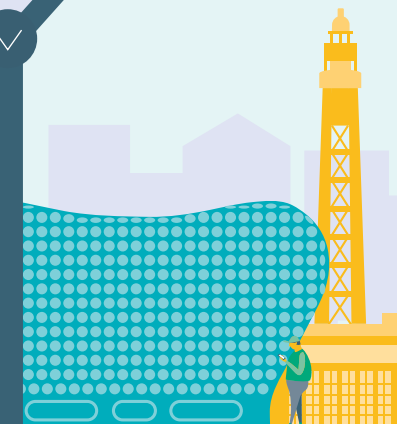
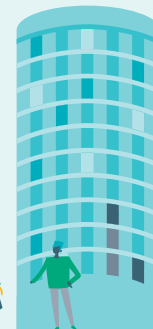
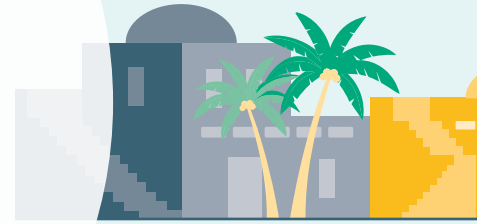


national  
express

A trusted  
partner driving  
a cleaner future

Annual Report 2019



# New decade, new era



**Dean Finch**  
Group Chief Executive

It is increasingly clear we have entered a new era, with environmental and social concerns gaining greater salience. It is an era National Express welcomes. The solutions to the challenges we face, whether carbon, clean air, congestion or inclusive growth, require high quality public transport at their core.

The single most important thing we can do is lead modal shift and get people out of cars and onto buses and coaches. It is safer and it is better for the environment: safer as we employ the most highly trained professional drivers, operating under the closest supervision and driving vehicles with the best safety technology as standard; better for the environment as each bus takes 75 cars off the road and each coach, a mile of traffic.

National Express is determined to be the trusted partner relied upon to consistently deliver high quality mass transit for our customers.

While we are determined to do more, we are not starting from scratch. Our Vision and Values – launched in 2011 – have guided how we operate. They are not corporate rhetoric, but real priorities that have driven service improvement and delivered for our customers and the communities we serve.

Take safety – our priority – as an example. In 2019, across the whole of National Express Group we achieved zero responsible fatalities. This is the first that any of our vastly experienced team can remember, in any of the companies they have worked in. Our UK bus business was this year recognised by the British Safety Council as the safest public transport operator of all the companies they audited across the world.

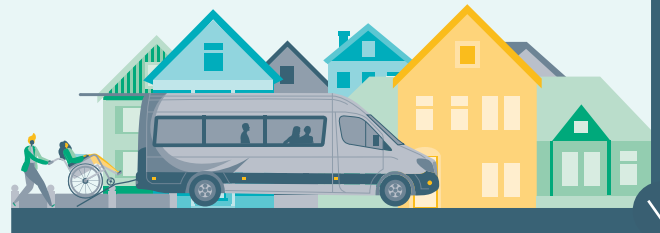
There are other examples:

- We are proud to have been the first private transport group to become a Living Wage Foundation accredited employer
- Our National Express Foundation was again the first of its kind and provides £500,000 a year to local community groups and student bursaries for those who would otherwise be unable to attend further or higher education
- All of our main European businesses have 5-star European Foundation for Quality Management accreditations

These are significant achievements, but we want to step up for this new era. Just as demands of customers, investors and stakeholders have changed in recent years, so have National Express' ambitions. The next two pages set out our renewed Vision and Purpose and refreshed set of Values. They reflect our renewed ambition and approach to deliver on our belief: as a quality mass transit operator National Express has a unique opportunity to provide services that meet the demands of customers and stakeholders and generate sustainable returns for shareholders.

*Dean Finch*

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



**This Vision is rooted in a Belief that:** driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future.



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





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



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



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# A business with Values fit for a new era

We believe our existing Values still provide the best priority framework to deliver on our renewed Vision and Purpose. Our Values have been refreshed, however, to reflect our new ambition to be widely regarded as the world's leading mass transit partner.



### Safety

The safest mass transit operator in the communities we serve



### Excellence

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



### Customers

The most trusted and valued mass transit partner



### People

The place to work in mass transit



### Community & Environment

The world's greenest mass transit operator; a trusted partner to the communities we serve



We have very carefully considered our key stakeholders' priorities in refreshing our Values. We have concluded, as set out in our renewed Vision, Purpose and Approach, that our key stakeholders ultimately want a **trusted partner**. Our refreshed Values therefore capture this.



The table below, therefore, sets out the distinctive values, behaviours and approach our key stakeholders expect from a trusted partner.

Key stakeholder	Expectation of standard operator	Priorities of a trusted partner
 Commercial passengers	<ul style="list-style-type: none"> <li>– Safe, clean and reliable service at a fair price</li> </ul>	<ul style="list-style-type: none"> <li>– Consistent delivery that builds trust</li> <li>– Accurate information, especially during disruption</li> <li>– Great value for money</li> <li>– A good company, giving something back</li> </ul>
 Contracted customers	<ul style="list-style-type: none"> <li>– Safe, efficient service to contracted terms</li> </ul>	<ul style="list-style-type: none"> <li>– Consistent delivery that builds trust</li> <li>– Proactive innovation or prompt response to changing demands</li> <li>– Great value for money</li> <li>– Open, accurate and transparent communication, including fixing things when they go wrong</li> </ul>
 Local authorities, national governments and/or elected representatives	<ul style="list-style-type: none"> <li>– Safely delivering services local populations expect</li> </ul>	<ul style="list-style-type: none"> <li>– Helping solve policy challenges, such as congestion, carbon, clean air and inclusive growth, in partnership</li> <li>– A broader community impact</li> </ul>
 Regulatory bodies	<ul style="list-style-type: none"> <li>– Regulatory compliance and safe service</li> </ul>	<ul style="list-style-type: none"> <li>– Proactive communication on challenges</li> <li>– Joint working on regulatory standards improvement</li> </ul>
 Suppliers	<ul style="list-style-type: none"> <li>– Compliance with agreed contract terms</li> </ul>	<ul style="list-style-type: none"> <li>– Solve problems and challenges in partnership</li> <li>– Identify areas for joint innovation and long-term relationships</li> </ul>
 People	<ul style="list-style-type: none"> <li>– Fair day's pay for a fair day's work</li> <li>– Good colleagues and a supportive work environment</li> </ul>	<ul style="list-style-type: none"> <li>– Living Wage Foundation accreditation, rewards for excellence and offers good opportunities for progression</li> <li>– A workplace that values diversity, champions inclusion and respects the rights of all employees</li> <li>– A company whose values I share</li> </ul>



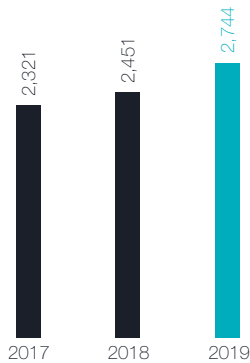
### Wider stakeholder engagement

Our key stakeholders also include our investors. Further detail on all of our stakeholders and how we engage with them can be found in the Responsible Partner section page 37 to 47 and in Governance pages 71 to 75.

# A consistent growth story

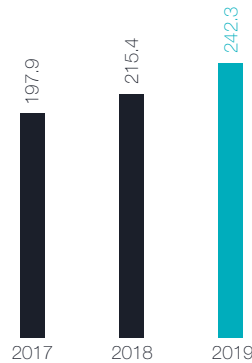
Group revenue (£m)

2,744



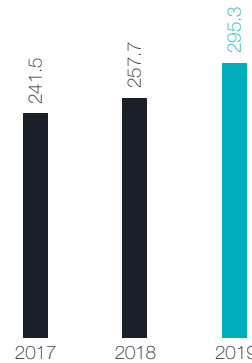
Statutory operating profit (£m)

242.3



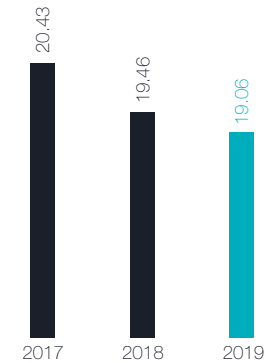
Normalised operating profit (£m)

295.3



Carbon emissions per passenger km\*

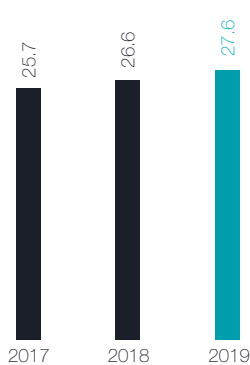
19.06



\* Total tonnes of CO<sub>2</sub> emissions per million passenger km

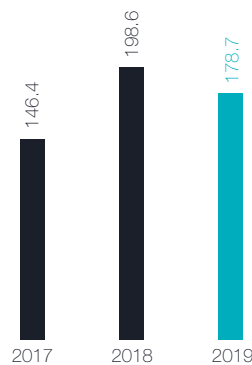
Statutory earnings per share (p)

27.6



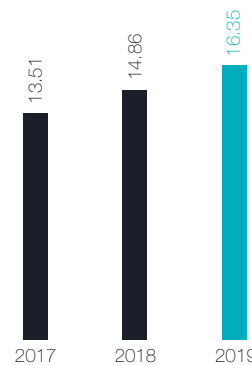
Free cash flow (£m)

178.7



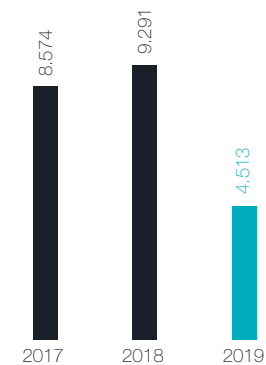
Dividend per share (p)

16.35



Safety – Fatalities and Weighted Injuries (FWI)

4.513



	IFRS basis		Normalised basis	
	2019 £m	2018 £m	2019 £m	2018 £m
Revenue	2,744.4	2,450.7	2,744.4	2,450.7
Operating profit	242.3	215.4	295.3	257.7
Profit before tax	187.0	177.7	240.0	220.0
Profit for the year	148.3	138.7	184.8	171.0
Basic earnings per share (pence)	27.6	26.6	34.5	32.9
Free cash flow			178.7	198.6
Net debt			1,241.5	951.5
Full year proposed dividend per share (pence)			16.35	14.86

Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The normalised result is defined as being the IFRS result excluding intangible amortisation for acquired businesses, net gain in relation to the disposal of Ecolane subsidiaries, US restructuring costs and, in the prior year, result from discontinued operations. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows users of the Financial Statements to understand management's key performance measures. Further details relating to separately disclosed items are provided on page 155 in note 4 to the Financial Statements. In addition, unless otherwise stated, all pre-tax results and margin data refer to the Group's continuing operations. Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group. All definitions of alternative performance measures used throughout the Annual Report are included on page 231.

# Fit for a new era

Sir John Armitt CBE  
Chairman



## Dear fellow shareholder

### A new era of opportunity

This is a very interesting time for mass transit. Across the world the debate on climate change, clean air and how we power future growth is an increasingly urgent one.

As Dean Finch, Group Chief Executive, has already said: it is an agenda National Express welcomes.

I have written in previous Chairman's statements that to maintain National Express' leadership position we must be seen as a trusted partner to our customers and the communities we serve. Time has only strengthened this conviction.

### Strong foundations

It is pleasing, therefore, that we have a strong track record to build on. Most importantly, in safety, National Express has made very strong progress under Dean's leadership.

It is perhaps the biggest achievement during my seven years at National Express that across the whole Group there were not any responsible fatalities in 2019. The investment in Lytx DriveCam smart safety cameras and the associated management systems has undoubtedly made a real difference. The Driving Out Harm campaign launched in 2010 has changed the safety culture across the whole Group.

In this area, and many others, National Express is delivering significant benefits to our customers, our staff and the communities we serve.

But we want to go further. As Dean says, National Express is determined to meet the opportunity that the new era and challenges present.

### Leadership in the new era

In our meetings with customers, politicians and regulators, it is clear that they want their services delivered by an operator that prioritises safety, excellence and value. Cities like Birmingham and Barcelona are setting out radical new plans that place high quality, clean and green mass transit at the heart of their future vision.

In launching the renewed Vision and Values, Dean is again demonstrating National Express' leadership and how we ensure our ambitions and focus reflect the priorities of customers and key stakeholders.

National Express' ambition is therefore to be seen as the world's leading mass transit operator, trusted to consistently deliver high quality services to customers at prices they value. This is also the company that our employees tell the Board they want to work for.

This is why National Express welcomes the demands of the new agenda: the response required to meet them is the leadership National Express aspires to demonstrate.

It is a demonstration of our commitment that in our full year results statement we made significant leadership pledges on zero emission vehicles – including never buying another diesel bus – in the UK.





### Board engagement with our people

During 2019, Sir John Armitt has visited a number of our locations to meet our people and gain a deeper insight into how the business runs. In October, he visited National Express Accessible Transport in Birmingham, to meet the team running our Home to School and Ring and Ride Services. You can read more about how our Board engages with our employees on pages 72 and 73.



“Across the world the debate on climate change, clean air and how we power future growth is an increasingly urgent one. It is an agenda National Express welcomes”

Our commitments have been augmented with the inclusion of environmental targets in executive and senior management long-term incentive share awards.

We are determined to retain such leadership in the years ahead.

#### 2019 performance

The financial foundation we build on to meet this new era remains very strong. It is very pleasing to again announce a record set of results.

Revenue and profit are up in every division. We have retained significant contracts, started major operations in Morocco, Germany and Birmingham and welcomed new colleagues such as WeDriveU in the USA.

This has helped expand markedly the number of commercial passengers we carry across the Group. This performance continues to be based on a foundation of operational excellence.

#### The year ahead

The Board expects the Group to build again on these results to deliver further growth in 2020. The Group has established strong leadership positions in a number of markets and there are many opportunities for both organic growth and further strategic acquisition in the years ahead.

While there has been some progress on Brexit in recent months, there is still uncertainty over the shape of the future relationship with negotiations at an early stage.

Whatever the likely outcome, we still do not believe we will suffer adverse direct consequences. We do not run any scheduled cross-Channel services. Working closely with suppliers, we believe we have prepared for any disruption to our supply chains.

#### Dividend

It is with this confidence in mind that the Board has again recommended a 10% increase in the final dividend, bringing the full year dividend to 16.35 pence per share. Subject to shareholder approval, this will be paid on 12 May to those shareholders registered on 24 April 2020.

Finally, I would like to thank all the staff at National Express, under the executive directors' leadership, for another strong year.

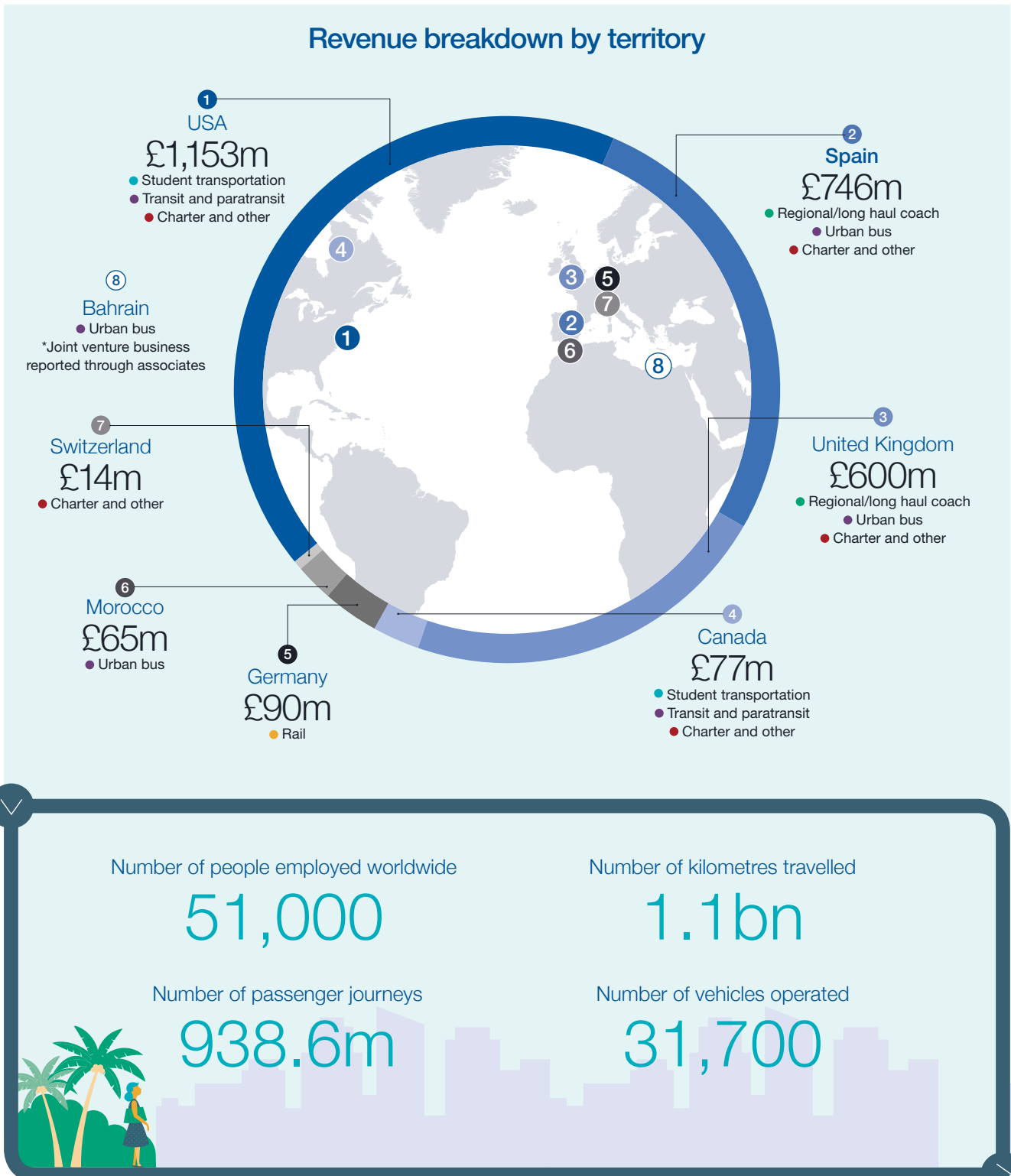
I look forward to us all working together as National Express continues to prosper in this exciting new era.

Sir John Armitt CBE

Chairman  
27 February 2020

# National Express at a glance

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





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

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

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

## Revenue breakdown by business line

**Student transportation**  
(North America school bus)



£804m  
29.3%<sup>1</sup>

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



£796m  
29.0%<sup>1</sup>

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



£752m  
27.4%<sup>1</sup>

**Charter and other**  
(North America, ALSA and UK)



£302m  
11.0%<sup>1</sup>

**Rail**  
(German Rail)



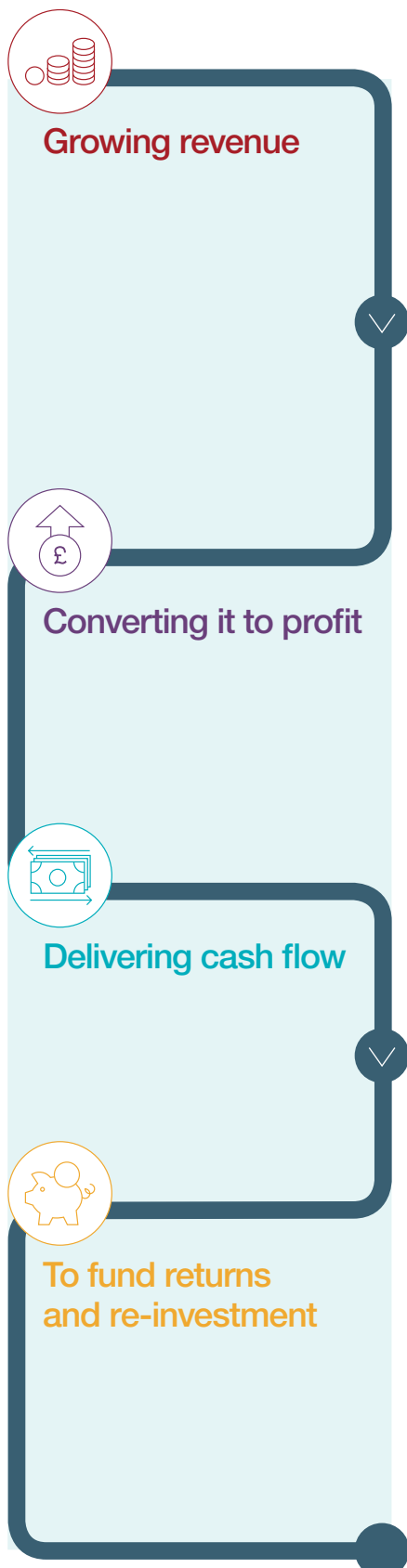
£90m  
3.3%<sup>1</sup>

<sup>1</sup> Percentage of Group revenue



# How we create value...

National Express operates safe, reliable, convenient and good value mass transit services. We do this in both regulated and unregulated markets, and provide services to our customers who are private individuals, companies, school boards or public authorities.



National Express generates revenue from two principal sources. The Group engages in multi-year contracts with bodies such as school boards in North America or local authorities in Spain and Morocco and these make up 50% of revenue. Revenue is generated either on a per mile/kilometre basis, or per route travelled. The Group generates a further 37% of revenue through ticket sales to the public, such as in the UK bus and coach businesses, coach and some bus services in Spain and Morocco, and the German Rail business. In these, National Express is marketing the product and taking revenue risk. Concession revenue from local authorities in the UK, Spain and Germany delivers 4% of Group revenue with charter/private hire contributing a further 6%. The remaining 3% is from other revenue streams such as on-board entertainment, SMS alerts, booking fees and advertising.

The Group uses technology to support its revenue growth. Our Revenue Management System (RMS) enables us to segment our customer offer through a better understanding of customer needs and purchasing behaviour to drive revenue through differential pricing depending on time of journey, ticket type, buying channel etc. Our websites and apps support our customers in getting the product they need at a price they can afford.

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

National Express has a track record of consistently generating cash flow from its operations. The Group has delivered over £773 million of free cash flow over the last five years and is extremely disciplined in its management of working capital and in the conversion of operating profit into free cash.

Our first priority is to re-invest in the core business. After maintaining our base business, we invest cash back into the operations to grow, having invested £701 million both organically and inorganically since the start of 2015. This has strengthened our market-leading positions in coach in the UK and in Spain; built out key hub positions in North American student transport; and enabled us to move into adjacencies like urban bus in Morocco or charter in North America. In addition, we can deliver consistent, competitive returns to shareholders. Over the last five years the Company has returned £327 million through dividends, growing dividend per share by 59%.

# ...for all our stakeholders

## Our Section 172(1) Statement

In accordance with their duty to do so under Section 172(1) of the Companies Act 2006 (Section 172(1)), the Company's Directors, individually and collectively, have acted in a way that they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole. Examples of how they have done so, including having regard to the factors specified in Section 172(1), appear throughout this Annual Report. A guide to these factors and where to find more information about how the Company, under the direction of its Directors, has had regard to them is set out in this statement.

Further specific examples of how the Board of Directors has had regard, in its principal decisions made during the year, to the various factors set out in Section 172(1), and the impact that regard has had, are set out on pages 66 to 68 of the Corporate Governance Report. These are incorporated by reference into this Section 172(1) Statement.



