)	100
US	
The Provider Enterprises, Inc. (cv)	100
A1A Transportation, Inc. (cw)	100
A&S Transportation Incorporated (cw)	100
Atlantic & Southern Transportation (cx)	100
Atlantic & Southern Transportation (cy)	100
Atlantic & Southern Transportation (cz)	100
Beck Bus Transportation Corp. (da)	100
Beck Bus Transportation III, LLC (da)	100
Beck Bus Transportation IV, LLC (da)	100
Beck Bus Transportation, LLC (da)	100
Bus Co., Inc. (da)	100
Caravan Leasing Vehicles LLC (db)	100
Carrier Management Corporation (dc)	100
Chicagoland Coach Lines LLC (de)	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Community Transportation, Inc. (dc)	100
Cook-DuPage Transportation Company, Inc. (da)	100
Diamond Transportation Services, Inc. (df)	100
Discount Enterprises, Inc. (dg)	100
Durham D&M LLC (de)	100
Durham Holding I, LLC (de)	100
Durham Holding II, LLC (de)	100
Durham School Services, L.P. (de)	100
Fox Bus Lines Inc. (dh)	100
Greensburg Yellow Cab Co. (dc)	100
Haid Acquisitions LLC (di)	100
JNC Leasing, Inc. (dj)	100
Kiessling of Attleboro Inc. (previously Aristocrat Limousine and Bus, Inc.) (dk)	100
Kiessling Transit, Inc. (dh)	100
Meda-Care Vans of Waukesha, Inc. (dl)	100
MF Petermann Investment Corporation (de)	100
Monroe School Transportation, Inc. (dm)	100
MV Student Transportation, Inc. (dn)	100
National Express Acquisition Corporation (de)	100
National Express Durham Holding Corporation (de)	100
National Express LLC (de)	100
National Express Leasing Company LLC (de)	100
National Express Transit Corporation (de)	100
National Express Transit Services Corporation (de)	100
New Dawn Transit LLC (dm)	100
Petermann Acquisition Co., LLC (de)	100
Petermann Acquisition Corporation (de)	100
Petermann Holding Co., LLC (de)	100
Petermann Ltd. (di)	100
Petermann Northeast, LLC (di)	100
Petermann Northwest, LLC (de)	100
Petermann Partners, Inc. (de)	100
Petermann Southwest, LLC (de)	100
Petermann STS, LLC (de)	100
Petermann STSA, LLC (de)	100
PM2 Co. LLC (de)	100
Quality Bus Service, LLC (dm)	100
Queen City Transportation, LLC (di)	100
Rainbow Management Service, Inc. (dm)	100
Safeway Training and Transportation Services, Inc. (cv)	100
Septran, Inc. (cz)	100
Smith Bus Service, Inc. (do)	100
Suburban Paratransit Services, Inc. (dm)	100
Total Transit Enterprises, LLC (dp)	100
Trans Express, Inc. (dm)	100
Transit Express, Inc. (dl)	100
Transit Express Services, Inc. (dl)	100
Trinity, Inc. (dj)	100
Trinity Cars, Inc. (dj)	100
Trinity Coach LLC (dj)	100
Trinity Management Services Co. LLC (dq)	100

Name and country of Incorporation	% equity interest
Trinity Student Delivery LLC (dj)	100
TWB Transport, LLC (da)	100
WeDriveU America LLC (cz)	100
WeDriveU Holdings, Inc. (dr)	80
White Plains Bus Co., Inc. (dm)	100
Whitetail Bid Co., LLC (de)	100
Wise Coaches, Inc. (ds)	100
Canada	
National Express Canada (Holdings) Limited (dt)	100
National Express Canada Transit Ltd (dt)	100
Stock Transportation Ltd (dt)	100

* These subsidiaries are exempt from the requirements of the UK companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Outstanding liabilities of the exempt companies at the Balance Sheet date are guaranteed pursuant to Sections 479A-C of the Act.