### Making long-term decisions

We believe that quality mass transit is at the heart of society's response to the climate change, clean air, congestion and inclusive growth challenges we face. We have revised our Vision and Values to meet the demand of this new era and to ensure our decision-making meets the scale of the challenges society faces in the coming years. For more information about:

- why we consider that mass transit services are the long-term answer to today's mobility challenges, see page 12 and 13 of the Strategic Report; and
- why we consider our business model to be sustainable, see pages 10 and 11, and our Company to be viable and a going concern, see page 26 of the Strategic Report.

### Having regard to employees' interests

Our employees and the members of our wider workforce are our most valuable asset as they enable us to provide our mass transit services and, by doing so safely and well, grow our business by improving our passengers' journeys and our customers' experience. More information about:

- how we invest in and reward our employees is set out on pages 11 and 39 of the Strategic Report;
- how the Board engages with the Group's workforce is set out on pages 71 to 73 of the Corporate Governance Report; and
- how the Company engages with its and its Group's employees is set out on pages 125 and 126 of the Directors' Report.

### Fostering business relationships

We put our customers at the heart of what we do by ensuring that we provide safe, reliable and great value mass transit services for them. We

develop relationships with our other key stakeholders, including our suppliers, regulators, central and local government authorities and politicians, to ensure we understand how we can best work with them best and achieve mutual goals. More information about:

- who our key stakeholders are, why they are key and how we engage with them is set out on pages 41 to 44 of the Strategic Report; and
- how the Board understands stakeholders' views, including by engaging with stakeholders, is set out on pages 71 to 75 of the Corporate Governance Report.

### Impact on community and environment

We play a vital role in the communities we serve by connecting the people who live in those communities with their work, leisure, family and friends. Our increased focus on providing mass transit services in a sustainable way is also helping reduce harm to the environment. For more information about:

- our services and the different communities and customers they serve, see pages 2 and 38 of the Strategic Report;
- our investment in our communities through the National Express Foundation, see page 42 of the Strategic Report;
- our annual carbon emissions and intensity metrics, see pages 46 and 47 of the Strategic Report;
- our new environmental KPIs and performance against them, see Managing our environmental impacts on page 46 of the Strategic Report; and
- our new LTIP environmental performance measure, see page 102 of the Annual Statement by the Remuneration Committee Chair in the Corporate Governance Report.

### Maintaining high standards of business conduct

Our reputation is key. It underpins our ability to earn the loyalty of our customers and thereby to grow our business through increased commercial passenger journeys and winning or renewing concession contracts. We pride ourselves on being one of, if not the, safest mass transit provider in the world and we believe this differentiates us from our peers. We also aim to become a leader in the provision of sustainable mass transit services. For information about:

- how we carry on business responsibly, see pages 37 to 47 of the Strategic Report;
- our safety priorities, policies and performance, see the Safety & Environment Committee Report on pages 94 to 98 of the Corporate Governance Report; and
- our system of internal control including our management of risk, see the Audit Committee Report on pages 87 to 93 of the Corporate Governance Report.




### Acting fairly between members

Everything we do well benefits our shareholders, whether they are large institutions or private shareholders, financially through the returns we generate for them and reputationally through the way we operate. For more information about:

- our financial performance and the returns delivered to our shareholders in the year under review, see pages 3, 6 to 7, 16, 19 to 20 and 21 to 26 of the Strategic Report and the Consolidated Financial Statements on pages 136 to 210; and
- how we engage with our shareholders is set out on page 74 of the Corporate Governance Report.



# How we sustain our advantage: Our Approach

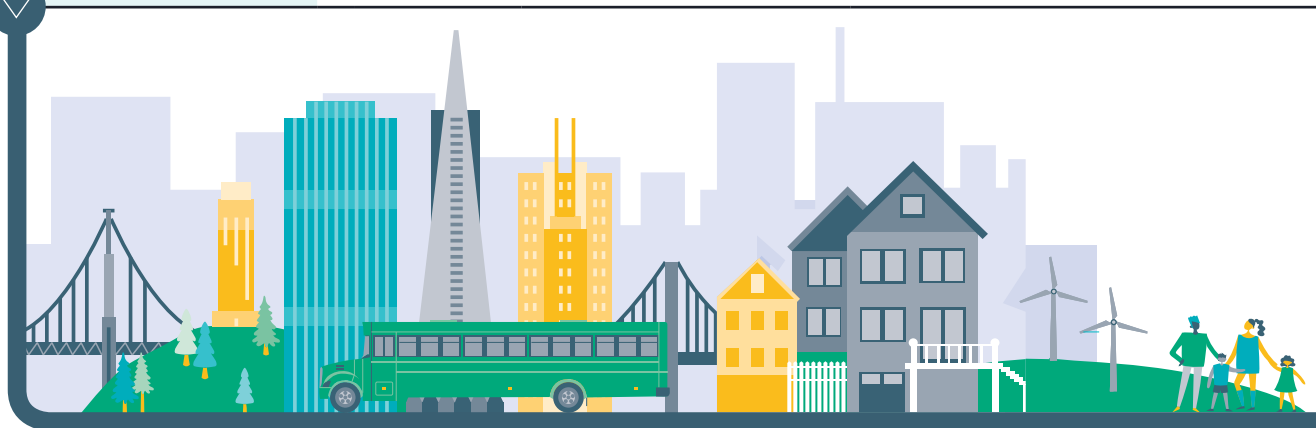
We strive to be a trusted partner to our customers, an operator they can rely upon, with services that meet their needs while also having a positive impact in their communities. This will, in turn, drive strong, consistent returns for our shareholders. Building on our success, we have therefore set a higher level of ambition in each of our Values. To meet this new level of ambition requires us to differentiate ourselves in terms of what we offer and how we offer it, as outlined below.

Value	Ambition	Aim (the NX Difference)	Approach (the NX Promise)
<p><b>Safety</b></p> 	<p>The safest mass transit operator in the world</p>	<p>To deliver our ambition we target:</p> <ul style="list-style-type: none"> <li>– Zero responsible fatalities</li> <li>– An annual reduction in FWI/ million miles</li> <li>– The leading safety credential in each market</li> </ul>	<p>To be the safest, we will continue to invest in leading edge technology and management systems to ensure we have the industry's:</p> <ul style="list-style-type: none"> <li>– Best trained drivers</li> <li>– Closest monitoring (with continuous updating) of driver and mechanic standards</li> <li>– Most sophisticated safety technology on our vehicles</li> </ul> <p>We will provide assurance through independent audit of our safety performance.</p> <p>We will maintain our industry-leading Driving Out Harm and Target Zero safety campaigns.</p>
<p><b>Excellence</b></p> 	<p>The industry leader, trusted to deliver service excellence, consistently</p>	<p>To deliver our ambition we target:</p> <ul style="list-style-type: none"> <li>– Zero in service failures</li> <li>– 100% on-time performance</li> <li>– The highest excellence credential in each country</li> </ul>	<p>To become the trusted leader for excellent service, we will target:</p> <ul style="list-style-type: none"> <li>– No vacancies in driver or technician positions in every business</li> <li>– 100% vehicle availability to perform service</li> <li>– 100% of vehicles at first timing point on time</li> </ul> <p>We will constantly review our timetables (our promise to our customer) to ensure that it delivers service excellence and efficiency.</p> <p>We will adopt innovative technologies where they enhance excellence and efficiency and make our services easier to access.</p>
<p><b>Customers</b></p> 	<p>The most trusted and valued mass transit partner</p>	<p>To deliver our ambition we target:</p> <ul style="list-style-type: none"> <li>– Industry-leading customer scores in: net promoter (or equivalent); value for money; and reliability</li> <li>– Growing organic patronage or customers in every division</li> <li>– The industry's best and easiest to integrate customer platforms</li> </ul>	<p>To secure customer trust, we will:</p> <ul style="list-style-type: none"> <li>– Relentlessly focus on operational excellence and innovation to consistently deliver easy to access services that customers value</li> <li>– Offer multi-modal solutions to the transport needs of individual customers or challenges of authorities</li> <li>– Pursue a stakeholder-led strategy in all of our markets, seeking trusted partner status</li> <li>– Provide industry-leading information, whether travel options or service performance data to customers; and by quickly fixing things when services go wrong</li> </ul>

We seek social and environmental leadership to ensure we are a good employer and partner, while using technology to make our services increasingly easier to access, safe and efficient.

It is this model of progressive partnership that: delivers industry-leading services for our customers and communities; secures rewarding careers for our staff; and generates sustainable returns for our shareholders.

Value	Ambition	Aim (the NX Difference)	Approach (the NX Promise)
<p><b>People</b></p> 	<p>The place to work in mass transit</p>	<p>To deliver our ambition we target:</p> <ul style="list-style-type: none"> <li>– Industry-leading employee satisfaction scores</li> <li>– Investor in People status (or equivalent) in each division</li> <li>– A ‘Best Place to Work’ credential</li> <li>– Recognition as the industry leader in equality</li> </ul>	<p>To be seen as the place to work, we will:</p> <ul style="list-style-type: none"> <li>– Maintain our leadership on the real Living Wage and our Group commitment to pay 10% above national minimum wages</li> <li>– Continue to invest in and champion our Master Driver and Master Technician programmes and NX Network for our high potential employees</li> <li>– Form university partnerships in each division, to help recruit the best talent and identify new sources of innovation</li> <li>– Target year-on-year reduction in regretted losses</li> <li>– Drive equality policies through a Group Diversity &amp; Inclusion Council</li> </ul>
<p><b>Community &amp; Environment</b></p> 	<p>The world’s greenest mass transit operator; a trusted partner to the communities we serve</p>	<p>To deliver our ambition we target:</p> <ul style="list-style-type: none"> <li>– Industry leadership on the shift to zero emission vehicles</li> <li>– 1% of PBT spent on community activities every year</li> <li>– Stakeholder surveys demonstrating high trust scores</li> </ul>	<p>To be the greenest operator and most trusted partner, we will:</p> <ul style="list-style-type: none"> <li>– Never buy a diesel bus again in the UK, with an ambition for UK bus to be zero emissions by 2030 and coach by 2035</li> <li>– Review and roll out similar ambitions across the Group</li> <li>– Set our environmental targets through the IPCC’s Sectoral Decarbonisation Approach</li> <li>– Link 25% of the Group’s LTIP award to environmental targets</li> <li>– Maintain the National Express Foundation and major charity programme (e.g. The Princes Trust in the UK) in each division</li> <li>– Ensure work experience and staff volunteering policies with targets in each division; a charitable partner at every major depot</li> </ul>



# Our belief: driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future



25%

increase in demand for transport

70%

of surface transport emissions emitted by cars

> 50%

of increased traffic congestion due to on-demand taxi services

## Market overview

Urban areas face increasing challenges from congestion, carbon emissions and the imperative for clear air. At the same time, transport authorities recognise that demand for travel is increasing, and that integrated, accessible, safe, reliable transport networks are vital for prosperity.



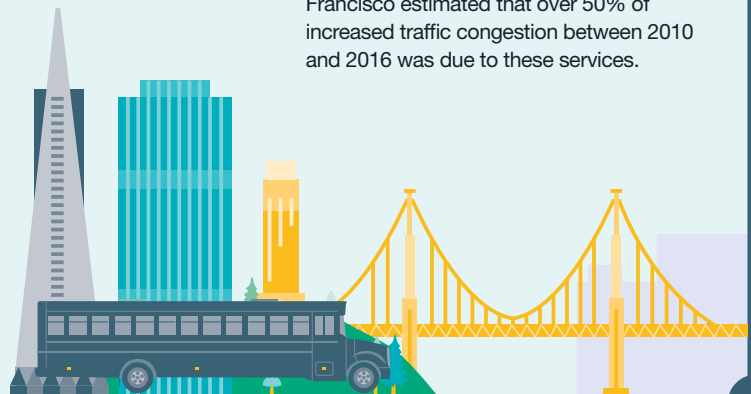
Demand for transport is expected to increase by 25% by 2030 in wealthy cities, and by 80% in developing countries. This demand cannot be satisfied by increased car use.

Cars already emit over 70% of surface transport emissions in the EU.



Demand for transport cannot be met by increased car use

The rise in on-demand taxi services is significantly worsening congestion. San Francisco estimated that over 50% of increased traffic congestion between 2010 and 2016 was due to these services.



## Public transport is the solution

In the UK alone, if the number of people travelling in private vehicles remains constant, this would result in an additional 35 billion vehicle miles on the road by 2030.



Autonomous vehicles could make this worse: repositioning at zero occupancy could reduce average vehicle occupancy and drive up total vehicle miles.



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



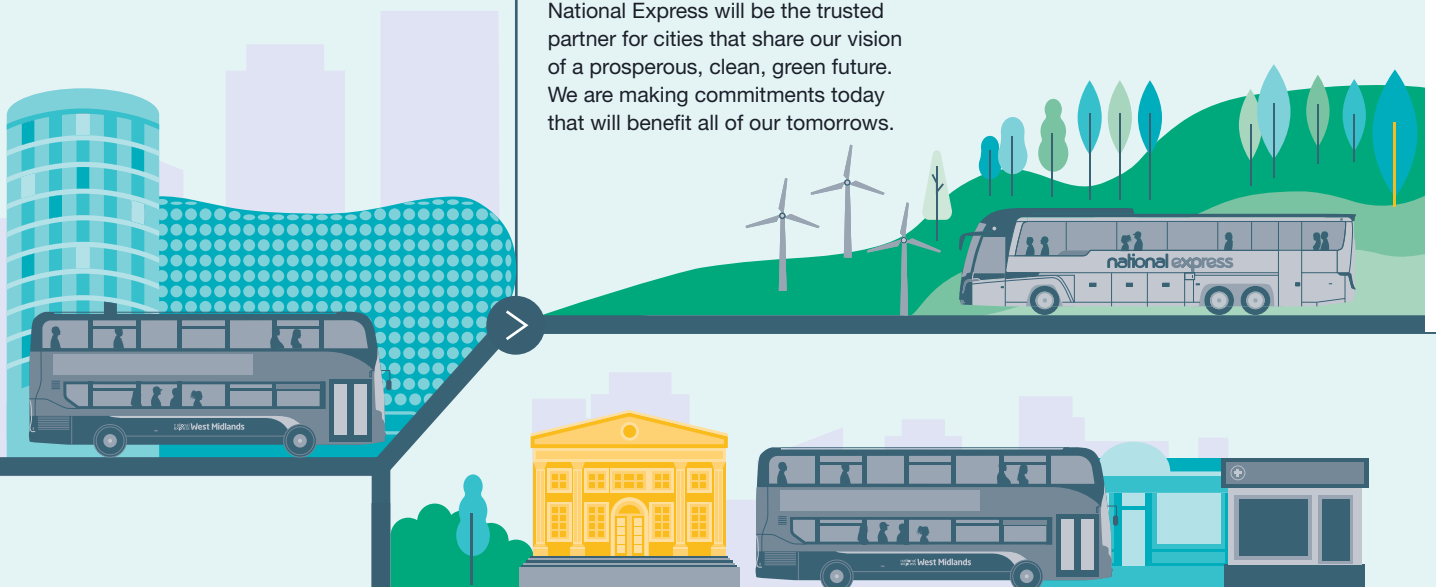
Costs of zero emission vehicles remain higher, and there are technological and infrastructure challenges to address.

## What next?

From Birmingham to Barcelona, visionary cities are already committing to a zero emission future with decreasing access for cars in the city centre.



National Express will be the trusted partner for cities that share our vision of a prosperous, clean, green future. We are making commitments today that will benefit all of our tomorrows.



# Driving our business forward through our three strategic priorities

## Objective

## Performance



### Delivering operational excellence

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



- Another year of record passenger numbers in UK coach and ALSA, with Group passenger journeys growing by 5.1%
- UK bus named the safest public transport company of all those the British Safety Council audited across the world
- First full year of no at-fault fatalities; we remain committed to the highest levels of safety, after launching our Target Zero campaign across all businesses in 2018
- All eligible businesses have EFQM<sup>1</sup> five-star ratings; UK bus and coach re-awarded the British Safety Council Sword of Honour
- UK coach won a number of awards including the British Quality Foundation UK Excellence Award for commitment to excellence and continuous improvement
- ALSA was accredited with the AENOR Social Responsibility Certificate, recognising corporate social responsibility, good governance and continuous improvement



### Deployment of technology

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



- New mobile websites and ticketing apps are driving higher online transactions, higher conversion rates and lowering costs
- Proportion of journeys through digital channels in UK bus increased to around two thirds; and up 7% to 45% in ALSA
- Our real-time RMS in ALSA and UK coach continue to grow revenue, passengers and yield
- Continued roll-out of Lytx DriveCam technology across ALSA, North America and UK, delivering a reduction in the number of collisions and associated costs
- Partnering and investing with local innovation hubs and universities to access new ideas and emerging technology
- All UK buses procured in 2019 were electric vehicles (EV)
- Autonomous vehicle trial in Spain



### Growing our business through acquisitions and market diversification

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



- We acquired nine businesses in the year, both in existing and complementary markets:
  - Five in North America, including the significant acquisition of WeDriveU, providing entry into the fast-growing corporate shuttle market
  - Three in ALSA, including new market entries into Aragon and the Canary Islands
  - An accessible transport operator in the UK, providing entry into a new market
- Doubling the size of our business in Morocco with entry into two new large cities, Rabat and Casablanca
- Successful mobilisation of two services for the Rhine-Ruhr Express (RRX), in German Rail

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

<sup>2</sup> Fatalities and Weighted Injuries Index



## Future outlook

- Network reviews driving efficiency across UK and ALSA
- Development of on-demand services and multi-modal solutions
- Increased ancillary revenue drivers in UK and ALSA, as well as Charter and Charter School revenues in North America
- Further advances in partnership working to address common challenges and cement position as trusted partner
  - Demonstrate environmental leadership
  - Pledge to never buy a diesel bus in the UK again
  - Lead the transition to zero emission coaches
  - Ambition to be zero carbon emissions in UK bus by 2030 and in UK coach by 2035
- Mobilisation of third service on the RRX rail contract in Germany

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

- Further selective acquisitions, principally in North America and Spain
- Extending our offering into new regional markets and cities or building further scale in existing markets and cities
- Pioneer new ways to access transport with multi-modal services within big cities, providing complete mobility solutions, through integrated platforms
- Investments in assets that provide platforms for future growth

## Measuring our progress

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

+ See KPIs pages 16 and 17  
FWI<sup>2</sup>  
Carbon emissions reduction



See Risks  
pages 50 to 53



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

+ See KPIs pages 16 and 17  
Passenger journeys



See Risks  
pages 50 to 53



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

+ See KPIs pages 16 and 17  
ROCE



See Risks  
pages 50 to 53



# Measuring our progress

## Financial

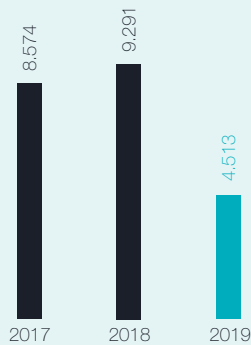
<p>Normalised operating profit (£m)</p> <p><b>£295.3m</b></p> <p>2018: 257.7</p>	<p>Free cash flow (£m)</p> <p><b>£178.7m</b></p> <p>2018: 198.6</p>	<p>Return on capital employed (%)</p> <p><b>12.4%</b></p> <p>2018: 12.4</p>
<p><b>KPI definition</b></p> <p>Group normalised operating profit from continuing operations.</p>	<p><b>KPI definition</b></p> <p>Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 24.</p>	<p><b>KPI definition</b></p> <p>Return on capital employed (ROCE) is normalised operating profit, divided by average net assets excluding net debt and derivative financial instruments, translated at average exchange rates. See reconciliation on page 23.</p>
<p><b>Relevance to strategy</b></p> <p>Key measure of the overall performance of the business.</p> <p>We are focused on driving growth in operating profit in order to generate higher and sustainable returns for our shareholders and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.</p>	<p><b>Relevance to strategy</b></p> <p>Strong cash generation provides the funding to invest in initiatives to drive our strategy.</p> <p>This focus on strong cash generation ensures that we are running the business efficiently, converting profit to cash to enable investment into the business and returns to shareholders, and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.</p>	<p><b>Relevance to strategy</b></p> <p>Demonstrates how efficiently the Group is deploying its capital resources and generating operating profit.</p> <p>A focus on ROCE ensures that we maintain a disciplined approach to capital investment and continue to invest in those areas in which we deliver the best returns. This ensures that we maximise returns to shareholders for the capital they invest.</p>
<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Record Group normalised operating profit, up 13.1% in constant currency and 14.6% on a reported basis</li> <li>Growth being delivered both organically and through acquisitions</li> </ul>	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>Normalised operating cash flow of £249 million</li> <li>Generated £179 million of free cash after investing £211 million in capital expenditure to maintain fleet</li> <li>Generated over £770 million of free cash flow in the last five years</li> </ul>	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>ROCE of 12.4% – reflecting the accretive impact of our high return acquisitions</li> <li>Invested £211 million of net maintenance capital, predominantly in replacing our fleet in our existing operations</li> <li>Invested £42 million in growth capital expenditure to support growth in digital and e-commerce initiatives and mobilisation costs in Morocco and German Rail</li> <li>Strong returns generated by our acquisitions, with acquisitions delivering returns of at least 15%</li> </ul>
<p><b>Remuneration linkage</b></p> <p>Group normalised profit before tax is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.</p>	<p><b>Remuneration linkage</b></p> <p>Free cash flow is one of three bonus inputs to the Executive Directors' and senior managers' annual bonus structure.</p>	<p><b>Remuneration linkage</b></p> <p>ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors' and senior managers.</p>

## Non-financial

### Safety – Fatalities and Weighted Injuries (FWI)

# 4.513

2018: 9.291



#### KPI definition

The Fatalities and Weighted Injuries (FWI) Index weights injuries by severity to give an overall standard based score.

#### Relevance to strategy

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

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

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

#### Performance

- In 2019, we saw a 51% improvement in the FWI score compared with the previous year, and a 54% improvement when adjusting for increased mileage
- First year of no at fault fatalities
- Our businesses in North America and Morocco both recorded their lowest ever scores, improving by 28.6% and 68.7% respectively on the prior year
- 88% improvement in safety performance since the introduction of Driving Out Harm in 2010 (when adjusting for increased mileage)

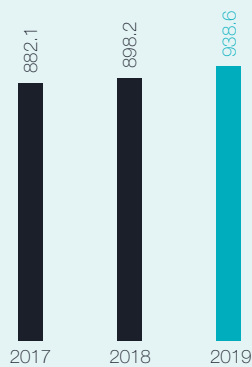
#### Remuneration linkage

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

### Passenger journeys

# 938.6m

2018: 898.2 million



#### KPI definition

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

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

#### Relevance to strategy

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

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

#### Performance

- A record number of passengers carried in 2019, with 939 million passengers travelling on our services, up 5.1% in the year
- Record number of passengers in UK coach, ALSA and German Rail
- Particularly strong growth in Morocco, up 20.3%, and now carrying more passengers than in Spain

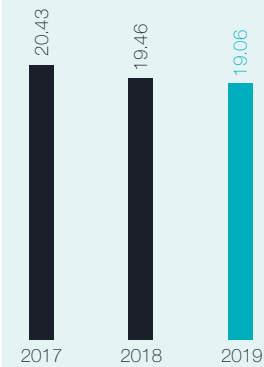
#### Remuneration linkage

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

### Reduction in GHG emissions\*

# 19.06

2018: 19.46



#### KPI definition

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

\* Measured as tCO<sub>2</sub>e / million passenger km

#### Relevance to strategy

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

#### Performance

Fourth consecutive year of emissions reductions: 2.0% fall in tCO<sub>2</sub>e / million km to 19.04, our lowest figure since reporting started in 2014. This has been achieved through:

- consistent fleet renewal;
- adapting existing fleet ahead of renewal; and
- operational excellence initiatives such as a decrease in vehicle idling and network optimisation programmes.

Going forward, we have committed never to buy another diesel bus in the UK and to be zero emission in bus by 2030 and coach by 2035. We have started in the UK but will drive a similar level of ambition across the Group.

#### Remuneration linkage

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

# Records achieved; new ambitions set

Dean Finch  
Group Chief Executive



## Overview

I am pleased to report another record set of results. All of our key financial metrics are strong and our growth prospects positive. I will provide further detail on them in the following sections. I wanted to firstly outline how our strategy has delivered this success and then set out how our ambition is being raised as we seek to meet the challenges of a new era dominated by broader concerns, such as carbon, clean air and inclusive growth. This is an agenda I welcome as both timely and one that I believe National Express is very well placed to prosper in.

Our consistent, sustained, growth over recent years has been delivered through a relentless focus on operational excellence. This requires each business to rigorously identify what existing and potential customers want and relentlessly ensure we meet these demands in the best and most efficient manner. Where we get that right, we have our best opportunity to secure both happy customers and our strongest returns. It is pleasing, therefore, that both ALSA and North America have had record years, alongside a strong UK performance.

Significant passenger growth (up 5.1% across the Group year-on-year) and important contract retention (in, for example, Boston, Chicago and Bilbao), coupled with a strong Group operating margin, are testament to the success of this approach. Most importantly, the continued improvement in safety performance – with our best ever Fatalities and Weighted Injuries Index

score and first responsible fatality-free year on record – demonstrate that our investment, enhanced management systems and culture are delivering crucial improvements. These improvements, most importantly, protect lives, but also reduce insurance costs.

We have continued to expand into new complementary markets, helping to drive future growth. Our experience in Morocco has been a stand-out achievement. ALSA is now the country's largest operator of urban buses; indeed, we now operate more buses in Morocco than we do in the UK. The successful mobilisation of two major contracts in Rabat and Casablanca has cemented our reputation as the operator to trust. This is a reputation I hope will secure further growth in Morocco.

Our significant acquisition of WeDriveU (WDU) – Silicon Valley's premier employee shuttle operator – has integrated very well and is outperforming its ambitious revenue targets, with growth of over 30% in 2019. The team is pursuing growth opportunities beyond its traditional geographical and sectoral focuses, by leveraging the National Express brand and network. As part of our growing North America transit operations, we are targeting \$1 billion of annual revenue, up from today's \$550 million annualised figure. The divisional reviews contain more detail on our other acquisitions made during the year and we continue to maintain a strong pipeline of acquisition and new contract opportunities.

“National Express has transformed itself in the last 10 years, turning around a business in deep crisis to one that is consistently delivering record-breaking results and strong returns”



### German Rail: RRX

During 2019, our German Rail team successfully mobilised operations on two of the Rhine-Ruhr Express (RRX) lines in North Rhine-Westphalia. The mobilisation saw the recruitment of 80 new drivers to operate a fleet of 30 new trains. RRX delivers a new standard in regional German Rail.

“The mobilisation of the RRX franchise was an impressive milestone for the most important rail project in North Rhine-Westphalia. National Express played a major role in the successful start of operations on the RE 5 and RE 6 lines. Many commuters are benefitting from the comfort and reliability of the new vehicles. Their positive feedback illustrates the importance of a continuous commitment to greater quality in regional transport, demonstrated by National Express.”

**Ronald R.F. Lünser**, Executive Board Spokesman VRR AöR public transport authority

### Raising our ambition for a new era

National Express has transformed itself in the last 10 years, turning around a business in deep crisis to one that is consistently delivering record-breaking results and strong returns. Building on these firm foundations, the next decade presents a different set of challenges and, I firmly believe, opportunities.

Customers, government and investors are demanding – rightly – that companies meet the growing challenges around climate change, clean air, congestion and inclusive growth. This is an agenda we embrace. We believe that high quality mass transit is a solution to these challenges. To meet them, National Express has raised its ambition: to be the world’s leading mass transit operator.

To achieve this ambition we will build on the progress we have already made. Our ambition is to build on our safety improvements to become the world’s safest operator. Having pioneered new ways of partnership working – for example, the multiple award-winning West Midlands Bus Alliance – we want to be seen as the trusted partner for customers and governments, consistently delivering excellent services.

We are at an inflection point. As the political priorities and policies of cities from Birmingham to Barcelona show, there is a demand for bold leadership. This is why National Express is building on its existing leadership as the first UK transport group to sign up to the United Nations’ Sectoral Decarbonisation Approach, to pledge that we will:

- never buy another diesel bus in the UK;
- lead the transition to zero emission coaches, with a target for our first electric coaches in service next year;
- set ambitions for our UK bus and UK coach businesses to be zero emission by 2030 and 2035 respectively; and
- include environmental targets as 25% of the long-term incentive plan for all senior executives.

These targets will be subject to annual review, including broadening them to include similarly ambitious pledges in our other divisions.

We are determined to grasp this opportunity and be seen as the trusted partner consistently delivering excellent mass transit to build cleaner, greener and more liveable cities. To deliver this will require a continued focus on operational excellence. It will also be enabled by investment in technology – and the associated management systems – that drives excellence, efficiency and innovation. We firmly believe that it will also open up new sources of growth to complement the strong pipeline we have in place and a continued determination to drive organic growth.

This is perhaps the most exciting time to be in mass transit in at least a generation.

“We are determined to grasp this opportunity and be seen as the trusted partner consistently delivering excellent mass transit to build cleaner, greener and more liveable cities.”

## Financial performance highlights

National Express had a very strong year across all key financial metrics. Group revenue increased by 10.2% on a constant currency basis (12.0% on a reported basis). Revenue growth has been delivered across each division with performance particularly strong in our overseas businesses – both North America and ALSA enjoyed record growth of 11.1% and 11.7% respectively, on a constant currency basis.

Revenue in constant currency	2019	2018
ALSA (€m)	940.6	842.3
North America (US\$m)	1,570.6	1,413.6
German Rail (€m)	102.5	76.6
<b>Revenue in £m</b>		
ALSA	824.7	745.1
North America	1,230.1	1,060.8
UK	599.7	577.0
German Rail	89.9	67.8
Group	2,744.4	2,450.7

Group normalised operating profit increased by 13.1% to a new record of £295.3 million on a constant currency basis, up 14.6% on a reported basis (2018: £257.7m). Both North America and ALSA again set new records, with North America achieving the highest rate of profit growth at 21.4% in constant currency.

These results benefitted from £3 million of currency translation, driven by the weakening of Sterling against the US Dollar. Normalised profit before tax increased by 7.8% on a constant currency basis, and 9.1% on a reported basis, to a new record of £240.0 million (2018: £220.0m). Group statutory profit before tax also increased by 5.2% to another new record of £187.0 million (2018: £177.7m). Group normalised operating margin is up 30 basis points year-on-year to 10.8% (2018: 10.5%). Excluding the impact of IFRS 16, Group margin is flat as North America's increase has been offset by higher Moroccan fuel costs alongside the mobilisation of the Rabat and Casablanca contracts.

We have sustained our consistent record in recent years of strong and growing shareholder returns. Our free cash flow has beaten expectations at £178.7 million (2018: £198.6m), despite increased investment in the year. Normalised earnings per share (EPS) again grew, up 4.9% to 34.5 pence (2018: 32.9p). EPS growth is lower than profit growth as the 40% of WDU that the Group does not own is attributable to the minority owner. This impact will unwind as the Group takes up its options.

This performance again allows us to propose a 10% increase in the full year dividend to 16.35 pence (2018: 14.86p).

Normalised operating profit in constant currency	2019	2018
ALSA (€m)	124.9	119.1
North America (US\$m)	157.0	129.3
German Rail (€m)	5.7	3.4
<b>Normalised operating profit £m</b>		
ALSA	109.5	105.3
North America	123.0	96.9
UK	85.0	79.9
German Rail	5.0	3.0
Central functions	(27.2)	(27.4)
Normalised operating profit	295.3	257.7
Interest and associates	(55.3)	(37.7)
Normalised profit before tax	240.0	220.0

## Outlook

I remain confident in our growth prospects. Across the Group our focus on operational excellence combined with strategic acquisitions will continue to drive growth and shareholder returns.

We maintain a good momentum into 2020. We will benefit from a full year of earnings from our significant contract retentions – on improved terms – in Boston, Chicago and Bilbao, alongside the contribution from major new operations in Rabat and Casablanca. Our 2019 acquisitions, especially WDU, will add further growth and we retain a strong pipeline of further opportunities in all divisions. We will remain focused on securing organic growth across the Group and combine this with close cost control – through examples such as the Master Schedule programme in North America – to drive cash generation and maintain strong margins.

As our refreshed Vision and Values demonstrate, we will continue to adopt a partnership approach. In an era of increased focus on climate change, clean air and congestion, recent announcements of pro-mass transit policies by national and local governments demonstrate the opportunity of being seen as a trusted, high quality operator. We therefore continue to invest in our industry-leading safety and excellence programmes to ensure we are seen as a partner to solve these challenges. Our zero emission commitments are a clear example of this.

From our foundation of consistently strong financial performance we continue to focus on operational excellence, combined with strategic acquisitions, to drive future expansion and secure sustainable and growing shareholder returns.



### Dean Finch

Group Chief Executive  
27 February 2020

# Record revenue and growth

**Chris Davies**  
Group Finance Director



## Presentation of results

To supplement IFRS reporting, we also present our results on a normalised basis which shows the performance of the business before intangible amortisation for acquired businesses. In years when there are discontinued operations, significant disposals or restructuring costs these are also removed from normalised results. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of financial statements to understand management's key performance measures. Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on page 24.

## Statutory profit

The Group again delivered a record profit for the year of £148.3 million (2018: £138.7m), an increase of 6.9%, driving basic earnings per share of 27.6 pence (2018: 26.6p). The 3.8% increase in earnings per share is lower than the increase in profit for the year as profit attributable to non-controlling interests increased to £7.2 million (2018: £3.0 million), principally driven by the 40% of WeDriveU not yet acquired by the Group.

## Reconciliation of normalised profit before tax to statutory profit for the year

	2019 £m	2018 £m
Normalised profit before tax	240.0	220.0
Separately disclosed items	(53.0)	(42.3)
Profit before tax	187.0	177.7
Tax charge	(38.7)	(39.0)
Profit for the year	148.3	138.7

“The highly successful refinancing of the Group this year creates a solid platform for future growth”

The increase in separately disclosed items is driven by the amortisation of intangibles acquired in the current or prior year, primarily in relation to WeDriveU. Also included within separately disclosed items are the gain on the sale of Ecolane, which has been presented net of all costs including contingent bonus payments (further detail on page 40), and charges related to the restructuring of our North America division. These latter two items fully offset each other hence having no effect on the year-on-year movement. The statutory tax charge was £38.7 million (2018: £39.0m), an effective tax rate of 20.7% (2018: 21.9%). The reduction in effective tax rate reflects an underlying increase offset by the benefit from the tax-free gain on disposal of Ecolane.

## Revenue

Revenue bridge	£m
2018 revenue	2,451
Currency translation	39
2018 revenue at constant currency	2,490
Growth in the continuing business	109
2019 acquisitions	145
2019 revenue	2,744

Group revenue for the period was £2,744.4 million (2018: £2,450.7m), an increase of 10.2% on a constant currency basis (up 12.0% on a reported basis with the benefit of £39 million of foreign currency gains on translation). Revenue growth of £109 million from our existing businesses, representing growth of 4.4%, was boosted by a further £145 million from acquisitions, principally in North America and Spain.

Our business in North America delivered revenue growth of 11.1% on a constant currency basis. A key component of this growth was the acquisition of WeDriveU, our largest acquisition for eight years and one of five completed in North America in 2019. WeDriveU is performing well in its first year of operation within the Group with revenue growth of over 30% and profit growth of around 25%. Performance in the continuing business was robust, with the school bus business benefitting from the 2019/20 bidding season in which we achieved an average price increase of 3.9% across the entire portfolio and 5.9% on those contracts up for bid and renewal. In transit, we extended our two biggest contracts on improved terms, contributing to a total transit and shuttle business now generating an annualised \$0.5 billion in revenue.

ALSA delivered a record level of revenue, growing by 11.7% in constant currency, with strong organic growth of 10.8% boosted by three acquisitions made in the year. Record passenger numbers in both Spain and Morocco, up 5.8% and 20.3% (up 3.0% excluding the impact of Rabat and Casablanca) respectively, have driven revenue growth and Switzerland has also delivered strong revenue growth, up 13.7%. Pleasingly, we have seen high levels of growth across each of our long haul, regional and urban services, with our increasingly sophisticated Revenue Management System (RMS) helping to drive a 2.9% increase in occupancy to 51.9%. Underlying growth in Morocco has been boosted by the successful mobilisation of two new large contracts to run urban bus services in Rabat and Casablanca which, whilst having minimal profit impact in 2019, significantly increase the size of the business moving forward.

Our UK business delivered a good performance with revenue growth of 3.9% for the year driven by robust growth in both our coach and bus businesses. In coach, core network revenue rose by 3.6%, benefitting from RMS, helping to drive record revenue and passenger numbers, together with a 2.4% increase in occupancy to 60.9%. Total UK bus revenue grew by 3.7%, with commercial revenue per mile growing by 3.2%. This has been driven by the continued expansion of low fare zones and products together with strong growth in digital sales, with two thirds of passengers now using digital tickets. Growth has been further augmented with the acquisition of ATG (rebranded to National Express Accessible Transport, or NEAT), providing entry into the accessible transport market.

In German Rail, reported revenue is up 33.8% to €102.5 million, reflecting the start-up of two services for Rhine-Ruhr Express.

### Normalised profit

Group normalised operating profit increased by 13.1% to £295.3 million on a constant currency basis, up 14.6% on a reported basis (2018: £257.7m). £7.6 million of this increase was driven by the adoption of IFRS 16 which is offset by an equal and opposite impact on interest to give a net zero impact on normalised profit before tax (see page 25 for more detail).

Profit bridge	£m
2018 normalised profit before tax (as reported)	220
Currency	3
Normalised profit before tax at constant currency	223
Growth in continuing business	46
2019 acquisitions	19
Driver wages	(28)
Fuel	(6)
Weather	(6)
Interest	(8)
2019 normalised profit before tax	240

Group normalised profit before tax increased by 7.8% to £240.0 million on a constant currency basis, up 9.1% on a reported basis (2018: £220.0m), after the benefit of £3 million of currency translation driven by the weakening of Sterling against the US Dollar.

The continuing business contributed a strong £46 million of profit, with growth across all divisions. This figure is the flow through of revenue growth and all costs other than those broken out for transparency above (namely the increase in driver wages; the year-on-year impact of weather; and the year-on-year difference in hedged fuel prices). Netting these together represents organic growth in normalised profit before tax of around 3%.

This was augmented by the nine acquisitions made during the year which delivered a £19 million contribution, net of deal fees. This was partially offset by driver wage increases, predominantly in North America and ALSA, and higher hedged fuel prices together with a greater level of disruption from adverse weather conditions year-on-year. The additional interest charge of £8 million, as shown in the table above, reflects a higher level of debt over the year together with a higher proportion of debt denominated in Sterling.

### Segmental profit performance

Normalised operating profit	2019 Local currency m	2018 Local currency m
ALSA	124.9	119.1
North America	157.0	129.3
German Rail	5.7	3.4

Normalised operating profit	2019 £m	2018 £m
ALSA	109.5	105.3
North America	123.0	96.9
UK	85.0	79.9
German Rail	5.0	3.0
Central functions	(27.2)	(27.4)
Group normalised operating profit	295.3	257.7

In our North America business, normalised operating profit increased by 21.4% to \$157.0 million, driven by a strong contribution from the acquisition of WeDriveU. Solid underlying performance reflected the flow through of the revenue growth noted above where price increases more than covered driver wage increases, albeit at the expense of the loss of some less profitable contracts. This was partially offset by a greater level of weather disruption in the period versus the prior year. The adoption of IFRS 16 had a favourable impact of \$5 million. Operating margin improved by 90 basis points to 10.0%, with 50 basis points improvement on an underlying basis (excluding the impact of IFRS 16).

Our UK businesses delivered an increase of 6.5% in operating profit to £85.0 million, reflecting the record revenue in our core coach business, together with cost efficiencies, new routes, and network reviews in both the bus and coach businesses, partially offset by higher driver wages. During the year, we recorded a gain on the sale of a depot, slightly below the level of gains achieved last year at around 1% of the UK cost base as we continue to execute our multi-year property rationalisation strategy. Underlying operating margin remains strong and is broadly flat year-on-year. Reported operating margin improved by 40 basis points to 14.2% driven by the adoption of IFRS 16.



ALSA also delivered a record level of profit of €124.9 million, with a normalised operating profit increase of 4.9% on a constant currency basis predominantly driven by strong organic revenue growth in Spain and Morocco. The impact of higher hedged fuel prices in Morocco coupled with lower profitability during the mobilisation phases of the Rabat and Casablanca contracts drove an 80 basis point decline in 2019 profit margin to 13.3%.

Profit in our German Rail operations increased to €5.7 million (2018: €3.4m) as we continue to drive improvements to contract lifetime profitability. There are a number of drivers of improved performance in German Rail including higher than expected growth in passenger revenues (including settlements for prior periods) and agreements with the local transport authorities on penalty exemptions for particular construction works. We are very pleased with the smooth mobilisation of our new RRX franchise.

Group normalised operating profit margin grew by 30 basis points at 10.8% (2018: 10.5%).

## Summary income statement

	2019 £m	2018 £m
Revenue	2,744.4	2,450.7
Operating costs	(2,449.1)	(2,193.0)
Normalised operating profit	295.3	257.7
Share of results from associates	0.4	0.9
Net finance costs	(55.7)	(38.6)
Normalised profit before tax	240.0	220.0
Tax	(55.2)	(49.0)
Normalised profit after tax	184.8	171.0

Net finance costs were £17.1 million higher at £55.7 million (2018: £38.6m) with around half of the difference driven by the adoption of IFRS 16 and the remainder the results of a higher level of debt and a greater proportion of borrowings denominated in Sterling.

Normalised profit before tax of £240.0 million represents growth of 7.8% on a constant currency basis, up 9.1% on a reported basis (2018: £220.0m).

The normalised tax charge was £55.2 million (2018: £49.0m), a normalised effective tax rate of 23.0%, (2018: 22.3%), in line with previous guidance. The mix of profits in different tax jurisdictions drives a slight increase in the normalised effective tax rate.

Normalised profit attributable to non-controlling interests increased to £8.6 million (2018: £3.0m) primarily driven by the acquisition of WeDriveU.

Normalised basic earnings per share were 34.5 pence (2018: 32.9p).

## Return on capital employed (ROCE)

ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. Like-for-like ROCE (excluding the impact of IFRS 16) is up by 80 basis points, demonstrating our disciplined approach to capital allocation and Balance Sheet management and the accretive impact of our high return acquisitions. Reported ROCE was flat year-on-year at 12.4%, reflecting the adoption of IFRS 16.

	2019 £m
Reconciliation of ROCE	
Group statutory operating profit	242.3
Separately disclosed items	53.0
Return – Normalised Group operating profit	295.3
Average net assets*	1,148.6
Remove: Average net debt*	1,203.4
Remove: Average derivatives, excluding amounts within net debt	(12.0)
Foreign exchange adjustment	35.8
Average capital employed	2,375.8
Return on capital employed	12.4%

\* Prior year restated for IFRS 16

## Capital allocation

The cash-generative nature of the Group creates a solid platform for investing for growth and paying dividends. After investing in maintenance capital expenditure and working capital, and paying interest and tax, the Group's priorities for the allocation of the resulting free cash flow are to:

- invest in the business (growth capital and acquisitions) to deliver 15% return;
- manage gearing within the range of 2.0 to 2.5 times; and
- return to shareholders – at least 2.0x covered.

## Cash management

The Group delivered £178.7 million of free cash flow in the period (2018: £198.6m).

	2019 £m	2018 £m
Free cash flow		
Continuing normalised operating profit	295.3	257.7
Depreciation and other non-cash items	214.8	144.4
EBITDA	510.1	402.1
Net maintenance capital expenditure	(211.4)	(123.9)
Working capital movement	(42.0)	(17.5)
Pension contributions above normal charge	(7.6)	(7.4)
Operating cash flow	249.1	253.3
Net interest paid	(45.4)	(33.6)
Tax paid	(25.0)	(21.1)
Free cash flow	178.7	198.6

The Group delivered £510.1 million of EBITDA in the period (2018: £402.1m). This is an increase of £108.0 million, of which £54.7 million was driven by the adoption of IFRS 16 at the start of the period.

Net maintenance capital expenditure payments increased by £87.5 million to £211.4 million, reflecting a return to a normalised level of expenditure of 1.0 times depreciation. Additions of property, plant and equipment were £311.5 million (2018: £210.1m); the increase of £101.4 million reflected a step up in fleet requirements reflecting both the cycle of fleet replacement across the Group and new contracts, particularly in Morocco and North America. Consistent with previous years, the Group's standard payment terms for fleet purchases are up to 12 months and, accordingly, it is typical for a large proportion of fleet additions in the year to be outstanding at the year end. At the period end there was £263.3 million (2018: £160.3m) owing to vehicle suppliers driven by the increase in additions noted above.

The working capital outflow of £42.0 million in 2019 reflects significant growth in new contracts, notably in Morocco and German Rail. The Group makes use of non-recourse factoring arrangements on receivables and advance payments. The total draw down at the period end was £107.1 million (2018: £88.7m) with the increase on the prior year driven by advanced factoring of subsidies in the two new rail franchises in Germany.

Net interest paid increased by £11.8 million to £45.4 million, of which £7.6 million was attributable to the adoption of IFRS 16 (a proportion of lease payments are now presented in interest) and the balance reflected increased payments as a result of higher net debt and a change in mix of borrowing currency. Tax paid increased by £3.9 million to £25.0 million, driven both by increased profit and an increase in the effective tax rate.

Statutory cash generated from operations for the year was £356.2 million (2018: £306.8m) as shown in the Group Statement of Cash Flows and expanded further in note 39 to the Financial Statements. Operating cash flow of £249.1 million presented in the table above is different, predominantly due to the inclusion of net maintenance capital expenditure of £211.4 million.

Reconciliation of free cash flow to net cash flow from operating activities	2019 £m
Free cash flow	178.7
Add: Operating cash flows from discontinued operations (note 11)	(1.2)
Add: Exceptional cash expenditure	(7.2)
Remove: Net maintenance capital expenditure	211.4
Remove: Other non-cash movements (note 39)	(11.6)
Profit on disposal of fixed assets	(13.9)
Net cash flow from operating activities	356.2

Cash outflow from exceptional items of £7.2 million relates to the restructuring costs in North America.

Net funds flow	2019 £m	2018 £m
Free cash flow	178.7	198.6
Net growth capital expenditure	(42.2)	(5.8)
Net inflow from discontinued operations	(1.2)	0.4
Acquisitions (net of cash acquired)	(166.4)	(154.5)
Disposal of subsidiaries (net of cash disposed)	21.7	0.0
Dividends	(78.3)	(70.8)
Other, including foreign exchange	11.4	(31.5)
Net funds flow	(76.3)	(63.6)
Net debt	(1,241.5)	(951.5)

Growth capital expenditure during the period of £42.2 million included vehicles for new contracts in WeDriveU in North America and for the Rabat contract in Morocco, investment in digital and e-commerce initiatives in the UK, and costs associated with the mobilisation of our RRX rail contract in Germany.