** National Express Financing LP is exempt from preparing accounts in accordance with Part 2, Regulation 7 of The Partnerships (Accounts) Regulations 2008, as it is included within the Group consolidated financial statements for the year ending 31 December 2022

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings continued

Key	Address
(a)	National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD
(b)	Terminal 1, Office 10, Link Corridor, Mezzanine Level, Dublin Airport, Dublin, K67 KD58, Ireland
(c)	Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain
(d)	Vogelsanger Weg 38, 40470 Düsseldorf, Germany
(e)	Johannisstrasse 60-64, 50668 Cologne, Germany
(f)	Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic
(g)	Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands
(h)	Carrer de la Cúria, s/n, Andorra la Vella
(i)	30 Rue Auguste Piccard – 01630 Saint-Genis-Pouilly
(j)	361 San Francisco Street 4th Floor, San Juan, PR, 00901
(k)	41 Boulevard Poniatowski, 75012, Paris
(l)	498 Avenue des Alpages, 74310 Les Houches
(m)	Twin Center ang Bd Zerktouni Et Al Massira Etg 5 et 6, Casablanca
(n)	Rue De Teheran, Q.I Agadir
(o)	Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech
(p)	Rue cadi Srayri et Cadi Ben Hammadi, Quartier de la Pinede – Rabat
(q)	Ferme Ahzib Achayech, Ferkat Ain Dada, Askedjour (Marakech Menara – Maroc)
(r)	No 22 Rue Meknes Hey Haboub, Khouribga
(s)	37 Rue Omar Ibn Khattab, Inmeuble Maspalomas 2, Tanger
(t)	Avenida das Forças Armadas, N 125, 12 Lisboa
(u)	Rua de Pedro Nunes, 39, Lisboa
(v)	Estrada de Algeruz, Cruz de Peixe – 2901-279-Setúbal
(w)	Tehelná 23 83103, Bratislava – Nové Mesto
(x)	Avda. Manuel Rodríguez Ayuso, 110 – Zaragoza
(y)	C/ Alcalá, 478, Madrid (28027)
(z)	C/ Miguel Fleta, 4, Madrid (28037)
(aa)	Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)
(ab)	Pepe Cosmen s/n - Oviedo

Key	Address
(ac)	C/ Túnez, 1 (Estación de Autobuses), Cáceres
(ad)	Josefa Valcárcel, 20 - Madrid
(ae)	Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)
(af)	Urbanización Plaza de Roma, F-1, Zaragoza
(ag)	C/ Real 116 – Arganda del Rey (Madrid)
(ah)	Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10
(ai)	C/ Jorge Juan, 19 – 2º Izquierda, Madrid (28001)
(aj)	C/ Tellaetxebidea 3, Bilbao
(ak)	Pol. Ind. Vilecha Oeste, León (24192)
(al)	Avenida Ingeniero Saenz de Miera, León (24009)
(am)	Avenida de la Libertad, s/n, 06800, Mérida (Badajoz)
(an)	Alameda de Urquijo, no 85, 1o – Dcha., Bilbao- Vizaya (48013)
(ao)	Magnus Blikstad 2, Gijón (33207)
(ap)	Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña
(aq)	Cedofeita, c/ Requiande, 1 – Ribadeo-Lugo
(ar)	Carretera Porto Pi, 8-7º, 07015, Palma de Mallorca
(as)	Avenida de Candina, nº 35, Santander (39011)
(at)	C/ Campaneros, 4, 1o Dcha, Palencia (34003)
(au)	Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510)
(av)	Avda Conde de Guadalhorce 123, Aviles (33400)
(aw)	C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona
(ax)	Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña)
(ay)	Avda de España, 1, Logroño- La Rioja
(az)	Avda Trovero Marín. Nº 3,(Estación Autobuses), Cartagena (30202)
(ba)	Ctra de Asturias, Ponferrada
(bb)	Avda de Navarra, 80 (Estación Central de Autobuses),Zaragoza (50011)
(bc)	C/ Ramón y Cajal, Pola de Siero
(bd)	Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)
(be)	Avda Valladolid, Aranda de Duero (Burgos)
(bf)	Avda Las Murallas, nº 52, Astorga-León (24700)
(bg)	C/ Los Telares (Estación de Autobuses) Aviles (33400)
(bh)	C/ Tornavacas, 2, Plasencia