Continuing our successful compounding growth strategy, we completed nine acquisitions in the year: five in our North America division, three in ALSA and one in the UK. Total consideration for these acquisitions was £162.2 million of which £10.6 million is deferred into future years.

The most significant investment in the year was the purchase of 60% of the share capital of WeDriveU on 11 April 2019. At the same time, the Group and the vendor entered into a put/call agreement whereby the Group and the vendor have the right to sell/buy the remaining 40% shareholding to the other party in three tranches over the next three years. The call options have no value for accounting purposes. However, the put options are required to be valued and booked on the balance sheet. Accordingly a liability of £96.8 million has been recognised at the period end, recorded at the present value of the estimated redemption value, using forecast earnings of WeDriveU.

£14.8 million of deferred consideration relating to acquisitions completed in prior years was settled in 2019, resulting in a total net funds outflow in the period of £166.4 million.

The cash inflow of £21.7 million from disposals reflects the net proceeds from the sale of Ecolane in July 2019.

Other items include £11.4 million relating to the retranslation of foreign currency debt balances and the maturity of some foreign exchange contracts.

Net funds flow for the period was an outflow of £76.3 million (2018: outflow of £63.6m), resulting in year end net debt of £1,241.5 million (2018: £951.5m).

Opening net debt increased from £951.5 million, as previously reported, after applying the transitional adjustment of £213.7 million in respect of the adoption of IFRS 16. Gearing at the end of the period was 2.4 times EBITDA, within the Group's target range of 2-2.5 times. The adoption of IFRS 16 in 2019 impacted gearing by 0.2 times.

### Dividend

National Express' dividend policy is to cover the dividend at least two times by normalised earnings. In considering the level of the dividend to declare, the Board has carefully considered three principal factors, in addition to level of cover:

1. available distributable reserves;
2. in-year free cash flow generation; and
3. gearing and indebtedness.

In line with the interim dividend, the Board has proposed a 10% increase in the final dividend to 11.19 pence, to give a full year dividend of 16.35 pence at 2.1 times cover.

### Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy is to target a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA of 2.0-2.5 times over the medium term. Moody's credit rating agency re-affirmed its upgraded investment grade rating to Baa2/stable earlier in the year while Fitch credit rating agency upgraded its investment grade credit rating to BBB/stable.

The Group's key accounting debt ratios at 31 December 2019 were as follows:

- Our bank covenant for gearing is not to exceed 3.5 times net debt to EBITDA – in 2019 the gearing ratio was 2.4 times EBITDA (31 Dec 2018: 2.3x)
- Our bank covenant for the interest cover ratio is EBITDA not to be less than 3.5 times interest – in 2019 the interest cover ratio was 9.6 times interest (31 Dec 2018: 10.5x).

The Group's covenants are set on a 'frozen GAAP' basis, removing the impact of IFRS 16, thus providing greater levels of headroom.

The highly successful refinancing of the Group this year creates a solid platform for future growth. Through 2019, the Group has put in place a number of new facilities, further diversifying the sources of funding and providing additional liquidity until 2032, in a low interest rate environment. In October 2019, the Group issued a series of private placements totalling £414 million denominated in US Dollars, Sterling and Euros with maturities ranging from 2027 to 2032 and an average coupon of 1.92%, representing the Group's debut issuance in the US private placement syndicated market. These facilities were taken on a delay-draw basis and will remain undrawn until May 2020 when existing facilities mature. In November 2019, the Group issued a £250 million Sterling bond maturing in 2028 with a coupon of 2.375%.

At 31 December 2019, the Group had £2.7 billion of debt capital and committed facilities, comprising £875 million of Sterling bonds, a £211 million floating rate note, £175 million of bank loans, a £557 million revolving credit facility (RCF), private placements of £480 million and £407 million of leases. At 31 December

2019, the Group's RCF was undrawn with £1.0 billion in cash and undrawn committed facilities available, this elevated level of cash driven by the early refinancing, and partial double-carry, of the Sterling bond noted above.

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

At 31 December 2019, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 31 December 2019, the proportion of Group debt at floating rates was 24% (2018: 37%).

### Group tax policy

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

### Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2019 was £90.0 million (Dec 2018: £116.8m).

The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan (WM Bus), which remains open to accrual for existing active members only. The overall level of deficit contributions will be around £8 million in total per annum until 2020.

In October 2018, the Group Pension Scheme, through its trustee company, completed an insurance buy-in transaction with Rothesay Life to cover 100% of future benefits payable to members and the detailed transfer process is ongoing.

The IAS 19 valuations for the principal schemes at 31 December 2019 were as follows:

- WM Bus: £99.1 million deficit (2018: £127.3m deficit)
- UK Group scheme: £14.2 million surplus (2018: £14.9m surplus)

### Fuel costs

The Group consumes approximately 255 million litres of fuel per year for which it bears pricing risk (i.e. there is no direct fuel escalator in the contract or concession price). Fuel costs represented a total cost to the Group in 2019 of £188 million (approximately 7% of related revenue), at an average fuel component cost (i.e. excluding delivery and taxes) of 37.3 pence per litre. The Group pursues a forward fuel buying policy in order to secure a high degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months' addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2020 at an average price of 37.2 pence per litre, 73% fixed for 2021 at an average price of 36.5 pence and 13% fixed for 2022 at 33.9 pence.

### Impact of new accounting standards

The new accounting standard, IFRS 16 'Leases', came into effect on 1 January 2019.

The standard primarily affects the accounting for the Group's operating leases and results in an increase in the number of leases being recognised on the Balance Sheet as the distinction between operating and finance leases has been removed. As a result we have recognised right-of-use assets of £201.1 million and lease liabilities of £213.7 million as at 1 January 2019.

The impact is summarised as follows:

- An increase in EBITDA of £54.7 million reflecting the reduction in operating lease costs which are now recognised on the Balance Sheet
- An increase in operating profit of £7.6 million as the operating lease costs are removed and replaced with depreciation (included in operating profit) and interest costs (excluded from operating profit)
- Zero impact on profit before tax as the increase in operating profit and finance costs fully offset
- A decrease in ROCE by 80 basis points, reflecting the increased level of average capital employed following the recognition of right-of-use assets on the Balance Sheet
- An increase in net debt of £213.7 million reflecting the recognition of operating leases on the Balance Sheet
- An increase in gearing of around 0.2 times net debt to EBITDA

### Brexit

Given the diversified nature of our business model and the limited exposure to cross-border trade, we do not believe that Brexit poses a material threat to the Group. We no longer run scheduled operations between the UK and the Continent, therefore the main Brexit risk specific to the Group is that inbound and outbound airport travel in our UK coach business may be impacted should air travel be materially reduced due to restrictions or currency fluctuation. We purchase some vehicles from European manufacturers for UK operations although we have good working relationships with both these and alternative UK suppliers to mitigate any long-term impact should further Sterling depreciation materially increase purchase cost. For the purposes of viability testing, we have modelled a hard Brexit in conjunction with other principal risks and remain confident that we have suitable mitigation plans in place however Brexit eventually unfolds.

### Summary

The strong financial performance delivered in 2019, coupled with the additional financing facilities and continued prudent Balance Sheet management, further augment the Group's robust financial position. We remain confident about the prospects for the year ahead.



**Chris Davies**  
Group Finance Director  
27 February 2020

### Assessment of prospects

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

We are diversified:

- No one contract contributes more than 2% to revenue;
- The Group receives only 4% of its revenue in the form of grants and subsidies

We are positioned to benefit from the future trends in transportation:

- Transport demand continues to grow whilst private car ownership is beginning to decline; the gap will be filled by public transport
- Public transport is fundamental to addressing urban challenges of congestion and poor air quality; our ambition to be the world's greenest transport company places us at the forefront of this opportunity

We invest in the business to secure its future:

- Over the last five years, 90% of free cash flow has been re-invested into the business
- We invest in technology to allow customers to access our products at competitive prices and to deliver our services safely and efficiently

The Group's strong financial position is characterised by operating cash conversion of 84% and free cash generation of £178.7m underpinned by 10% revenue growth. The Group's credit rating is investment grade with committed facilities of £2.7 billion at 31 December 2019.

### Principal risks and assessment period

The Board reviewed the Group's principal risks (pages 48-53), looking at each risk's impact, likelihood and the timeframe over which the risk was likely to reduce Group cash flows. On this basis, the highest impact and highest likelihood risks were considered in modelling a severe but plausible downside to assess the Group's future viability.

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

- Regulatory: the outcome of the majority of the major Spanish concessions renewals is expected to have become more certain
- Brexit: the immediate impact of Brexit will be felt

### Assessment of viability

The Group's viability assessment is an output of the annual strategic planning process. To assess viability, multiple, material risks are selected by the Board and are assumed to crystallise in parallel during the assessment period, putting the financial and operational performance of the business under plausible, but unlikely, stresses as outlined below.

### Risk stress tests

**Brexit:** no-trade-deal Brexit assumed, with material Europe-wide economic downturn and reduction in travel between the EU and the UK.

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

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

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

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

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

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

In the unlikely event of this concurrence of events, the Board would mitigate through reduced operating costs and capital expenditure. During assessment, the Group's continued cash generation; access to liquidity and funding; and mitigation actions demonstrated that it could tolerate the impact of the risk scenarios without breach of covenants or threat to business viability. To further boost this position, the Group operates a policy of retaining a minimum £300 million cash or undrawn committed facilities at any time.

### Viability statement

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

### Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Group Finance Director's review on pages 21 to 25, and the Group's business activities, together with the factors likely to affect its future development performance and position, are set out in the Strategic Report (pages 27 to 36). Note 30 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Board has reviewed assumptions about current trading performance, and has taken account of reasonably possible adverse changes to performance impacting availability of resources to June 2021. The Board confirms that it has a reasonable expectation that the Group has adequate resources to continue in operation for the period reviewed, and accordingly the Board continues to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2019.

# ALSA



**Francisco Iglesias**  
Chief Executive, ALSA

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

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

## Revenue

**£824.7m**

2018: £745.1m

## Normalised operating profit

**£109.5m**

2018: £105.3m



### Market overview

ALSA holds the market-leading position in the regulated and highly segmented bus and intercity coach market in Spain and is the leading urban transport operator in Morocco, operating in six cities in the country. Three levels of government regulation apply in Spain: national (long-distance coach), regional (regional coach) and city (urban bus). Each concession is exclusive to the operator, based on compliance with the public service obligation. Intercity competition comes from state backed rail and low cost airlines. Bus and coach concessions are awarded through competitive public tender, typically every 10 years.

### Growth drivers

- 174 concessions: 119 intercity coach concessions (21 long haul and 98 regional), 38 urban bus contracts, 17 others
- Concessional renewal process restarting
- New contract wins in Spain and Morocco
- Revenue management generating passenger and revenue growth in Spain
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities
- Building scale and services in Switzerland
- Further bolt-on acquisition opportunities

### Market size

**€4.2bn**

2018: €4.0bn

### Passengers

**368m**

2018: 326m



### Bilbao contract renewal

In August, ALSA gained a 10-year renewal of its contract to manage urban transport in the city of Bilbao – the second largest network operated by a private company in Spain. The network is delivered with a fleet of 143 buses, operating on 35 lines.

“Over the last few years Bilbao has started on a journey to deliver a sustainable, healthy urban mobility plan, placing its citizens’ welfare at the core of urban development in the city. On this journey we were lucky enough to find a key partner in ALSA. Their support is a determining factor, for instance, to providing ‘zero emission’ alternatives in the Bilbobus fleet, allowing us to start the year with more than 28% of the fleet being replaced by efficient buses, with the objective that by 2030 it will be rolled out to 100% of the fleet.”

Alfonso Gil, Deputy Mayor and Councillor for Mobility and Sustainability

Year ended 31 December	2019 £m	2018 £m
Revenue	<b>£824.7</b>	£745.1
Normalised operating profit	<b>£109.5</b>	£105.3
Revenue	<b>€940.6</b>	€842.3
Normalised operating profit	<b>€124.9</b>	€119.1
Operating margin	<b>13.3%</b>	14.1%

### Overview

ALSA had another very strong year. It again delivered record revenue (up 11.7%), profit (of €124.9 million) and patronage (up 12.8%) figures. Every business area – Spanish long haul, regional and urban services, plus Morocco and Switzerland – delivered organic growth. Morocco added two major contracts in the year and is growing particularly strongly, with revenue up 31.9% in the year. The impact of higher fuel prices, coupled with reduced profitability during the mobilisation phase, lowered the ALSA operating margin by 80 basis points to 13.3% (2018: 14.1%). We expect ALSA to grow strongly in 2020 and surpass €1 billion of revenue in the year.

The long haul concession renewal process has restarted, with two small contracts currently being retendered, albeit subject to legal challenge. In line with previous guidance, we do not expect any impact this year and a modest impact in 2021.

	€m
2018 normalised operating profit	119
Growth in the continuing business	19
2019 acquisitions	2
Driver wages	(11)
Fuel	(5)
IFRS 16	1
2019 normalised operating profit	125

### Operational excellence: the foundation of sustained growth

ALSA has firmly established itself as the leader in the markets it serves. It is a leadership that is recognised by the awards – such as the leading BCX-IZO customer satisfaction recognition and another, improved, European Foundation for Quality Management (EFQM) five-star excellence score – and apparent in the significant customer growth highlighted above. Further investment and innovation in our Revenue Management System (RMS), including a greater use of machine learning and AI tools, has helped drive both passenger growth and an increase in average occupancy, to 51.9% (2018: 50.5%).

Morocco again enjoyed another record year, with its fastest ever rate of expansion. In 2019, Morocco carried over 190 million passengers, up 20.3% on 2018. Two major contracts in Rabat and Casablanca – for up to 22 and 15 years respectively – were successfully launched towards the end of the year. With the full year benefit of these contracts and the potential for further expansion, we expect Morocco to double its contribution in 2020 compared with 2019.

Our Geneva hub also continues to grow, with the first cross-border (into France) service starting in December. We believe there are further opportunities to add other contracts to complement our existing range of shuttle, bus, coach and school bus services. Our range of ski transfer services also continued to grow strongly, up 6% in 2019, and on one Saturday in January 2020 broke the previous passenger record by over 10%. We continue to develop common information and booking systems across our different alpine brands to provide customers with a greater choice of services, more sophisticated pricing and also generate operational efficiencies. Geneva remains an interesting growth hub.

During the year ALSA also renewed a number of contracts, demonstrating its continued reputation for excellence. Our largest Spanish urban bus contract, Bilbao, was renewed for 10 years. ALSA’s consistent delivery of services that met the required operational and environmental targets in our over 1,000 vehicles Madrid Consortium regional contract led to an automatic renewal for another five years. This contract alone is worth over €500 million in revenue across its life. We renewed our only long haul concession that has so far completed its retendering process: our Madrid-Guadalajara services were secured until 2028. Two other important contracts also received lengthy extensions: Asturias regional services until 2024; and Almeria urban services until 2023.

### Technology investment to underpin excellence, efficiency and innovation

The roll-out of the DriveCam smart safety cameras continued, with nearly 1,400 installed by the year end (up 43% on 2018). Speed monitoring is now installed in nearly 3,000 vehicles. Allied to a rigorous management oversight and coaching programme, standards and assurance continue to improve, with the lowest rates of speeding on record.



“ALSA will continue to focus on delivering operational excellence, securing organic growth across its existing businesses and diversifying in a targeted manner”

**Francisco Iglesias**  
Chief Executive, ALSA

Beyond driving standards, our investment in maintenance is also helping to improve performance and efficiency. A move to a predictive maintenance regime is generating further improvements to already strong performance metrics, such as breakdowns: they have been reduced by a quarter in the year, improving both service standards and cost efficiency. ALSA has been pioneering our World Class Maintenance programme and the lessons are being applied across the Group.

Investment in improving ALSA’s digital and web presence continued, with impressive results. The introduction of features such as bus location tracking, new methods of payment and enhanced marketing to customers helped drive digital revenue up to 44.6% of ALSA’s total (up 7.2% year-on-year). The increasing proportion of sales through digital channels is also enabling enhanced ancillary sales. The introduction of luggage and seat reservation has helped this segment grow by 13.9% year-on-year.

An autonomous bus pilot, in partnership with the Autonomous University of Madrid, launched earlier in February 2020. This fully electric vehicle operates a 3.8 kilometre route on the university campus. It provides valuable experience and a credential in a growing market.

There are further opportunities to pursue. During this year, a particularly interesting project will enhance customer services databases to make marketing even more personalised and sophisticated. Learning from UK coach’s innovation in this area, ALSA will tailor pre-trip emails to customers with information about activities at their destination, providing the opportunity for further ancillary sales.

**Targeted growth through strategic acquisition and market diversification**

Three acquisitions were made in 2019. ALSA bought a majority stake in a company that operates regional concession services in Aragon. This investment allows us to enter a regional market where we do not have any

presence and provides the opportunity for growth when other local contracts come up for renewal. It is the same approach we successfully followed with Cal Pita, a 2018 acquisition that provided entry into the Galician market. From this initial entry, we have secured new contracts, are now the third largest operator and see further growth opportunities ahead.

ALSA also acquired a bus company in the Canary Islands. The company operates school bus, coach and discretionary travel services. This provides an entry into a very interesting market where we believe there is a strong opportunity for further growth. ALSA also bought a small chauffeur business. We retain a strong pipeline of acquisition opportunities, which we will continue to pursue in a disciplined manner.

Two contracts were won in Extremadura, strengthening our position in this autonomous region.

Alongside the growth in Morocco, Switzerland and segments such as ancillary income, set out above, our 2019 acquisitions and contract wins help ALSA further diversify its earnings. Since 2015, the proportion of ALSA’s total revenue secured from long haul services has declined by a quarter. We expect RMS to continue to drive organic growth and improving occupancy rates. Ancillaries will continue to be a source of strong growth and January 2020 has already seen a 10.8% increase year-on-year in earnings from this segment. Airport services and our minicab businesses also provide positive sources of organic growth.

It is because of this combination of diversification, growth across all business segments and the strength of our pipeline that we remain confident we will manage any impact from long haul concession renewal and continue to grow. There still, however, remains no certainty that the renewal process will proceed to plan. In the meantime ALSA will continue to focus on delivering operational excellence, securing organic growth across its existing businesses and diversifying in a targeted manner.

# North America



**Gary Waits**  
Chief Executive,  
Student Transportation,  
North America



**Judith Crawford**  
Chief Executive,  
Transit and Shuttle,  
North America

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

We operate in 34 US States and three Canadian provinces.

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

Our transit business operates a growing number of transit and paratransit services across the USA.

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



### Market overview

National Express is the second largest player in the North American school bus market with a 13% share of the outsourced market. Just over a third of the market is outsourced with increases in outsource conversion being driven by pressure on public funding. This trend is likely to continue as school district budgets remain constrained. Typically customers are local school boards, where local relationships are key and service delivery is very important.

National Express also operates in the North American public transit market and is the fourth largest player with around 5% market share. One third of the transit market is outsourced and there is an increasing demand for accessible public transportation services, for fixed route, paratransit and employee shuttle services.

### Growth drivers

- Bolt-on acquisition opportunities in school bus, transit and shuttle
- New business growth from winning contracts in school bus bidding season and through new transit and shuttle contracts

### Revenue

**£1,230.1m**

2018: £1,060.8m

### Normalised operating profit

**£123.0m**

2018: £96.9m

### School bus

Vehicles

**20,600**

2018: 21,500

Market size

**\$24bn**

2018: \$24bn

### Transit

Vehicles

**4,000**

2018: 3,200

Market size

**\$25bn**

2018: \$25bn



## WeDriveU

WeDriveU works with many leading brands to provide transport solutions. Our customer athenahealth offers a multi-modal transportation system using WeDriveU commuter and last-mile shuttles and onsite transportation demand management services, plus a host of other amenities including onsite car sharing and bike sharing.

“You aren’t hiring a bus company. You are hiring an expert multi-modal transportation consultant. Their data driven approach means I have the knowledge I need to make financial, operational and strategic decisions and share that knowledge across my organisation. They have saved me money – using the right equipment, low staff turnover and a focus on experience. They want to deliver results too and I trust their team to work with other parts of our business without supervision and micromangement.”

**Bridger McGaw**, Director of Global Security & Services, athenahealth



Year ended 31 December	2019 £m	2018 £m
Revenue	<b>£1,230.1</b>	£1,060.8
Normalised operating profit	<b>£123.0</b>	£96.9
Revenue	<b>US\$1,570.6</b>	US\$1,416.3*
Normalised operating profit	<b>US\$157.0</b>	US\$129.3*
Operating margin	<b>10.0%</b>	9.1%

\* Revenue and normalised operating profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

## Overview

North America has again delivered a record performance, with revenues up by 11.1% and a profit increase of 21.4% to \$157.0 million.

This performance has been secured through a combination of disciplined bidding, a consistent focus on operational excellence and efficiency, strategic acquisitions such as WeDriveU (WDU) and the disciplined disposal of Ecolane. We have also invested in the leadership team and now have, we believe, the most experienced senior managers in the industry. This approach has helped drive margin improvement in year, up 90 basis points to 10.0% (or up 50 bps on an underlying basis, excluding IFRS 16). This is despite the growth in lower margin transit work. With important contract renewals secured in 2019 – the full benefit of which we will see this year – important excellence and efficiency programmes and a strong pipeline of opportunities in place, we are confident of continued progress in 2020.

The North America division continues to diversify away from its traditional school bus focus. In 2010, our North American operations were exclusively school bus. In 2018, the revenue split between school bus and transit was 80%:20%; by 2019 it had moved to 69%:31%. This shift will continue as we deliver on our target of transit with WDU becoming a \$1 billion of annual revenue business.

	\$m
2018 normalised operating profit	129
Exchange movement (CAD to USD)	–
Operating profit at constant currency	129
Growth from continuing business	25
2019 acquisitions	25
Driver wages	(20)
Weather	(7)
IFRS 16	5
2019 normalised operating profit	157

## Operational excellence: the foundation of sustained growth

Securing and sustaining a reputation for operational excellence is crucial to our ability to continue growing our North America business. We believe we have the best trained drivers, subject to the strictest monitoring system, driving vehicles equipped with the most advanced safety technology in the industry. Customers appear to be recognising this. Particularly pleasingly, our programme to increase the number of school bus customers rating our services as five-star has grown consistently. From a base of 32% when the programme started in 2017, the proportion increased to 48.2% in 2018 and reached 55.4% last year. As well as a crucial part of the drive to be seen as a trusted partner consistently delivering excellent services, five-star customers are more willing to pay a premium for the quality operations they are receiving. This programme will remain a priority.

The benefit of this focus on excellence and customer service was also seen in the retention and expansion of our two largest transit contracts. In Boston, our second largest transit contract was renewed for 7.5 years, with total revenue nearly doubling to \$420 million. In Chicago, our largest single contract in North America was renewed for at least 7 years, securing at least \$400 million in revenue over its life. The full annual benefit of these new contracts will be felt in 2020, providing positive momentum. Equally, as significant contracts they are important credentials with strong customer recommendations to aid further growth.

Our WDU acquisition has successfully integrated and exceeded its revenue target for the year. Its revenue increased by over 30% in the year with growth in all of its key markets as well as expansion into new segments, such as its first university and non-emergency medical shuttle contracts. We will continue to combine its industry-leading reputation with National Express’ breadth of operations to help enter new shuttle segments and markets. While already a business with nearly \$550 million in annualised revenue, we expect transit with WDU to grow to a \$1 billion annual income operation.

The school bus bidding season has not yet concluded, but the early signs are encouraging. We have continued with a disciplined bidding approach, prioritising returns. The current retention rate is 92% and we have won important new contracts, such as our first in Alaska. This is our first 10-year school bus contract and provides a base for further growth in the state. Last year’s bid season concluded with an average price increase on bids or renewals of 5.9%, or 3.9% across the whole portfolio. This compares with an average wage increase of 3.4% in 2019.



With the ongoing industry-wide challenge to driver recruitment, we are reviewing and revising our driver training and certification processes to find efficiencies while maintaining our industry-leading training standards. By way of example, working with the relevant authorities in Ontario, Canada we have been granted the right to bring the accreditation of driver certification – a key delay in the process – in-house. Rather than waiting on a third party to provide the accreditation, we are able to grant it through designated internal authorities.

This new approach is already suggesting important efficiencies to come. This process does not threaten the quality of training: we will still have the industry's best trained drivers and the number of training hours remains the same. However, the external accreditation bottleneck often meant it took up to 60 days for a group of 50 drivers to finally receive their licence; this new process can now complete it in 12. We will look for similar efficiencies across North America, aiding driver recruitment and making us more agile in responding to organic growth opportunities.

### Technology investment to underpin excellence, efficiency and innovation

Our investment in technology to enable ever-improving service excellence, cost control and efficiency is delivering clear results.

A Master Schedule programme – which through enhanced central controls forensically analyses the running time for every route and then assures that the associated driver time allocated is accurate – has delivered both real-time savings and service improvement in 2019. This programme started in the second half of the year and has already identified significant annualised savings. It has also seen 'on-time performance' of our school buses improve by 2.6 percentage points year-on-year. This programme remains a key strategic priority, with further efficiencies and improvements to be secured in 2020.

DriveCam is now installed in nearly 21,000 vehicles. Speed monitoring equipment is now so comprehensive that 99.08% of drivers were covered last year. Alongside strict management and driver coach programmes, these investments are delivering clear results. Both the DriveCam risk score and the incidence of speeding declined significantly in the year. While this is the correct thing to do in its own right, the benefit is also seen in a significant reduction in legal and claims risk: by the end of 2019 we had 20% fewer open injury claims in the USA. Further, benchmarking data from our US claims handlers shows that our average cost per claim, for those settled in 2019, was almost half that of a pool of 13 other peer organisations in their portfolio of passenger transport clients.

During 2020, we will invest to further enhance our systems and processes to drive operational efficiency and innovation. We have taken a stake in a company, ByteCurve, a pioneering technology that will combine – amongst other things – our dispatch, operations and scheduling software. Combining the data will help identify new areas for service improvement and cost efficiency, as well as enable greater central management oversight.

### Targeted growth through strategic acquisition and market diversification

North America remains a very attractive market for further acquisitions. We made five acquisitions during the year, with the majority again outside of school bus. As well as the major WeDriveU investment, we made four other small acquisitions: two small transit operations; a small charter, shuttle and coach company in the Boston area; and a small school bus business in Baltimore. All of the acquisitions are either 'tuck ins', that can be operated or managed from an existing National Express location; or provide entry into a new strategic segment. For example, a UK coach manager has moved to the USA to grow this segment, building on our recent acquisitions and expanding our operations organically.

Similarly, we continue to expand our Charter School operations and now operate over 650 buses in this segment. We are also piloting a new approach to the charter market, with a Charter Contact Centre established in Los Angeles. This centre provides a dedicated resource to grow our presence as well as direct the response to customer requests. It is already seeing a good stream of new work, including operating shuttles for event staff at the recent Super Bowl.

Transit also added 11 contract wins in the year, all in the Connecticut and New York areas, building out from existing hubs. Our Trinity acquisition (made in 2016) is another interesting example, as it makes good progress in ambitious expansion plans in Detroit, to grow in the school bus, coach, shuttle and paratransit segments. This model of multi-modal services operating from a hub location in a major conurbation is one that we continue to pursue and grow.

We take a disciplined approach to acquisitions. We continue to target 15% returns and our acquisitions have proved strong assets to the business. Equally, however, this approach requires us to assess whether stronger returns can be secured through disposal. This is precisely the reason we sold our Ecolane technology business during the year for \$42 million in cash, plus a \$10 million equity stake in the acquirer's rapidly growing technology fund. The sale consideration was a significant multiple of the original purchase price, only three years earlier.

With our rapid growth in transit, especially with the WDU acquisition, our expansion in segments such as Charter School and coach, plus a renewed focus on charter work, we continue to diversify our North America business away from what was almost solely a school bus operation less than 10 years ago. We retain a strong pipeline of both acquisition and new contract opportunities, with WDU opening particularly exciting avenues. When combined with our continued focus on operational excellence and efficiency, we look forward to another successful, record, year in 2020.

# UK



**Tom Stables**  
Managing Director,  
UK and Germany

## Revenue

**£599.7m**

2018: £577.0m

## Normalised operating profit

**£85.0m**

2018: £79.9m

National Express operates both bus and coach services in the UK. In UK bus, National Express is the market leader in the West Midlands – the largest urban bus market outside of London. In 2019 we also entered the accessible transport market. In UK coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services across the country. The Kings Ferry group of companies is a long established provider of private hire, B2B and commuter coach services. In 2020, we will be introducing the first of our electric vehicles into the fleet, and it is our ambition to be zero carbon emissions in our bus business by 2030 and in our coach business by 2035.



### Bus Market overview

The largest five operators represent around 70% of the UK deregulated bus market, with the remainder of the market made up of a large number of private operators. Active competition comes from national and local bus operators, as well as private car and rail. Economic regeneration and environmentally driven public transport present growth opportunities over the car, with mass public transport providing solutions for cleaner air and congested cities.

#### Growth driver

- Increase passenger volumes through investment in vehicles, technology and people through delivering high quality services

Bus market size

**£4.8bn**

Passengers

**253.6m**

### Coach Market overview

Our coach business has the only nationwide network of services, with other competitors tending to focus on specific regions or corridors. Selective competition comes from rail, particularly on discounted fares, and from large bus operators and localised services. Drivers for demand include the level of fare discount to rail, cost of private motoring, access to airports, direct routes not addressed by rail and environmental friendliness. Customer satisfaction is also an important driver for longer-term loyalty.

#### Growth driver

- Revenue growth through competitive pricing, better distribution channels and greater understanding of customers and their needs

Coach market size

**£500m**

Passengers

**24.5m**

**NEAT**

In September, National Express Accessible Transport (NEAT) took over the Birmingham City Council contract to run Home to School transport for students with special educational needs. Every day NEAT ensures that 2,000 students get to school or college safely.

“It is really positive to have National Express on board delivering these vital services for children and young people in Birmingham. The Council looks forward to starting the journey with all our providers to setting the UK benchmark for Home to School provision and we are confident that National Express will be a key partner in helping us to achieve this goal.”

Nichola Jones, Assistant Director Inclusion and SEND, Birmingham City Council



Year ended 31 December	2019 £m	2018 £m
Revenue	599.7	577.0
Normalised operating profit	85.0	79.9
Operating margin	14.2%	13.8%

**Overview**

Our UK businesses had a good year. Both the bus and coach businesses delivered revenue, profit and commercial passenger growth. They also combined this with expansion into new markets. Our coach business again set new records for revenue and passengers and, with its success at Dublin Airport, secured its first operational contract outside of the UK. Our bus business continues to buck industry trends, with commercial growth in the West Midlands adding nearly one million extra passengers and new routes launched. This is alongside the expansion into the accessible transport market with our acquisition of the 400 vehicle ATG businesses (now re-branded National Express Accessible Transport (NEAT)).

These successes are reflected in the financial results. Overall, UK revenue increased by 3.9% to £599.7 million (2018: £577.0m). Normalised operating profit grew by 6.5% to £85.0 million (2018: £79.9m). This profit figure includes a similar level of property sale receipts as last year. Operating margin has increased by 40 basis points to 14.2% (2018: 13.8%). This increase is attributable to IFRS 16, with cost inflation offset by a continued focus on operational excellence and efficiency.

As the recent government announcement of a £5 billion fund to increase support for bus priority schemes and new zero emission vehicles demonstrates, public transport is seen as an increasingly important part of the response to public policy challenges. Indeed, within the West Midlands both the Mayor and Birmingham City Council have recently set out very pro-public transport policies. We continue to value our strong partnership working as

this is helping to secure passenger growth and significant investment in local services. As our electric vehicle plans demonstrate, it gives us confidence to make important investment commitments as we believe, by working in partnership the West Midlands, we will continue to lead the industry in service improvement and growth.

	£m
2018 normalised operating profit	80
Growth in the continuing business	6
Driver wages	(3)
IFRS 16	2
2019 normalised operating profit	85

**Operational excellence: the foundation of sustained growth**

Both of our UK businesses have focused on delivering excellent services to customers in an efficient way, at prices they value. The success of this is evident in the record number of core coach passengers of 21.5 million, including the largest single day ever on Boxing Day. Surveys show that nearly 300,000 more people are considering using National Express coach services than in the year before. Our bus services helped the West Midlands have the fastest passenger growth of any major city region in the country. In its most recent Transport Focus independent customer survey our West Midlands bus business secured its best ever scores for drivers and value for money. As well as attracting more, happier, customers, we are operating ever-more efficient services, with commercial revenue per mile up 4.8% in core coach and 3.2% in West Midlands bus.

Our focus on excellence also entails, as a priority, safety. Both businesses now have DriveCam and speed monitoring programmes fully installed (with the recent NEAT acquisition to have them in place this year). The year-on-year reductions in speeding and the zero fatalities in the UK (and, indeed, across the Group) are testament to the benefits of the investment. Both businesses have secured the British Safety Council’s (BSC) highest accolade: the Sword of Honour. For coach this is the fifth consecutive time; for bus it is the fourth. Indeed, UK bus was also judged to be the safest public transport company of all those the BSC audited across the world in 2019.

As further evidence of our commitment, both UK businesses have five-star EFQM ratings, with coach winning the British Quality Foundation’s 2019 UK Excellence Award for a large company.

**Technology investment to underpin excellence, efficiency and innovation**

We continue to invest in the technology and management systems to deliver the excellence and efficiency driving the performance above, as well as innovations that will help power future growth. Both businesses have benefitted from industry-leading pricing technology, whether RMS in coach or the installation of the largest contactless payment network outside of London in West Midlands bus. The benefit for coach is seen with both core passengers (4.0%) and revenue (3.6%) growing, with particularly successful performances at peak periods: a record Christmas and a strong summer. Further evidence is seen in the occupancy rate growing again in 2019, up 2.4% to 60.9%. This figure has grown from 54% in 2016, demonstrating the consistent focus on improvement and efficiency that underpins the business’ growth.



“ Being recognised as a quality mass transit operator that local authorities can trust to help solve their policy challenges will help us drive further growth and shareholder returns”

**Tom Stables**  
Managing Director,  
UK and Germany

Bus now has two thirds of passenger journeys on digital tickets, which is allowing more sophisticated price targeting with products for specific competitive corridors or groups deployed quickly. The technology also generates significant data that is used to track product effectiveness (including the quick withdrawal or revision) and helps plan services to better meet changing demand and revise our network.

Coach now has 71% of its revenue secured through digital channels, demonstrating the importance of our continued investment in our web and app presence. During 2019 coach issued 100 upgrades to its website and app, helping the app alone to grow revenue by 16% as the shift to mobile devices continues. The technology investment is also allowing coach to secure a growing number of carefully selected commercial partnerships – now up to 139, including with 24 universities – that help sell our tickets to individuals or groups we might otherwise find hard to reach. In addition, ancillary sales in the digital booking process continue to prove a good source of growth, with revenue up 9% in 2019.

During the year, we further expanded our data analytics and AI capabilities to drive operational improvements and secure efficiency savings. This has been pursued through both internal excellence programmes and our National Express Innovation and Science (NXIS) initiative where we set challenges for – often small, start-up – companies to identify solutions to business problems. In bus, for example, a NXIS challenge has seen the very successful pilot of a company using AI and big data analysis to optimise running times and driver hours. As this pilot is rolled out more widely, we believe there is scope for further significant savings.

We are also determined to lead the switch to zero emission vehicles. This is both the right thing to do – given the climate change and clean air challenge – and increasingly what our key stakeholders want. Indeed,

both our coach and bus businesses are at the forefront of the adoption of Euro 6 vehicles, with their fleets fully compliant by this year and April 2021 respectively. We will shortly take receipt of 29 electric double decker buses in the West Midlands and ran a pilot of an electric coach on an airport service in January 2020. As our new environmental commitments set out in the Group Chief Executive’s review demonstrate, we are determined to cement our position as an industry leader, deliver significant benefits to the communities we serve and align our ambitions with the aspirations of our key stakeholders.

**Targeted growth through strategic acquisition and market diversification**

We expect both of our UK businesses to sustain their organic growth in the year.

Bus added 19 new routes in 2019, through a combination of local tendered contract wins and starting new services to towns in the shire counties surrounding the West Midlands metropolitan area. Another new route – to Nuneaton – has already been launched in 2020, and in its early weeks is performing ahead of expectations. As we continue to grow our commercial passengers, we will look at further new route opportunities, alongside further growth in corporate sales. Added investment in this team is delivering, with now over 480 corporate clients.

Coach will continue to refine its RMS and digital revenue to secure organic growth through sophisticated pricing and marketing. Nine new routes were launched in 2019 as the business looks to efficiently drive further growth. The new services at Dublin Airport – an up to three-year contract, operated in partnership with Ireland’s largest domestic operator – will provide the opportunity for growth in this adjacent market. The innovative neon on-demand product has had some notable successes in the year, as it fills a gap in high demand festivals and events that the scheduled network is less able to efficiently meet on its own. We are confident this will continue its growth in 2020.



Our UK businesses have also been combining to deliver services in a more efficient manner. At Glastonbury, for example, our bus business ran shuttles to the festival site from Bristol, complementing and integrating with our traditional coach service. This both helped drive a 7% increase in revenue compared with 2017 and secured a higher profit, thereby setting new records for both. Our coach businesses have also recently combined their private hire services under one brand and are already seeing an increase in bookings. We are confident this is a market segment that will continue to grow and offers good opportunities in the future.

Demonstrable successes from our Bus Alliance – such as passenger growth on another new bus lane (Harborne) where we have invested in Platinum vehicles – have helped the region secure £30 million for bus prioritisation in the 2019 Spending Round, the only city region to do so. We are already working closely with the relevant local authorities ahead of the planned Clean Air Zone’s introduction in Birmingham later this year, to ensure we are part of the solution, encouraging car drivers to shift to environmentally friendly buses.

Our NEAT acquisition has drawn on a combination of strong local management and expertise developed in our North American paratransit business to recently enjoy the best operational performance in three years. This has already secured further local contracts and we will look to grow NEAT further, including outside of the West Midlands.

It is because of this success – and the opportunity presented by the ambitions set out in Birmingham’s Draft Transport Plan and the increasingly pro-mass transit trend in local transport policy – that we are determined to be seen as a trusted partner. In an era of increased concerns around climate change, clean air, congestion and inclusive growth, being recognised as a quality mass transit operator that local authorities can trust to help solve their policy challenges will help us drive further growth and shareholder returns.

### Germany

Reported revenue is up 33.8% to €102.5 million, reflecting the mobilisation of two of the three Rhine-Ruhr Express (RRX) services. Profit increased to €5.7 million (2018: €3.4m).

There are a number of drivers of improved performance in German Rail, including higher than expected growth in passenger revenues (including settlements for prior periods); agreements with the local authority on penalty exemptions for particular construction works; and a good start to our new RRX franchise. Indeed, we are pleased that the strong start to our RRX services has been publicly welcomed by local officials.

# Environmental, Social and Governance

As Dean Finch, our Group Chief Executive, sets out in his opening statement to the Annual Report, environmental, social and governance (ESG) issues are not an ‘add on’ to how we operate, but at the heart of our future success.



Our Vision is to be the world’s premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value. This is Vision rooted in our Belief that driving modal shift to high quality mass transit is fundamental to a clean, green and prosperous future. Put another way, if National Express is to continue its success, we need to deliver on the aims of the ESG agenda. We set out overleaf how we focussed on the elements where we have the greatest impact.

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

In so doing, National Express becomes part of the solution to the growing challenges of climate change, clean air, congestion and inclusive growth. Customers, local authorities and investors say this is increasingly important to them. Good quality mass transit has clear advantages over the car in delivering on them. We have long held this view, which is why we have – for example – invested so heavily in Euro 6 buses and coaches already. Euro 6 buses and coaches are cleaner – on an absolute basis – than a Euro 6 diesel car for particulate emissions. This commitment is also why we have already moved to fully renewable electricity in the UK and Spain. So with a transition to electric vehicles, we will be both clean and green.

This is why we have set out a renewed leadership position through our Vision and Values. As we say on pages 10 and 11,

In 2015, the United Nations set a 2030 Agenda for Sustainable Development. Seventeen Sustainable Development Goals (SDGs) were adopted by Member States to provide a framework to tackle the most pressing challenges the world faces. In refreshing our Vision, Purpose and Values, we have assessed how we align to the SDGs, identifying five targets across three goals. The table below lists them and the associated Group metric.

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

this is how we believe we will sustain our advantage in the coming years.

We build on strong foundations. As Dean’s report sets out on pages 18 to 20, our strong track record of growth is underpinning our ability to invest for the future. Equally, our focus on this issue in recent years – from launching our first Vision and Values in 2011, through to our leadership in becoming the first UK transport group to be accredited as a Living Wage employer – is recognised








by external rating agencies such as Sustainalytics, which rated us ‘low risk’ for ESG overall and in every sub-category. It noted that “the company is at low risk of experiencing material financial impacts from ESG factors, due to its strong management of material ESG issues”. Sustainalytics places the Group in the top percentile of the 320 transport companies and the 4th percentile of the more than 12,000 companies, it rates globally.













# Focusing on what matters

## ESG and transport

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

Dimension	Issue category	Summary definition	SDG Goal	Further information
<b>Environment</b>   	<b>GHG emissions</b>	Direct (Scope 1) greenhouse gas (GHG) emissions that a company generates through its operations	11.6	We are focused on reducing the environmental impact of transport across all of the markets in which we operate. Per passenger, bus and coach travel is less polluting than trains and vastly better than petrol and diesel cars. As such, modal shift (getting people out of cars and onto buses or coaches) is the single most important thing we can do.
	<b>Air quality</b>	Air quality impacts resulting from pollutants such as oxides of nitrogen (NOx), oxides of sulphur (SOx) and particulate matter	3.9/11.6	We are committed to making public transport cleaner and greener. Having reduced CO <sub>2</sub> emissions per passenger kilometre by 13.4% between 2014 and 2018, for 2019 to 2025 we have adopted the Intergovernmental Panel on Climate Change's (IPCC's) Sectoral Decarbonisation Approach, which requires us to adopt targets that are 'science based' in line with limiting global warming to the Paris Agreement. Much of our fleet globally is already at Euro 6 and we have committed never to buy another diesel bus in the UK. We have also set ambitions to be zero emissions in UK bus by 2030 and UK coach by 2035. That is only a start.   For more information, see our environmental report on pages 46 and 47
<b>Social capital</b>   	<b>Access and affordability</b>	Ensure broad access to products and services, specifically in the context of underserved markets and/or population groups	11.2/11.6	Improving the accessibility and affordability of mass transit is what we do. Fundamentally, we want to run more services with more passengers using them. By securing modal shift out of cars and on to high quality, safe, clean and green mass transit we will also improve the liveability of urban areas and their economic prospects.
	<b>Quality and safety</b>	Offer products and/or services that meet customer expectations with respect to their health and safety characteristics	3.6	More specifically, in both North America and the UK, we are rapidly growing our paratransit operations, enabling people of all abilities full access to the amenities in the cities in which we operate.  But above all, we do all of this safely as outlined on page 17. We will continue to make the case that well run mass transit is the safest option. For example, the American School Bus Council states that students are about 70 times more likely to arrive at school safely on a school bus compared to a car.  More information is provided throughout the Strategic Report.



Dimension	Issue category	Summary definition	SDG Goal	Further information
<b>Human capital</b>   	<b>Labour practices</b>	Minimum wage policies and provision of benefits which influence how employees are attracted, retained and motivated	8.5	<p>As an employer of 51,000 people, we take our duties to them very seriously and we measure our progress frequently through employee engagement surveys in every division.</p> <p>We believe that our employees should be well rewarded for the job they do and we were the first UK transport group to become a Living Wage accredited employer. We extended this commitment to always pay 10% above the national minimum wage in every country we operate in.</p>
	<b>Employee health and safety</b>	Create and maintain a safe and healthy workplace environment that is free of injuries, fatalities and illness	8.8/3.6	<p>We encourage and provide opportunities for our people to develop through initiatives such as our award-winning Master Driver programme and the NX Network for graduates. Across the Group we have 945 Master Drivers, recognising consistently exceptional performance and rewarding these drivers with – amongst other things – membership to IAM RoadSmart (since 2016), which can lower their personal insurance costs.</p> <p>Our Workplace Rights Policy is that we respect the rights of all employees. Wherever our employees choose to be represented by unions, we actively seek to maintain relationships based on mutual respect and transparency.</p> <p>We acknowledge that we have more to do to increase diversity in our business and formed the Diversity &amp; Inclusion Council last year charged with ensuring that we have a workforce which is truly reflective of the customers we serve and the communities we operate in; attracting and retaining the best possible talent from a diverse pool; and creating a collaborative, supportive and respectful environment that increases the participation and contribution of all employees. The Council has already started its work and we will provide more information on this in next year's report.</p> <p> For more information, see pages 71 to 73</p>
<b>Governance</b>     	<b>Critical incident risk management</b>	Identify, understand, and prevent or minimise the occurrence of low probability, high impact accidents and emergencies	8.8/3.6	<p>We have a strong system of control to manage and mitigate all types of risk, including the Board's review of Group-wide risk; the Audit Committee's reviews of divisional risk; and the Safety &amp; Environment Committee's oversight of the activities on pages 94 to 98.</p> <p>To ensure that these controls are effective, we must have the best people governing our organisation at every level, taking the important decisions that affect our shareholders, our passengers, our workforce and our other stakeholders. Every major decision is analysed through the lens of whether it helps us achieve our strategy, whether it promotes our values and whether it exposes us to unacceptable risk.</p> <p>Each division has a critical incident plan in place. We have recently up-weighted our response to the management of cyber risk, introducing a new IT security resource across the Group and formalising standards, policies and ongoing simulations and preventative actions.</p> <p> For further information, see our risk management approach on pages 48 and 49</p>

We will now set out further how we are delivering against key aspects of this agenda, with a focus on safety, being a trusted partner and the environment.

## Spotlight on safety

Safety is our Group priority. As our revised Value states: our ambition is to be the safest mass transit operator in the communities we serve.

We strive to achieve this ambition through a combination of clear process and policies, investment in sophisticated technology and management systems and a culture that prioritises safety.

### Process and policies

Overall Group responsibility for safety sits with Dean Finch, Group Chief Executive, and our Divisional Managing Directors who set annual plans and priorities for improved performance.

All businesses within the Group are required to adhere to 12 Global Safety Standards which set the clear behaviours and minimum standards expected of all operations and staff.

These standards are complemented by five Global Safety Policies, covering: speed management; driving evaluation; competency of driving evaluators; driver monitoring; and driver performance management. All divisions have developed plans in these areas. We believe these standards mean that we now have the industry's:

- best trained drivers;
- closest monitoring (with continuous updating) of driver and mechanic standards; and,
- the most sophisticated safety technology on our vehicles.

Performance and implementation are reviewed in a quarterly meeting of Managing Directors, chaired by Dean Finch.