39 Subsidiary undertakings and other significant holdings continued

Key	Address
(bi)	Avda Rosalía de Castro, Ribadeo
(bj)	C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)
(bk)	Plaza de las Estaciones, Santander (Cantabria)
(bl)	Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009)
(bm)	Rúa Caballeros, 21, 15009 A Coruña
(bn)	Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo
(bo)	Pol. De Pocomaco, Primera Avenida, 10 Nave Alsa B-15, A Coruña
(bp)	Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)
(bq)	C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)
(br)	C/Guillem de Castro, 77, Valencia
(bs)	Avenida de la Hispanidad O- Parking P12, Barajas, Madrid
(bt)	C/ Jacques Cousteau, 2 – Arteijo (A Coruña)
(bu)	C/ Santa Leonor, 65 –Avalón Parque Empresarial, Edificio A, Madrid
(bv)	C/ Porto Pi, 8 – Palma de Mallorca
(bw)	C/ Inglaterra, 20-22, Palencia (34004)
(bx)	Madrid (Las Rozas), Avda de Marsil 33
(by)	C/ Musico Gustavo Freire, 1 -1° Dcha, Lugo (27001)
(bz)	C/ Mendez Álvaro (Estación de Autobuses), Madrid
(ca)	Paseo Colón, 18, Bajo Dcha. Sevilla
(cb)	C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)
(cc)	Barrio Ubilluts, Andoaín – Guipuzcoa
(cd)	c/ Santander, 71 - Barcelona
(ce)	Alameda de Mazarredo, 21, Bilbao
(cf)	Gran Vía de D. Ingacio de Haro, 81, Bilbao
(cg)	C/Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)
(ch)	Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén
(ci)	Avda Candina, 35-37, Santander (39011)
(cj)	C/ Investigación. Nº 2 – Getafe (Madrid)
(ck)	Pol. Ind. Espírtiu Santo, Oviedo (33010)
(cl)	Paraje de la Asomada, Cartagena (Murcia)
(cm)	Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)
(cn)	Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)
(co)	Avenida de Cádiz, número 70, 1º-B, Granada
(cp)	C/ Eduardo Torroja, 57 - Madrid
(cq)	S' den Serral (San Agustín) Sant Josep de sa Talaia, Illes Balears
(cr)	8 Chemin de Morglas, 1214, Genève
(cs)	Rue du Mont Blanc 14, 1201, Genève
(ct)	Chemin de Morglas, 8 – Vernier
(cu)	Chemin Des Aulx 9 – Plan Les Ouates – Switzerland
(cv)	9 Capitol Street, Concord, NH 03301
(cw)	1200 Pine Island Road, Plantation, FL 33324
(cx)	289 Culver Street, Lawrenceville, GA 30046
(cy)	3867 Plaza Tower Drive, Baton Rouge, LA 70816
(cz)	334 North Senate Avenue, Indianapolis, IN 46204

Key	Address
(da)	208 S. LaSalle Street, Chicago, County of Cook, IL 60604
(db)	8020 Excelsior Drive, Suite 200, Madison, WI 53717
(dc)	600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071
(de)	1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120
(df)	4701 Cox Road, Glen Allen, County of Henrico, VA 23060
(dg)	3800 North Central Avenue, Ste. 460 Phoenix, AZ 85012
(dh)	155 Federal Street, Suite 700, Boston, MA 02110
(di)	4400 Easton Commons Way, Suite 125, Columbus, County of Franklin, OH 43219
(dj)	40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675
(dk)	820 Bear Tavern Road, West Trenton, NJ 08628
(dl)	301 S. Bedford St., Suite 1, Madison, WI 53703
(dm)	28 Liberty Street, New York, NY 10005
(dn)	40 West Lawrence, Suite A, Helena, Montana 59601
(do)	2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264
(dp)	3800 North Central Avenue, Suite 460, Phoenix, AZ 85012
(dq)	4624 13th St., Wyandotte, MI 48192
(dr)	2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833
(ds)	300 Montvue Road, Knoxville, TN 37919
(dt)	40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada
(dg)	Muelle de Poniente, Alicante
(dh)	Glorieta de las Tres Culturas, Córdoba
(dj)	C/ Ruiz Perelló, 15, Madrid

40 Post balance sheet events

Subsequent to year end, National Express Rail GmbH business has won a contract worth €1 billion over the lifetime of the agreement to operate the RE1 and RE11 Rhein-Ruhr-Express ("RRX") lines in Germany to 2033.The German Rail division has been operating the two rail lines since February 2022 through an emergency contract award. Following this new contract award, National Express now operates all three RRX lots under long term contracts.