Dean reports to the PLC Board on safety performance every month and our Group Safety Director (Alison Forster) updates the Safety & Environment Committee regularly. The Committee's chair, Chris Muntwyler, meets Alison regularly to review performance and conducts his own safety tours to provide further assurance.

### Investment and culture

As well as these strong processes we continue to invest heavily in industry-leading safety technology. We now have 24,750 Lytx DriveCam smart safety cameras installed as well as speed monitoring technology on the majority of our vehicles. This hardware has been



## Safety case study

National Express West Midlands was judged the safest public transport company of all those audited across the world by the British Safety Council (BSC). The business scored 99.17% in the BSC's Five Star Occupational Health and Safety Audit, placing it fifth of all logistics companies audited by the BSC. Organisations from over 77 countries across the world put themselves forward for audit by external assessors.

“The British Safety Council's Five Star Occupational Health and Safety Audit is the most comprehensive solution in the market today. It allows companies to go beyond compliance and prove the value of their hard work with a highly recognised stamp of excellence in health and safety standards”

**James Lewis,**  
Head of Audit and Consultancy at the British Safety Council



complemented by investment in new management systems to ensure the technology is used to its full potential and drivers receive tailored coaching and support.

Our systems, policies and investment are reinforced through a campaign to embed a business culture that prioritises safety. This started with Driving Out Harm (launched in 2010) and has recently been reinforced with a Target Zero campaign.

### Results

To measure our performance we adopted and adapted the railway industry's Fatalities and Weighted Injuries (FWI) index. We did this as it is widely regarded as the most effective measure of safety performance.

Our performance in 2019 demonstrates the benefit of our systems, policies and investment:

- We delivered a significant improvement in our FWI score to 4.513 (2018: 9.286)
- On a per million miles basis the improvement was even more significant 0.006 (2018: 0.013)
- It was the first year on record that the Group did not have a responsible fatality in any of its operations

Our West Midlands bus business was also named the safest public transport company of all those the British Safety Council (BSC) audited across the world in 2019. This stand-out achievement complemented its fourth consecutive award of the BSC's highest safety award (the Sword of Honour). UK coach received a fifth consecutive Sword. Alongside ALSA, both businesses have also secured an ISO 45001 accreditation for their occupational health and safety management systems.

## How we seek to become a trusted partner

As we have made clear throughout the Annual Report, we believe that our future success is dependent upon us being regarded as a trusted partner delivering industry-leading safety and service that customers value and help local communities address the challenges they face.

To do this requires us to understand what key stakeholders want. We do this in a number of ways:

- Through independent surveys of our customers. In UK bus, for example, Transport Focus has conducted our customer survey since 2011. It reported in the most recent survey that amongst many records broken, our West Midlands operation secured its highest ever score for Value for Money
- Through regular meetings with contracted customers. In North America, for example, each school bus customer is offered a weekly meeting with the local depot manager and a monthly or quarterly meeting with the regional manager. The benefit of this approach is seen in the proportion of school bus customers rating our services as five (out of five) steadily increasing in recent years: 2017: 32%; 2018: 48.2%; and 2019: 55.4%
- Through annual stakeholder surveys. We ask stakeholders to rate our performance and approach to assess whether it aligns with their priorities and to check whether we are seen to be a good company. In 2019's survey,

ALSA asked stakeholders to rate its performance (with scores out of 10) in the following areas: 'ethics and good governance' (7.62), 'environment' (7.46) and 'social' (7.45). When asked whether ALSA puts its Safety Value into action, stakeholders gave a score of 8.67

### Approach to stakeholder relations

Across the Group our approach is to be seen as a proactive and trusted partner with key stakeholders. We seek to both understand their priorities and form alliances with them, as investing in long-term relationship building helps us deliver business objectives more effectively and mitigates potential barriers to doing so.

We do this by identifying and prioritising stakeholders across our businesses and maintaining a different engagement strategy depending on their importance to our business. As an illustration, we set out our UK stakeholder approach below as a case study.

The Group engages with its stakeholders in a variety of ways. Our preferred approach is to be proactive, seeking face-to-face meetings to understand their priorities, share our strategy and develop joint approaches where possible. We also issue stakeholder newsletters and updates at least quarterly, to our stakeholder database.

We particularly value structured engagement with key stakeholders, where we can work together to identify

opportunities and develop plans to address shared challenges. To do this, for example:

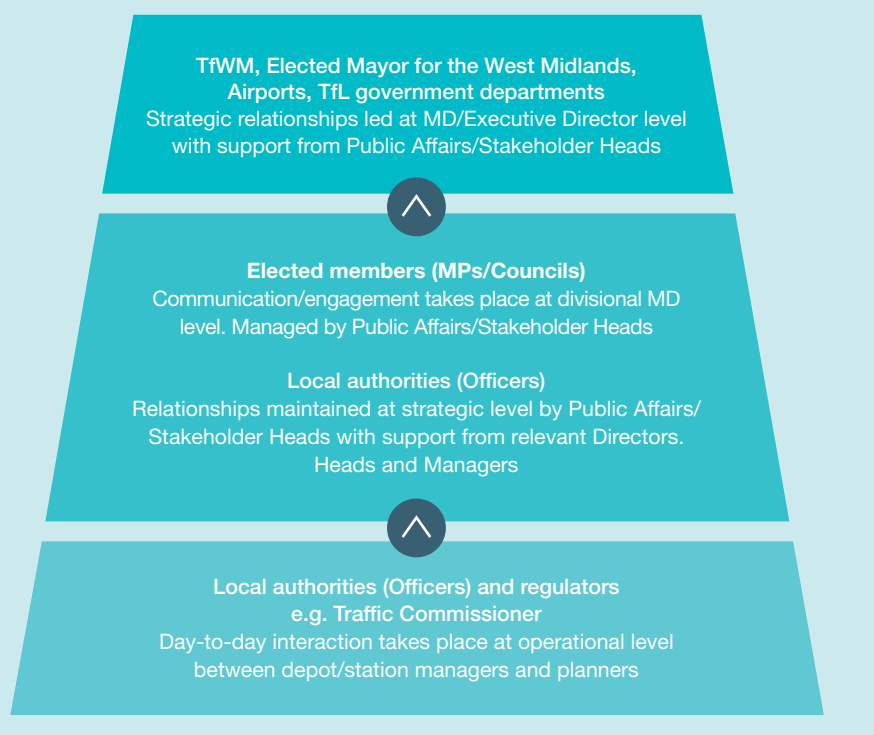
- We established strategic quarterly meetings attended by a Managing Director or Executive Director for key operational stakeholders such as all airports, Highways England and Transport for London
- We led the establishment of the West Midlands Bus Alliance Board alongside the Combined Authority, the police, Transport Focus and other operators to work together to drive improvement for bus customers
- We are represented on relevant external boards including Highways England's Bus and Coach Operations Board
- We engage in regular meaningful dialogue with Members of Parliament, government departments and relevant local and regional decision-makers to help shape thinking in advance of the formal policy developments. We proactively respond to relevant local and national government consultations and communicate this through the media where appropriate
- We inform and engage elected members when we make large-scale changes to bus networks in an area through our public consultation process
- We carry out an annual stakeholder survey using the same questions in the bus and coach divisions. We benchmark survey results and share good practice

The results are used for EFQM purposes.



### UK approach to stakeholder relations

Our stakeholder objective in the UK is to be seen as a proactive and trusted partner. To achieve this we identify our key stakeholders and assign the most relevant employee to lead the relationship. This is our 'tiered approach'. Relations with our most significant stakeholders are assigned to our most senior management, the next tier is maintained by our next level of management, and so on. This is overseen and coordinated by stakeholder managers. This approach ensures that senior people are focused on a few key relationships within a framework that ensures we identify and liaise with a broader range of key stakeholders in a coordinated manner.



## A trusted partner in the community

Our ambition to be seen as a trusted partner extends to our activity in the communities we serve.

This does include a significant amount of charitable activity, both by staff fundraising and through Company donations. During 2019, in the UK, we provided significant donations to homeless charities and foodbanks, for example. We have also established partnerships with CHICKS (which provides respite breaks for disadvantaged children) and The Prince's Trust, where we include employment workshops and offer apprentices.

The Group also provides £500,000 of funding to the National Express Foundation each year. This was the first foundation launched by a UK transport group.

Since its launch in May 2012, the foundation has supported over 23,000 young people. In 2019 alone, the foundation helped nearly 4,300 young people.

The foundation is focused on supporting:

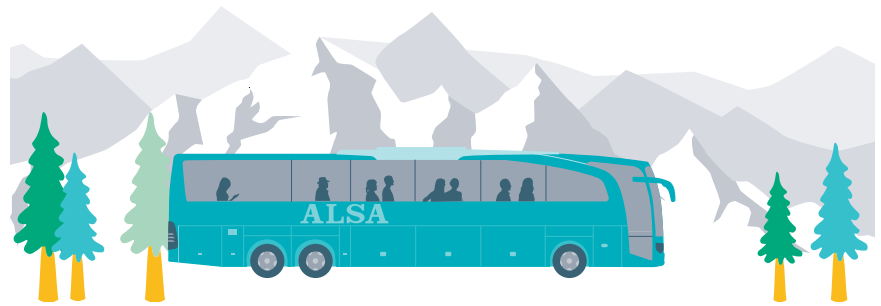
- students with challenging personal and financial circumstances to enable them to advance their further and higher education; and
- charitable and community groups for projects which support children and young people and to promote their own development or improved inter-community relations.

The principal geographical focus is the West Midlands and the areas of Kent served by our Kings Ferry and Clarkes of London commuter services (specifically, the Medway, Gravesend and Longfield areas).

ALSA and our North America business are also active in the communities they serve. During 2020, North America is relaunching its activity, establishing 'Partners Beyond the Bus' where each depot will be required to support a local community cause.

Beyond this charitable activity, we recognise that working in partnership improves services. This is why we invest so much time and effort in relationships with key stakeholders such as the Mayor of the West Midlands and other West Midlands local authorities. A clear recent example is a new bus lane installed on the

busy Harborne corridor in Birmingham. We invested in high specification Platinum buses to run on this improved route, leading to a 4% increase in passengers. We recognise that to deliver the excellence our customers and communities demand we must work closely with local stakeholders.



### Community and Environment

The National Express Foundation has continued to fund community groups, helping young people to achieve positive outcomes in life. During 2019, grants from the foundation impacted the lives of nearly 4,300 young people. One of the recipients, Longford Short Football in Coventry, applied for funds to buy two portable stadiums to increase the number of football sessions it can run. As a result, it can engage with 250 more young people and help them aspire to succeed in life.

“Sport has to be one of the great equalisers we can share. There can surely be no better way of understanding that ‘Picking up a football and not a knife’ is the way forward. Many thanks to the National Express Foundation for their commitment to making this possible and huge respect to all who devote much of their time to our young bright people.”

**Ann Lucas,**  
Deputy Mayor, Coventry City Council





### Excellence

Every year, the start-up of operations after the summer vacation is always a crucial period for our school bus teams. Good working relationships with our school board clients are key to a smooth start-up, and they value our focus on safety and operational excellence.

“Petermann has been a valued partner for 20 years. During the course of those years they have delivered outstanding service with a clear focus on student safety. Once again, this school year we got off to another great start with Petermann providing on-time delivery of our students so that they can begin their day learning. They are responsive to our requests or concerns in an immediate manner and all actions taken are with an emphasis on student safety. We value their efforts to begin and end every day with the safe delivery of our students to and from school in a cost effective way.”

**Darrell Edwards,**  
Superintendent, Goshen Local Schools



### Customers

We are proud of our record in retaining transit customers. In October, Massachusetts Bay Transportation Authority (MBTA) selected National Express transit to provide paratransit services as the Ride in the MBTA's South Service Area. The five-year base contract, with a two-year option, has a total value of more than \$422 million over seven years. Whilst the Ride's work is split between three providers, the new contract awarded transit with more business than either of the other two operators, operating 50% of the entire Ride programme.

“Our operation has recently gone through multiple, significant transformations and National Express has been an essential partner through it all. They have helped us through these challenges and are always willing to lend an extra hand. The local and corporate teams have felt like a seamless extension of our department.”

**Ben Schutzman,**  
Chief of Paratransit, MBTA





**People**

Together with the rest of our UK businesses, Xplore Dundee is a Living Wage Foundation accredited employer. It is a member of a local action group working to increase the number of accredited employers in Dundee.

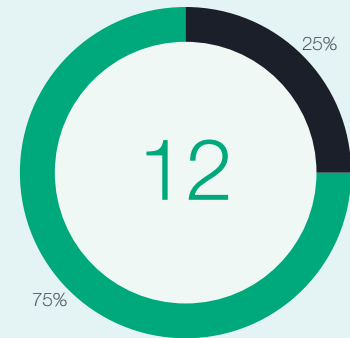
“If we’re genuinely going to make Dundee a Living Wage City, we need leadership from three kinds of employers: employers with significant numbers of staff, companies with a high local profile and (this is the hardest one) with a personal connection to the people of Dundee. Fortunately for us, Xplore Dundee has all this and more. When you add the energy and ideas they bring to our Living Wage City Action Group and the personal commitment of their senior managers, it’s easy to see why they have become vital members of our partnership to create a city where everyone receives a fair wage.”

**Peter Allen,**  
Chair, Dundee Living Wage Action Group



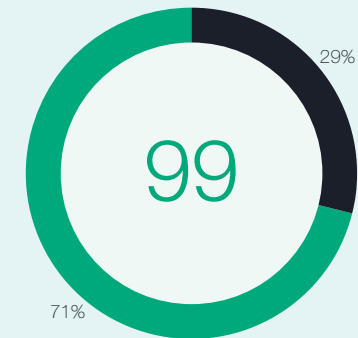
**Gender diversity at end of 2019**

Director



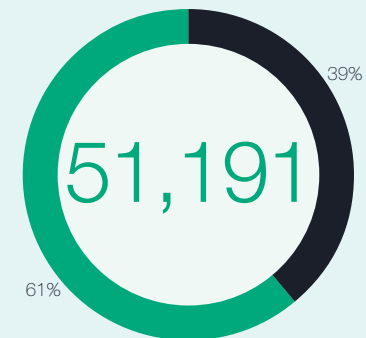
Female 3  
Male 9

Senior managers



Female 29  
Male 70

All employees



Female 20,000  
Male 31,191



## Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), was set up to define how reporting could take account of climate-related issues. In 2017, the TCFD set out four core elements of climate-related financial disclosures, and in July 2019 the UK Government announced, in its Green Finance Strategy, the expectation that listed companies should disclose in line with the TCFD recommendations by 2022. We intend to adopt these recommendations by 2022 at the latest and are currently evaluating how to evolve our reporting to meet the new standards. The table below gives an overview of where we stand today:

	Progress in 2019	Focus for 2020
<b>Governance</b> The Board's oversight of climate-related risks and opportunities; and management's role in assessing and managing these	<ul style="list-style-type: none"> <li>Climate-related issues driven by the Safety &amp; Environment sub-committee of the Board</li> <li>Creation of an executive ESG committee to coordinate and review Group-wide activities</li> <li>Remuneration Committee aligned 25% of future LTIP awards to carbon reduction targets</li> </ul>	<ul style="list-style-type: none"> <li>Align internal reporting with TCFD recommendations</li> <li>Prepare for full adoption of TCFD reporting standard</li> </ul>
<b>Strategy</b> The climate-related risks and opportunities identified over the short, medium, and long term; and the impact of these	<ul style="list-style-type: none"> <li>Increased political and social focus on climate change highlighted as a significant opportunity for the Group as modal shift to public transport is an imperative</li> <li>Significant investment into corporate shuttle market in North America to continue to drive commuters out of cars</li> <li>All UK buses ordered in 2019 were zero emission</li> <li>Innovation labs across Group developing efficiency boosting innovations</li> <li>UK power supply switched to fully sustainable sources</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to only buy zero emission buses in UK in future</li> <li>Ambition to be zero emissions in UK bus by 2030 and UK coach by 2035</li> <li>Review targets for North America and ALSA</li> <li>Increase focus on corporate shuttle opportunities in the UK to reduce car usage</li> <li>Continue to lobby for increased road prioritisation for public transport to aid modal shift</li> <li>Procurement challenge to coach manufacturers to develop long-range zero emission vehicles</li> <li>Group business travel to be carbon offset</li> </ul>
<b>Risk management</b> The processes for identifying, assessing and managing climate-related risks; and how these are integrated into the overall risk management framework	<ul style="list-style-type: none"> <li>Prioritised climate risk and opportunity assessment within the existing 'emerging risk' processes</li> <li>Engaged with Sustainalytics to understand how stakeholders perceive the Group's exposure to climate-related risk</li> </ul>	<ul style="list-style-type: none"> <li>Develop specific climate change scenarios for input into existing risk and viability models</li> </ul>
<b>Metrics</b> The metrics used to assess climate-related risks and opportunities; and the targets associated with these	<ul style="list-style-type: none"> <li>First year of measuring and reporting targets set in line with IPCC's Sectoral Decarbonisation Approach</li> <li>Seven-year targets set in line with IPCC sectoral goals to contain global warming to no more than 2°C</li> <li>Three-year milestones agreed as an LTIP input</li> </ul>	<ul style="list-style-type: none"> <li>Align all UK fleet replacement plans with commitment to buy only zero emission buses going forward and ambition to be fully zero emissions by 2030 (UK bus) and 2035 (UK coach)</li> <li>Annual review to ensure that the Group's metrics remain aligned with the latest science-based targets</li> </ul>



## Managing our environmental impacts

As we report on page 38 we have made strong progress in recent years. But we want to go further. Our new targets are set through the Intergovernmental Panel on Climate Change’s Sectoral Decarbonisation Approach.

We have backed these targets up with action. We recently made significant new commitments, to:

- never buy another diesel bus in the UK;
- launch a procurement challenge to design an electric coach for our airport shuttle services;
- set ambitions for our UK bus and UK coach businesses to be zero emissions by 2030 and 2035, respectively; and
- include environmental targets as 25% of the Long-Term Incentive Plan for all senior executives.

In 2019, we introduced a new approach to tracking our environmental progress, using the Sectoral Decarbonisation Approach (SDA) methodology. The SDA methodology is the only approach with transport sector-specific metrics, using Climate science to set targets relevant to the industry concerned.

We have set an initial seven-year reporting period, from a 2018 baseline, with three new targets which meet the 2018 IPCC goal of controlling the increase in global warming to below 2°C (2DC), and three additional targets.

This science-driven approach creates an absolute target for the KPI period, and places more importance on achieving the end target than year-on-year movement.

The intention is for the Group SDA targets to be reviewed regularly as climate science, technology and forecasting methods improve. We are already considering our level of ambition and will be reviewing a move to 1.5DC in advance of the existing 2025 target year.

### Group KPI performance

Although the pathway to the absolute targets is not linear we will continue to report our data on a year-on-year basis, to track progress.

Reduction target information (metric)	Base year (2018)	Absolute target (2025)	Required % reduction from base year	2019	Required reduction to target from current year
Traction energy use (vehicle fuel and electricity) per m pass km (MWh / m pass km)	66.92	58.72	-12.25%	64.86	9.46%
Scope 1 & 2 traction carbon emissions (tCO <sub>2</sub> e / m pass km)	17.67	15.45	-12.53%	16.67	7.31%
Total Scope 1 & 2 emissions intensity (tCO <sub>2</sub> e / m pass km)	19.26	16.45	-14.59%	18.86	12.78%
Scope 1 & 2 building emissions only (tCO <sub>2</sub> e)	41,656	38,199	-8.30%	40,722	6.20%
Waste to landfill (tonnes)	7,711	5,783	-25.00%	7,616	24.07%
Water consumption (m <sup>3</sup> )	478,956	439,208	-8.30%	487,470	9.90%

During 2019, the three SDA ‘intensity’ metrics (i.e. emissions per million passenger kilometres) made good progress towards reaching the 2025 goal. Traction energy use, traction carbon emissions and total Scope 1 & 2 emissions all reduced against the 2018 baseline year driven by our ongoing fleet improvements.

Scope 1 & 2 buildings emissions show a 2.24% reduction between 2018 and 2019 partly driven by projects such as switching electricity contracts to fully renewable sources in the UK.

The reduction in waste to landfill demonstrates the efficiency of our recycling programmes. The increased water consumption figure is largely down to continued improvement in accuracy of information, with the amount of estimated data progressively decreasing year on year.





## Environmental compliance

We have continued to maintain full environmental legislative compliance, retaining in 2019 a Carbon Disclosure Project 'B' rating and a water disclosure 'C' rating. These ratings represent a significant achievement for our sector and we are proud to have continued our record of no reported violations, enforcement actions or compliance notices.

## Greenhouse gas (GHG) emissions by division

Our total Group emissions increased marginally year-on-year from 865,517 in 2018 tCO<sub>2</sub>e to 881,741 tCO<sub>2</sub>e in 2019. The increase of 1.87%, should be considered against the overall 4% year-on-year increase in passenger kilometres and more than 5% increase in passenger numbers. This has driven the continued downward trajectory of our key intensity metrics. This is a strong performance supported by continued investment in greener vehicles.

National Express division (absolute emissions – all scopes)	2013 (tCO <sub>2</sub> e)	2014 (tCO <sub>2</sub> e)	2015 (tCO <sub>2</sub> e)	2016 (tCO <sub>2</sub> e)	2017 (tCO <sub>2</sub> e)	2018 (tCO <sub>2</sub> e)	2019 (tCO <sub>2</sub> e)	% change (2018-2019)
ALSA	303,351	296,214	311,985	303,537	313,608	317,812	324,007	1.95%
UK bus	143,485	142,312	138,822	138,449	132,586	128,787	125,466	-2.58%
UK coach	110,317	109,225	106,203	110,799	105,333	101,566	101,914	0.34%
UK rail	42,816	44,755	43,408	44,341	4,038	–	–	n/a
North America	237,314	236,979	232,576	258,183	261,913	269,916	276,693	2.51%
Bahrain	–	–	12,861	21,698	20,506	21,091	22,833	8.26%
Germany	–	–	–	26,395	28,704	25,367	29,269	15.38%
Leased vehicles and business travel	611	441	641	1,254	1,184	978	1,559	59.41%
<b>Group total</b>	<b>837,894</b>	<b>830,273</b>	<b>846,496</b>	<b>904,656</b>	<b>867,872</b>	<b>865,517</b>	<b>881,741</b>	<b>1.87%</b>

North America and ALSA reported a tCO<sub>2</sub>e increase of 2.51% and 1.95% respectively, due largely to continued network growth. The strength of the UK performance continued, with UK bus seeing a 3,321 tCO<sub>2</sub>e reduction, a direct result of the continued investment in the fleet, although this is partly offset by the acquisition of NEAT in August 2019.

The increase in Germany is driven by the mobilisation of the Rhine-Ruhr Express significantly increasing the scale of the business.

## Greenhouse gas (GHG) emissions by scope

The biggest increase in our total emissions data by GHG protocol in absolute terms is the 14,252 tCO<sub>2</sub>e increase in Scope 1. This was expected due to the continued growth in the business resulting in higher passenger kilometres. However, emissions have increased by a lower percentage than the growth in passengers numbers. The introduction of greener vehicles is helping to deliver this change.

Global GHG emissions data (tCO <sub>2</sub> e)	2014	2015	2016	2017	2018	2019	Change YOY
Combustion of fuel & operation of facilities (GHG Protocol Scope 1)	754,859	771,922	799,929	801,063	809,330	823,582	1.76%
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	67,186	66,317	95,107	60,682	48,564	49,938	2.83%
Other upstream emissions (GHG Protocol Scope 3)	8,228	8,257	9,620	6,127	7,623	8,221	7.84%
<b>Total*</b>	<b>830,273</b>	<b>846,496</b>	<b>904,656</b>	<b>867,872</b>	<b>865,517</b>	<b>881,741</b>	<b>1.87%</b>

## Intensity metrics

Applying the global total tCO<sub>2</sub>e from the above table to our intensity metrics we show a year-on-year decrease of 2.02% tCO<sub>2</sub>e / m pass km, our lowest figure since our reporting started in 2014, despite an increase in pass km of over 23% in that same period.

Intensity metrics	2014	2015	2016	2017	2018	2019	% Change 2014-2019	% Change 2018-2019
(tCO <sub>2</sub> e / £million revenue)	445	428	430	373	353	321	-27.80%	-9.00%
Group totals (m pass km)	37,450	37,540	41,107	42,485	44,488	46,258	23.52%	3.98%
Total tCO <sub>2</sub> e per m pass km	22.46	22.55	22.01	20.43	19.46	19.06	-15.13%	-2.02%
Total vehicle emissions intensity (m pass km)	14.96	14.15	18.70	17.78	17.67	16.69	11.56%	-5.54%

# Committed to managing risk effectively

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

The Board remains ultimately responsible for the effective management of risk in the Group, and is committed to driving continuous improvement and adopting best practice in this crucial area. In 2019, the Group further reviewed its risk governance structure. In addition to the broad strategic responsibilities of the Board, specific responsibilities were added, and two or three times annually the Board:

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

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

## Risk management framework

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

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

## Risk appetite

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

### Zero tolerance

The Group has zero tolerance for risk which may impact:

- The safety of our employees, customers or the general public
- Our reputation and brand
- Our legal and regulatory compliance



#### Core business/operational excellence

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



#### Technology

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



#### Strategic growth/M&A

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

### Prioritising and reporting risks

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

Group-level risks are either derived from a 'top-down' review, or from the divisional risk registers, because either the risk affects multiple divisions, or is of a materiality in itself that is considered of Group significance.

Each of these Group-level risks is then assessed by the Board in terms of its potential impact on the Group and its key stakeholders. The Group prioritises risk mitigation actions by considering risk likelihood and potential severity.

### Emerging risk

The Group has developed an Emerging Risk Register which is reviewed and approved by the Board. The Group considers an emerging risk to be one that is not currently having a material impact on the business, but has a reasonable likelihood of impacting future strategy

or operations. The Group's approach to managing emerging risk exposure is to:

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

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

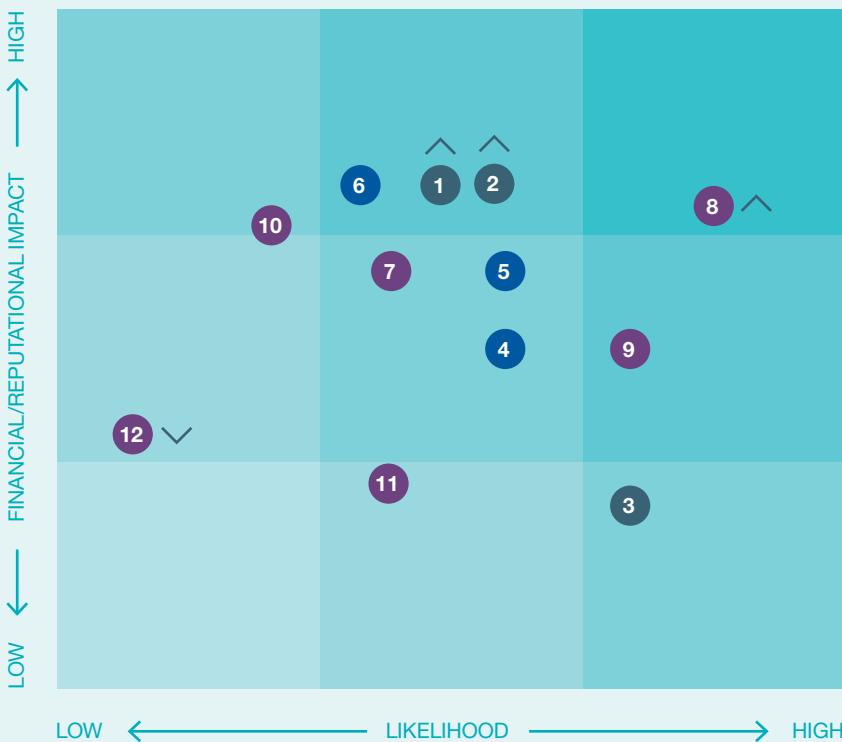
From a very wide universe of potential emerging risks, the Group has, through the above process, identified a number of risks that warrant closer review. These

have been further segregated into those requiring only a monitoring approach at present, to those where actions are being developed alongside the principal risks. There are four risks that currently fall into the latter category.

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

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

### Principal risk matrix



- Macro/external risks**
- 1 Economic conditions
  - 2 Political/geopolitical/regulatory landscape
  - 3 Brexit
- Strategic risks**
- 4 Changing customer expectations in a digital world
  - 5 Alternative fuel vehicles (AFVs)
  - 6 Competition and market dynamics
- Operational risks**
- 7 Attraction/retention of talent/HR/labour relations
  - 8 Cyber/IT failure/General Data Protection Regulations (GDPR)
  - 9 Terrorism
  - 10 Safety, litigation and claims
  - 11 Natural catastrophe/extreme weather/loss of key facility
  - 12 Credit/financing
- Key**
- ^ Increase in risk during the year
  - ∨ Reduction in risk during the year

## Key



Core business/operational excellence



Strategic growth/M&A



Increase in risk during the year



Technology



New risk in the year



Reduction in risk during the year

## Macro/external risks

1	2	3
<p><b>Economic conditions</b></p> 	<p><b>Political/geopolitical/regulatory landscape</b></p> 	<p><b>Brexit</b></p> 
<p><b>Potential impact</b></p>		
<ul style="list-style-type: none"> <li>Declining economic conditions potentially impact demand for discretionary travel</li> <li>Improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs</li> </ul>	<ul style="list-style-type: none"> <li>Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency</li> <li>Franchise renewal risk in Spain</li> <li>UK bus franchising or alternative models</li> <li>Financial or reputational cost of failure to comply with changing regulations or legislation</li> </ul>	<ul style="list-style-type: none"> <li>Continued uncertainty around the terms of the UK's exit from the EU creates general and specific risks in our markets in the UK, Spain and Germany</li> <li>An economic downturn in the UK could adversely impact demand for our services</li> <li>Reduced travel volumes to/from UK airports could affect demand for our UK coach services</li> <li>Supply chain disruptions could result in respect of imports from the EU</li> </ul>
<p><b>Management/mitigation</b></p>		
<ul style="list-style-type: none"> <li>Geographical diversification of the Group provides a natural hedge to some economic risk</li> <li>Strategic plans are stress-tested for differing economic scenarios</li> <li>Exit from the UK rail market and focus on international opportunities</li> <li>Strong strategic focus on people/talent management and recruitment/retention</li> <li>Delivery of excellence in service and operations</li> </ul>	<ul style="list-style-type: none"> <li>Constant monitoring of the political landscape and focus on effective stakeholder management</li> <li>Political risk is specifically considered when considering bids or new market entry</li> <li>Strategic alliances and partnerships are used where appropriate to mitigate risk</li> <li>The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government</li> <li>Focus on operational excellence and delivering value in our franchises and contracts, and to our fare paying customers</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing close monitoring of specific Brexit-related risk issues</li> <li>Geographical diversification reduces Group-level risk; exposure to UK market is less than 25% of total revenue</li> </ul>
<p><b>Opportunity</b></p>		
<ul style="list-style-type: none"> <li>Despite a generally unsettled economic outlook, private consumption and demand conditions for public transport continue to be strong</li> </ul>	<ul style="list-style-type: none"> <li>Political and social pressure continues to grow on congestion and clean air, which favours public transportation</li> <li>Increasing city regulation and investment in bus and Bus Rapid Transit (BRT) schemes</li> <li>Continued liberalisation of markets in many territories</li> </ul>	<ul style="list-style-type: none"> <li>Translated profits from our international operations will increase in the event of weakening Sterling</li> </ul>
<p><b>Change in risk in the year</b></p>		
<ul style="list-style-type: none"> <li>Economic growth is expected to slow in our major markets, with continued uncertainty driven by political conditions and trade wars/protectionism</li> <li>Unemployment rates continue to fall in key markets, causing ongoing pressure on staff costs and turnover, especially in North America</li> <li>Further diversification with Rabat/Casablanca contracts</li> </ul>	<ul style="list-style-type: none"> <li>The Spanish franchise renewals process has restarted and is again subject to challenge</li> <li>Continued strengthening of our relationships with key political stakeholders and our reputation as a high quality, innovative partner</li> <li>Birmingham's Draft Transport Plan is very pro-public transport, demonstrating the direction of travel amongst enlightened local authorities</li> </ul>	<ul style="list-style-type: none"> <li>While much of the uncertainty created by the political deadlock has been removed, risks remain in relation to the ultimate terms of the exit</li> </ul>

## Strategic risks

<div style="text-align: center;"><b>4</b></div> <div style="text-align: center;"><b>Changing customer expectations in a digital world</b></div> <div style="text-align: center;">  </div>	<div style="text-align: center;"><b>5</b></div> <div style="text-align: center;"><b>Alternative fuel vehicles (AFVs)</b></div> <div style="text-align: center;">  </div>	<div style="text-align: center;"><b>6</b></div> <div style="text-align: center;"><b>Competition and market dynamics</b></div> <div style="text-align: center;">  </div>
<b>Potential impact</b>		
<ul style="list-style-type: none"> <li>– Increasing expectations of customers to be able to buy tickets and manage their travel plans through a variety of digital platforms</li> <li>– Failure to develop applications and digital channels that meet these increasing expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives</li> </ul>	<ul style="list-style-type: none"> <li>– Increasing popular, political and customer demand for alternative fuel (electric, hydrogen etc.) vehicles</li> <li>– Transition involves potentially material changes in financing, maintaining and operating the assets, creating execution risk</li> <li>– Requires significant change to infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>– Competition arises from direct price competition; inter-modal (e.g. coach vs. rail); and, more recently, emerging threats such as new market entrants or disruptive technologies</li> <li>– Changes in customer demographics impact demand and the nature of services required</li> <li>– Potential 'disintermediation' risk created by aggregators seeking to 'own' the customer relationship</li> </ul>
<b>Management/mitigation</b>		
<ul style="list-style-type: none"> <li>– Comprehensive digital strategies developed in each division</li> <li>– Divisional 'digital scorecards' are reviewed monthly by the Group Executive Committee to monitor the effectiveness of various digital channels</li> <li>– Developing strategies for demand responsive services</li> <li>– Oversight by Chief Digital Officer</li> </ul>	<ul style="list-style-type: none"> <li>– Environmental leadership with pledge to never again buy a diesel bus in the UK and launch electric vehicle procurement competition in UK coach. Ambition to reach zero emissions in UK bus by 2030 and UK coach by 2035</li> <li>– Cross-division executive leadership of AFV strategy</li> <li>– Close engagement with new and existing original equipment manufacturers</li> <li>– Pilot testing underway in a number of areas</li> </ul>	<ul style="list-style-type: none"> <li>– Commitment to service excellence, providing the best solutions to our customers</li> <li>– Price leadership and value for money</li> <li>– Revenue trends are closely monitored and RMS deployed</li> <li>– Investment in technology</li> <li>– Focus on operational excellence – even with an aggregator model, service delivery is critical</li> <li>– Targeted acquisitions and growth in the most attractive markets</li> </ul>
<b>Opportunity</b>		
<ul style="list-style-type: none"> <li>– Leadership in adopting new technologies will enhance our service to existing customers and attract new ones</li> <li>– Millennials are an increasingly important target market and more inclined to use public transportation if the service is right</li> </ul>	<ul style="list-style-type: none"> <li>– AFVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment</li> <li>– Total Cost of Ownership equivalence by versus NPV by around 2024</li> </ul>	<ul style="list-style-type: none"> <li>– Ageing population in major markets creates additional paratransit opportunities</li> <li>– Continuing urbanisation drives cities to partner with high quality transportation operators</li> </ul>
<b>Change in risk in the year</b>		
<ul style="list-style-type: none"> <li>– Innovation programmes established in North America, UK and Spain</li> <li>– Continued increases in bookings through online and digital mobile platforms</li> <li>– Continued roll-out of ticketless operations</li> </ul>	<ul style="list-style-type: none"> <li>– Order placed for 29 double decker EVs in the UK complements ongoing pilots in Als and North America</li> <li>– Developed initial roadmaps for transition to EV across all divisions</li> <li>– Committed never to buy another diesel bus in the UK</li> </ul>	<ul style="list-style-type: none"> <li>– Acquisition WeDriveU in the USA provides entry and expertise in a significant new market sector</li> <li>– Acquisition of ATG renamed National Express Accessible Transport (NEAT) in the UK strengthens stakeholder relationships and expands market</li> </ul>

Key



Core business/operational excellence



Strategic growth/M&A



Increase in risk during the year



Technology



New risk in the year



Reduction in risk during the year

Operational risks

7	8	9
<p><b>Attraction/retention of talent/HR/labour relations</b></p> 	<p><b>Cyber/IT failure/General Data Protection Regulations (GDPR)</b></p> 	<p><b>Terrorism</b></p> 
<p><b>Potential impact</b></p>		
<ul style="list-style-type: none"> <li>- Lack of available management talent/ leadership skills can inhibit growth</li> <li>- Shortages in drivers and other key staff can disrupt operations and lead to wage and benefits cost inflation</li> <li>- Increased unionisation and/or poor labour relation presents increased risk of strike or operational disruption</li> </ul>	<ul style="list-style-type: none"> <li>- Major IT failure could disrupt operations and lead to loss of revenue, especially in the coach businesses</li> <li>- Data breach involving a loss of customer data could result in reputational damage and significant remedial costs</li> <li>- Breach of the EU Regulation (GDPR) could result in reputational damage and additional costs</li> </ul>	<ul style="list-style-type: none"> <li>- Direct impact through asset damage, disruption to operations and revenue loss</li> <li>- Potential indirect impact from a general reduction in the public's appetite to travel reducing demand and revenue</li> </ul>
<p><b>Management/mitigation</b></p>		
<ul style="list-style-type: none"> <li>- The Group is committed to employee engagement and invests in a number of retention programmes</li> <li>- Appropriate training is provided for managers and supervisors</li> <li>- Reward and recognition programmes are established to further enhance employee engagement</li> <li>- Focus on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary</li> </ul>	<ul style="list-style-type: none"> <li>- Increased investment in cyber security, including recruitment of specialised resources across the Group, technical measures to protect data assets and the procurement of several services at Group level</li> <li>- Board approved governance structure and cyber security strategy</li> <li>- GDPR compliance plans in place, tailored to each division's exposure</li> </ul>	<ul style="list-style-type: none"> <li>- Close liaison with government agencies and industry partners</li> <li>- Major incident/emergency plans are developed in all divisions</li> <li>- Insurance coverage is available and in place for some terrorism-related risks</li> <li>- Risk assessment of any new business growth opportunity</li> </ul>
<p><b>Opportunity</b></p>		
<ul style="list-style-type: none"> <li>- Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthened resilience against cyber threats and IT outages increases awareness and expertise across the Group and facilitates greater leverage of technology</li> </ul>	<ul style="list-style-type: none"> <li>- n/a</li> </ul>
<p><b>Change in risk in the year</b></p>		
<ul style="list-style-type: none"> <li>- Low levels of unemployment in key markets have led to recruitment and retention challenges and cost inflation</li> <li>- Established Diversity &amp; Inclusion Council</li> </ul>	<ul style="list-style-type: none"> <li>- Cyber threat environment continues to be challenging, as demonstrated by high profile data breaches and ransomware events in other companies</li> <li>- Significant improvements in our resilience, supported by an ongoing maturity programme</li> <li>- Preparations for California Consumer Privacy Act (CCPA)</li> </ul>	<ul style="list-style-type: none"> <li>- UK Government threat level reduced from 'severe' to 'substantial', but we remain very vigilant</li> </ul>

10	11	12
<b>Safety, litigation and claims</b> 	<b>Natural catastrophe/extreme weather/loss of key facility</b> 	<b>Credit/financing</b> 
<b>Potential impact</b>		
<ul style="list-style-type: none"> <li>– Major safety-related incident could impact the Group both financially and reputationally</li> <li>– Higher than planned claims or cash settlements could adversely affect profit and cash outflow</li> <li>– Non-compliance with regulations can create legal and financial risk</li> </ul>	<ul style="list-style-type: none"> <li>– Loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss and lost revenue</li> <li>– Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged</li> </ul>	<ul style="list-style-type: none"> <li>– Contract-based operations such as North America and Spanish urban are exposed to late or non-payment risk from customers, impacting Group liquidity</li> <li>– A material increase in interest rates would increase the Group's cost of borrowing</li> <li>– Material tightening in investment-grade credit markets could impact the Group's liquidity</li> </ul>
<b>Management/mitigation</b>		
<ul style="list-style-type: none"> <li>– Very strong safety culture driven from the Group Chief Executive</li> <li>– Dedication to leading edge safety technology</li> <li>– Appropriate insurance coverage for accident-related claims to employees and third parties</li> <li>– Experienced claims management and legal teams in each division</li> <li>– All divisions have established safety audit programmes, supported by Group internal audit</li> </ul>	<ul style="list-style-type: none"> <li>– Geographical diversification of the Group provides a natural hedge to this risk</li> <li>– Established emergency and continuity plans in each division</li> <li>– Insurance coverage is available and in place for some hazard-related risks</li> </ul>	<ul style="list-style-type: none"> <li>– Close monitoring of receivables and appropriate provisions made for possible non-collection</li> <li>– Strong relationships with a number of banks</li> <li>– Appropriate liquidity maintained through committed bank facilities, finance lease programmes and debt capital market issuances</li> </ul>
<b>Opportunity</b>		
<ul style="list-style-type: none"> <li>– Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering</li> </ul>	<ul style="list-style-type: none"> <li>– n/a</li> </ul>	<ul style="list-style-type: none"> <li>– Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth</li> </ul>
<b>Change in risk in the year</b>		
<ul style="list-style-type: none"> <li>– Zero responsible fatalities in the year</li> <li>– Significant reduction in Fatality Weighted Injuries (FWI), the Group's key safety metric</li> <li>– Global insurance market conditions have deteriorated significantly; the Group was able to achieve satisfactory renewals due to our commitment to safety and to effective litigation/claims management</li> </ul>	<ul style="list-style-type: none"> <li>– General increase in extreme weather events around the globe, including hurricanes, storms and wildfires</li> </ul>	<ul style="list-style-type: none"> <li>– RCF extended for a further one year</li> <li>– Fitch rating raised from BBB-/stable to BBB/stable</li> <li>– £664 million financing raised in US private placement and bond markets to refinance 2020 debt maturities</li> </ul>

# Non-financial Information Statement

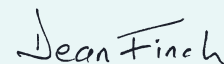
## Non-financial Information Statement

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

Requirement	Policies which govern our approach	Further information
<b>Environment</b>	<ul style="list-style-type: none"> <li>- Group Environmental Policy</li> <li>- Health &amp; Safety Policy</li> </ul>	<ul style="list-style-type: none"> <li> <i>Responsible partner pages 37 to 47</i></li> <li> <i>Safety &amp; Environment Committee Report pages 94 to 98</i></li> <li> <i>Environmental performance pages 46 and 47</i></li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>- Equal Opportunities &amp; Diversity Policy</li> <li>- Workplace Rights Policy</li> </ul>	<ul style="list-style-type: none"> <li> <i>Responsible partner pages 37 to 47</i></li> </ul>
<b>Human rights</b>	<ul style="list-style-type: none"> <li>- Human Rights Policy</li> <li>- Modern Slavery Policy</li> <li>- Whistleblowing Policy</li> <li>- Privacy Policy</li> </ul>	<ul style="list-style-type: none"> <li> <i>Responsible partner pages 37 to 47</i></li> <li> <i>Audit Committee Report pages 87 to 93</i></li> </ul>
<b>Social matters</b>	<ul style="list-style-type: none"> <li>- Rather than a specific policy, our approach to social matters is framed by our Community &amp; Environment Value</li> </ul>	<ul style="list-style-type: none"> <li> <i>Responsible partner pages 37 to 47</i></li> </ul>
<b>Anti-corruption and anti-bribery</b>	<ul style="list-style-type: none"> <li>- Anti-bribery and Corruption Policy</li> <li>- Purchasing Policy</li> </ul>	<ul style="list-style-type: none"> <li> <i>Responsible partner pages 37 to 47</i></li> <li> <i>Audit Committee Report pages 87 to 93</i></li> </ul>
<b>Policy implementation, due diligence and outcomes</b>		<ul style="list-style-type: none"> <li> <i>Corporate Governance pages 57 to 78 (including Board activity during the year page 65 and Audit Committee Report pages 87 to 93)</i></li> </ul>
<b>Principal risks and impact on business activity</b>		<ul style="list-style-type: none"> <li> <i>Risk management pages 48 to 53</i></li> <li> <i>Audit Committee Report page 87 to 93</i></li> </ul>
<b>Description of business model</b>		<ul style="list-style-type: none"> <li> <i>Our business model page 8</i></li> <li> <i>Our strategy and priorities pages 14 and 15</i></li> </ul>
<b>Non-financial key performance indicators</b>		<ul style="list-style-type: none"> <li> <i>Key performance indicators pages 16 and 17</i></li> <li> <i>Environmental performance pages 46 and 47</i></li> </ul>

Our Group policies are published on our website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

Our 2019 Strategic Report, from the inside front cover to page 54, has been reviewed and approved by the Board.

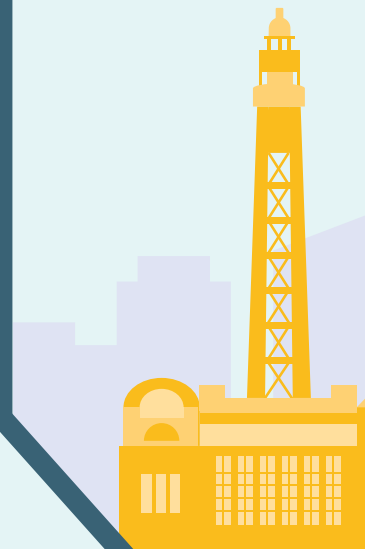


**Dean Finch**  
Group Chief Executive  
27 February 2020





## Corporate Governance



# Corporate Governance

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## Our Corporate Governance Compliance Statement

The Board is accountable to shareholders for its standards of governance and is pleased to report that the Company has applied the Principles and complied with the Provisions of the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in July 2018 (which can be found at [www.frc.org.uk](http://www.frc.org.uk)) for its financial year ended 31 December 2019, with the exception of parts of Provisions 36, 37 and 38 as explained on page 106.

The Corporate Governance Report (pages 55 to 121), including the Reports of the Nominations Committee (pages 79 to 86), Audit Committee (pages 87 to 93) and Safety & Environment Committee (pages 94 to 98), together with the Company's Directors' Remuneration Report (pages 99 to 121), explain how the Company has applied the Principles and complied with the Provisions of the Code (other than those parts of Provisions referred to above) and are included in this statement by reference.



## Introduction to corporate governance

### Chairman's introduction to corporate governance



Sir John Armitt CBE  
Chairman

#### Dear fellow shareholder

I am pleased to present the Company's Corporate Governance Report for the financial year ended 31 December 2019.

#### Good corporate governance

Following the publication in 2018 of the Financial Reporting Council's new UK Corporate Governance Code (the 2018 Code), my Board and I took the opportunity during 2019 to re-assess what good corporate governance means to us.

At its simplest level, we, as a Board, believe that good corporate governance is about having the best people governing our business and taking decisions on its behalf at every level of the organisation. We consider that the best people are those who are invested in the Company's Purpose, behave in accordance with its Values and are fully engaged in delivering its strategy. We also believe that such people should be appropriately incentivised and rewarded for their commitment and delivery. Good corporate governance is also about having a strong system of internal control in place, together with a programme of internal and external stakeholder engagement. This enables those who govern to fully understand the risks, rewards and wider implications of every decision they take relating to our business. It also assists us, as Directors of the Company, to comply with our duties under Section 172(1) of the Companies Act 2006.

We believe that we have good governance in place which is contributing to the long-term sustainability of the Company, as evidenced by:

- our delivery in 2019 of yet another set of record-breaking financial results;
- the achievement of our best ever safety result;
- our increasing focus on environmental matters;
- our continued drive for excellence in everything we do; and
- our investment in our people, our customers and the communities we serve.

#### Purpose, Values and culture

During 2019, the Board articulated the Company's Purpose, rooting it in our fundamental belief that high quality public transport is critical to a clean, green and prosperous future. Our Purpose is: "To help lead a modal shift by making public transport an increasingly attractive option for all our customers whether they are individuals, transport authorities, school boards or businesses. We seek to do this by earning our customers' loyalty by providing safe, reliable and great value multi-modal services on clean and green vehicles". To assist us in achieving our Purpose, we have retained our existing Values — of Safety, Excellence, Customers, People and Community & Environment — but evolved the level of ambition for delivery against each of these as explained on pages 10 and 11 of the Strategic Report. We believe this approach will underpin the delivery of superior outcomes for all our stakeholders.

We look further at our Purpose, and how it is aligned with the Company's Values and strategy, on page 69. We also explain, on page 70, how the Company has cultivated a healthy corporate culture and the steps the Board has taken during the year to monitor that culture. We monitor our culture as want to ensure that our people are living by our Values as this will, in turn, help us to fulfil our Purpose.

#### Board composition, succession planning and diversity

Ensuring that the Board is composed of Directors with the appropriate experience, skills and diversity, particularly in their thought and approach, is critical to good decision-making.

We draw our strength from our varied backgrounds and relevant experience in

“At its simplest level, we believe that good corporate governance is about having the best people governing our business and taking decisions on its behalf at every level of the organisation”

either the industry, geography or culture in which our business operates.

While the Board has enjoyed stability in its membership over the last few years, which has served the Company well, we recognise the value that refreshing our membership and bringing more diversity into the Boardroom can bring to enhance decision-making. To this end, during the year under review we began to implement our succession plans which resulted in the appointment of two new Non-Executive Directors – Ana de Pro Gonzalo and Karen Geary – who joined the Board and certain of its Committees on 1 October 2019. In addition, from 31 December 2019, two of the incumbent Non-Executive Directors – Joaquín Ayuso and Jane Kingston – stepped down from the Board and its Committees. As explained in the Nominations Committee Report on pages 79 to 86, the appointment of the new Directors has enhanced the strength and diversity of the Board and its Committees. Over the next few years as we continue to implement our succession plans, we will seek to preserve and enhance that strength and diversity further still.

We are equally cognisant of the importance of developing a talented and diverse senior management succession pipeline and developing talent and enhancing diversity, in all its forms, across the wider workforce to ensure that we have the best people to serve our customers and the diverse communities in which we operate. During the year, we therefore also reviewed the Company's senior management succession plans and we oversaw the establishment of the Group's Diversity & Inclusion Council and multiple talent development and diversity initiatives across the Group, further details of which can also be found in the Nominations Committee Report.



#### Stakeholder engagement and Section 172(1) Statement

Engagement with the Company's stakeholders, including its workforce, customers, suppliers, central and local government bodies and regulators, is key to enabling the Board to understand stakeholder views, which better informs the Board's own decision-making and enables the Company to build strong and lasting relationships with such stakeholders. It is also an important method of monitoring the Company's culture and assessing whether we are living by our Values.

During the year under review, we have therefore embraced the recommendations of the 2018 Code that we, as a Board, engage with our workforce and understand the views of our stakeholders. We have done so by supplementing our existing 'Board in Action' programme (as explained in previous Annual Reports) with additional focused workforce engagement events and by putting in place additional means of understanding other stakeholder views. Details of this engagement and these methods, together with an explanation of why our approach to engaging with the workforce is considered effective, are set out on pages 71 to 75.

Our Section 172(1) Statement, explaining how we, as the Company's Directors, have regard to stakeholder interests and other factors in accordance with our duty to do so under Section 172(1) of the Companies Act 2006, is set out on page 9 of the Strategic Report and incorporates pages 66 to 68 of this Corporate Governance Report explaining how we have had regard to such factors in our principal decisions taken during the year. Additional information about the way the Company engages with employees can also be found in the Directors' Report on pages 125 and 126.

The Board and I remain committed to our engagement with the Company's stakeholders, including its workforce, to continue to inform our decision-making and we look forward to more interaction in the year ahead.

#### Strong system of financial and operating control and risk management

A key aspect of good corporate governance is having a strong system of control within which those who govern can take decisions on behalf of the Company and implement its strategy with a clear understanding of, and controls to manage, the risks and rewards involved in such decisions and implementation. This is achieved through the Company having an established risk appetite, framework and processes for identifying both principal and emerging risks and putting in place actions to manage and mitigate such risks.

The Board is responsible for setting the Company's risk appetite and both it and its Audit and Safety & Environment Committees play important roles in monitoring and ensuring the management of its principal and emerging risks.

Details of the Company's risk appetite and principal and emerging risks can be found on pages 48 to 53 of the Strategic Report. Information about the work of the Audit Committee during 2019 in monitoring and assessing the integrity of the Company's financial reporting and the robustness of its system of internal control, including its work on behalf of the Board in conducting 'deep dives' into certain of the Group's principal risks and its divisions' risk registers, can be found in the Audit Committee Report on pages 87 to 93. Information about the work of the Safety & Environment Committee during 2019 in overseeing the Company's management of safety and environmental matters — which represent risks but also increasingly opportunities — can be found in the Safety & Environment Committee Report on pages 94 to 98.

#### Fair Executive Director and senior management remuneration

2019 was the second year of application of the Directors' Remuneration Policy that was approved by shareholders at the AGM in 2018 (the Policy). The Board's Remuneration Committee has therefore been focused during the year on ensuring that the Policy is continuing to operate as intended to appropriately reward, retain and incentivise the Executive Directors who are driving the Company's success.

It has done so by seeking to ensure that the Company's remuneration schemes and their outcomes for Executive Directors continue to be transparent, aligned with the Company's strategy and aligned with the interests of, and returns delivered to, shareholders. Due regard has also been had by the Remuneration Committee when determining Executive Director pay to the Company's workforce pay and related practices (as explained on page 101 of the Annual Statement by the Remuneration Committee Chair) and to the interests of the Company's wider stakeholders. The latter can be seen in the Committee's decision, following consultation with its principal shareholders, to add two new environmental performance measures to the awards to be granted to Executive Directors and senior management under the Company's Long-Term Incentive Plan (LTIP) in support of the Company's ambition to reduce its carbon emissions and provide its customers with sustainable mobility services.

#### Annual General Meeting

This year's Annual General Meeting (AGM) will be held at 2.30pm on Thursday, 7 May 2020 in the Banqueting Hall at Glaziers Hall, 9 Montague Cl, London SE1 9DD. All current Board Directors will be seeking re-election to office, with the exception of Ana de Pro Gonzalo and Karen Geary who will be standing for election to office for the first time. As the AGM provides an opportunity for you to meet with and ask questions of your Directors regarding this Annual Report and the matters before the meeting, I encourage you to attend and look forward to seeing you there.

Finally, I would like to thank my fellow Board Directors, the senior management team and every single member of the workforce for their hard work in 2019 and their ongoing commitment as we continue to seek to achieve our Purpose through 2020 and beyond.



Sir John Armit CBE

Chairman

27 February 2020

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



# The right mix of skills and experience

**1 Sir John Armitt CBE**

Chairman

**2 Dean Finch**

Group Chief Executive

**3 Chris Davies**

Group Finance Director

**4 Matt Ashley**

Group Business Development Director

**5 Jorge Cosmen**

Deputy Chairman

**6 Lee Sander**

Senior Independent Director

**7 Dr Ashley Steel**

Independent Non-Executive Director and  
Chair of the Remuneration Committee



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**8 Mike McKeon**

Independent Non-Executive Director  
and Chair of the Audit Committee

**9 Chris Muntwyler**

Independent Non-Executive Director  
and Chair of the Safety & Environment  
Committee

**10 Matthew Crummack**

Independent Non-Executive Director

**11 Karen Geary**

Independent Non-Executive Director

**12 Ana de Pro Gonzalo**

Independent Non-Executive Director

**13 Joaquín Ayuso**

Independent Non-Executive Director

**14 Jane Kingston**

Independent Non-Executive Director

+ See pages 62 to 64  
for biographies and, in  
respect of the continuing  
Directors, their key  
strengths in supporting the  
Company's strategy



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**1** Sir John Armit CBE   
Chairman

**Appointed:** January 2013 and as Chairman February 2013

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

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

**Key strengths in supporting the Company's strategy:**

- Provides strong leadership of the Board in fulfilling its role of overseeing the development and delivery of Company strategy
- Ensures healthy debate and appropriate support for and challenge of executive management in their delivery of strategy by non-executive directors
- Provides leadership in stakeholder relations

**Current external appointments:**

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

**2** Dean Finch  
Group Chief Executive

**Appointed:** February 2010

**Experience:** Dean has more than 30 years' commercial, financial and operational experience in the transport sector gained in both Europe and North America. He has a proven track record of improving safety and operational performance and delivering financial success in bus, coach and rail businesses.

He also has substantial executive leadership and listed company experience having served as Group Chief Executive at Tube Lines and Group Finance Director and Group Chief Operating Officer at First Group plc, where he held various other senior roles.

Dean is a qualified chartered accountant and began his career at KPMG LLP specialising in corporate transaction support services.

**Key strengths in supporting the Company's strategy:**

- Has a strong track record in developing and delivering against successful strategy
- Has acquired a deep understanding of the passenger transport sector enabling him to identify and capitalise on opportunities and manage and mitigate risks
- Takes personal leadership of safety programmes and has created the Company's strong safety culture
- Has a strong focus on driving operational excellence
- Is a strong people manager, identifying and developing talent at senior level

**Current external appointments:**

None

**3** Chris Davies  
Group Finance Director

**Appointed:** May 2017

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

Chris has significant strategic experience having previously held senior strategy roles in both developed and emerging markets.

He is a qualified management accountant.

**Key strengths in supporting the Company's strategy:**

- Provides strong financial and strategic support to the Group Chief Executive in leading the business
- Has strengthened the finance function to support the Company's growing business and evolved the Company's risk management processes to better identify and manage risks to the delivery of strategy
- Has a focus on building strong relationships with equity and debt investors, ensuring a clear understanding among them of the Company's strategy

**Current external appointments:**

None

**4** Matt Ashley  
Group Business Development Director

**Appointed:** May 2015 and to his current role August 2019

**Experience:** Matt brings significant international financial, corporate and operational experience to the Board. Within National Express, he has previously held Group and divisional finance and operational roles, including Group Finance Director and President and CEO, North America. Prior to National Express, Matt has supported complex corporate transactions for several multi national companies in his role as Director (transport, infrastructure and listed companies) at Deloitte LLP, where he began his career as an auditor.

Matt is a qualified chartered accountant.

**Key strengths in supporting the Company's strategy:**

- Brings his financial and analytical skills together with his deep understanding of transport sector operations to identify and capitalise on new business opportunities, supporting the Company's growth strategy

**Current external appointments:**

None

**5** Jorge Cosmen   
Deputy Chairman

**Appointed:** December 2005

**Experience:** Jorge has accumulated extensive experience in international business. He currently serves as President of the Company's ALSA division and, prior to its acquisition by National Express in 2005, he was corporate manager of the ALSA Group and has worked in banking, sales and distribution.

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

**Key strengths in supporting the Company's strategy:**

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

**Current external appointments:**

- Non-Executive Director, Bankia SA



## 6 Lee Sander A N R SE I Senior Independent Director

**Appointed:** June 2011

**Key strengths:** Lee has a wealth of experience in the transportation, engineering, construction and architectural sectors. He currently serves as President, Americas for Bombardier Transportation and, prior to that, held a number of roles including Group Chief Executive (Global Transportation) at AECOM, Chief Executive Officer at the Metropolitan Transportation Authority of New York, Managing Director (Global Transportation and US Infrastructure) at Hatch and Senior External Adviser at McKinsey & Company.

Lee was also founder of the Rudin Center for Transportation Policy and Management at New York University.

### Key strengths in supporting the Company's strategy:

- Has significant experience advising on the development of and managing the delivery of strategy in the transport sector
- Deploys his extensive management and advisory experience in the US mobility industry to assist executive management with the development of strategy in North America
- Provides valuable insight into US school board and transit authority stakeholder relationships

### Current external appointments:

- President Americas, Bombardier Transportation
- Chairman Emeritus, Regional Plan Association
- Vice Chairman, Greater Jamaica Development Corporation

## 7 Dr Ashley Steel R A SE I Independent Non-Executive Director

**Appointed:** January 2016

**Experience:** Ashley has significant international consultancy experience gained with KPMG LLP and has acted as an adviser to FTSE listed and Fortune 500 boards, including in relation to strategy development, organisation effectiveness, risk management and human resources and M&A, across multiple sectors including transport, infrastructure, technology, media, professional services and business services. She was previously a Non-Executive Director of the Civil Aviation Authority and Ince & Co LLP.

She has a PhD in Management from Henley Business School.

### Key strengths in supporting the Company's strategy:

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

### Current external appointments:

- Non-Executive Director, GoCo Group plc (previously Gocompare.com Group plc)
- Non-Executive Director, British Broadcasting Corporation (BBC), where she is also the Nations Representative for England

## 8 Mike McKeon A SE I Non-Executive Director

**Appointed:** July 2015

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

Mike is a chartered accountant.

### Key strengths in supporting the Company's strategy:

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

### Current external appointments:

None

## 9 Chris Muntwyler SE A N I Non-Executive Director

**Appointed:** May 2011

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

Chris was also a member of the CBI President's Committee from 2007 to 2008.

### Key strengths in supporting the Company's strategy:

- Provides strong oversight of the Company's safety and environment programmes which support the sustainability of Company's business model and delivery of strategy
- Has experience of corporate acquisitions and integrations and technology innovation, supporting the growth and technology pillars of the Company's strategy

### Current external appointments:

- President and CEO, Conlogica AG
- Non-Executive Director, Österreichische Post AG

### Committee membership<sup>1</sup> & independence status key

- Committee Chair
- A Audit
- N Nominations
- R Remuneration
- SE Safety & Environment
- I Independent
- IA Independent on appointment

<sup>1</sup> Committee membership is shown as at 31 December 2019

**10** Matthew Crummack R SE I  
Non-Executive Director

**Appointed:** May 2015

**Experience:** Matthew has extensive international management experience across multiple functions in consumer product and digital service industries. He currently serves as the CEO of GoCo Group plc and, prior to that, held a number of roles up to Chief Executive Officer at lastminute.com, was Senior Vice President (Lodging, Europe and US) at Expedia and held various senior roles at Nestlé UK and Procter & Gamble.

**Key strengths in supporting the Company's strategy:**

- Has extensive and current executive management and operational experience, enabling him to provide advice and challenge to executive management in their delivery of strategy
- Has proficiency in the management of technical operations and online customer sales and marketing platforms, supporting the Company's operational excellence and technology strategic pillars

**Current external appointments:**

- Chief Executive Officer, GoCo Group plc (previously Gocompare.com Group plc)

**11** Karen Geary R SE I  
Non-Executive Director

**Appointed:** October 2019

**Experience:** Karen is an experienced human resources professional, having served in a number of senior and executive HR roles in international transport and technology industries, including at Stena Line Limited, The Sage Group PLC, WANdisco plc and, most recently, as Chief HR Officer at Micro Focus International plc. She also served as a non-executive director and chair of the remuneration committee at Micro Focus International plc prior to taking on the executive role there and has recently taken on a non-executive director role at ASOS plc.

Karen is a Chartered Member of the Institute of Personnel & Development (MCIPD) and a Member of the British Psychological Society (BPS).

**Key strengths in supporting the Company's strategy:**

- Maintains a crucial focus in the boardroom on people, and the Company's reward and retention, talent development, engagement and diversity programmes, supporting the people who deliver all three pillars of the Company's strategy
- Adds strength to the oversight of executive retention and remuneration
- Has experience of strategic management of people matters in organisations as they go through growth or transformation, supporting the Company's growth strategy

**Current external appointments:**

- Non-Executive Director and chair of the remuneration committee of ASOS plc

**12** Ana de Pro Gonzalo A SE I  
Non-Executive Director

**Appointed:** October 2019

**Experience:** Ana has significant financial and general management experience having worked for a number of multinational companies across a variety of industries. She is currently the serving Chief Financial Officer at Amadeus IT Group S.A., having previously been General Manager of Sacyr Vallehermoso and Chief Financial Officer of Metrovacesa S.A. She has also held a non-executive director position at Merlin Properties SOCIMI, S.A.

**Key strengths in supporting the Company's strategy:**

- Adds strength to the oversight of the Company's financial reporting and risk management, lending support to the control environment for the delivery of the Company's strategy
- Offers valuable insights into the development of the Company's technology strategy
- Has managed the development and implementation of strategy in organisations as they go through growth or transformation, supporting the Company's growth strategy

**Current external appointments:**

- Chief Financial Officer, Amadeus IT Group, S.A.
- Independent Director and member of the Global Steering Group for Impact Assessment, Consejo Aesor Nacional Español

**13** Joaquín Ayuso N SE I  
Non-Executive Director

**Appointed:** June 2011

**Resigned:** December 2019

**Experience:** Joaquín has considerable international management and operational experience in the transportation, infrastructure and finance sectors, in particular having worked for Ferrovial SA for over 35 years in various capacities, including as Chief Executive Officer and latterly Board Vice Chairman, a role he held until 2019. He also previously held non-executive director positions at Hispania Activos Inmobiliarios SA, BUDIMEX and BAA plc.

**External appointments (as at 31/12/2019):**

- Non-Executive Director and chair of the risk committee, Bankia SA
- Senior Advisor (Spain and Portugal), AT Kearney

**14** Jane Kingston N R SE I  
Non-Executive Director

**Appointed:** February 2014

**Resigned:** December 2019

**Experience:** Jane is an accomplished human resources professional with significant experience across a range of industry sectors and international territories in developing people, people strategy and business culture. She was previously Group Human Resources Director at Compass Group PLC and BPB plc and held senior human resources roles at Enodis PLC, Blue Circle PLC (now Lafarge SA) and Coats Viyella PLC.

**External appointments (as at 31/12/2019):**

- Non-Executive Director, Inchcape plc where she is also chair of the remuneration committee
- Non-Executive Director, Spirax-Sarco Engineering plc where she is also chair of the remuneration committee

**Committee membership<sup>1</sup> & independence status key**

- O Committee Chair
- A Audit
- N Nominations
- R Remuneration
- SE Safety & Environment
- I Independent
- IA Independent on appointment

<sup>1</sup> Committee membership is shown as at 31 December 2019

Further details about the number of Board and Committee meetings held during 2019, the Directors' attendance at those meetings and the Board's and its Committees' processes are set out on pages 77 and 78 of this Corporate Governance Report.

## Board leadership and company purpose

### Board activity in 2019

The key business and activities of the Board during the year were as follows:

 <b>Strategy and operations</b> 	<ul style="list-style-type: none"><li>– Conducted an in-depth review of, and approved, the Group's 2020-2022 strategy and 2030 Vision</li><li>– Reviewed and approved material bid, contract and M&amp;A proposals and assessed performance of completed acquisitions vs. plan one year on</li><li>– Received presentations from each of the Group's principal divisions on their performance vs. strategy and budget and their priorities and initiatives</li><li>– Received reports on and discussed the Group's technology strategy and approved technology investments</li><li>– Assessed the performance of the Group's operational excellence programme and approved excellence initiatives</li><li>– Monitored competitor and market activity</li><li>– Monitored the economic, legislative and geopolitical landscape, particularly as regards the UK General Election, Brexit, the Spanish long-haul concessions renewal process and ongoing increased price competition and wage pressure in North America</li></ul>
<b>Financial performance</b> 	<ul style="list-style-type: none"><li>– Approved the Company's annual budget, business plan and KPIs, and monitored performance against them</li><li>– Reviewed and approved the Group's full and half year results and interim trading updates</li><li>– Approved the payment of the interim dividend and recommended the final dividend</li><li>– Approved the Company's Annual Report, including its fair, balanced and understandable nature</li><li>– Reviewed and confirmed the Group's viability statement and going concern status</li><li>– Reviewed the Group's capital, debt and other liquidity arrangements, and approved the Company's debut US private placement, the renewal of its £1.5 billion Euro Medium Term Note programme and the issue of notes thereunder and a number of other debt facilities</li><li>– Approved the Group's tax strategy and treasury policy</li><li>– Considered and approved material bids, acquisitions, contracts, expenditure and guarantees</li></ul>
<b>Risk management, safety and internal control</b> 	<ul style="list-style-type: none"><li>– Reviewed and approved the Group's risk appetite and reviewed the Group's principal and emerging risks and the processes for identifying, and actions to mitigate, the same</li><li>– Received reports from the Chair of the Safety &amp; Environment Committee on its activities, including its oversight of the implementation of the Group's Global Safety Policies</li><li>– Received reports from the Chair of the Audit Committee on its activities and assessments</li><li>– Reviewed and approved the Group's annual renewal of its insurances</li><li>– Reviewed and validated the effectiveness of the Group's system of internal control</li><li>– Approved amendments to the Group's delegated authorities framework</li><li>– Reviewed and approved revised whistleblowing policies</li></ul>
<b>Leadership and people</b> 	<ul style="list-style-type: none"><li>– Received recommendations from the Nominations Committee on the appointment of new Directors, the re-election of Directors and other advice regarding the structure, size and composition of the Board, and approved the Company's Notice of Annual General Meeting</li><li>– Reviewed and actioned succession plans for the Board and senior management, having regard to skills, experience and diversity</li><li>– Received reports from the Chair of the Remuneration Committee on its activities, recommendations regarding remuneration strategy and decisions regarding Chairman, Executive Director and senior management pay, and reviewed and approved Non-Executive Director fees</li><li>– Reviewed quarterly human capital reports, including updates on talent development programmes and diversity enhancement initiatives</li></ul>
<b>Engagement, environment and community</b> 	<ul style="list-style-type: none"><li>– Reviewed feedback from investors and analysts and the output of engagement with major shareholders and other stakeholders</li><li>– Reviewed workforce engagement activities and outcomes, including the results of the Group's staff surveys, and received reports on the Non-Executive Directors' workforce engagement activities</li><li>– Received a presentation from a major customer and discussed other customer, supplier and business partner relationships</li><li>– Received and considered stakeholder reports from each of the Group's principal divisions</li><li>– Received reports from the Chair of the Safety &amp; Environment Committee on its environment activities, including the adoption of new 'climate science' and other KPIs</li><li>– Reviewed the activities of, and approved a financial commitment to, the Company's charitable and community foundation</li></ul>
<b>Legal and governance</b> 	<ul style="list-style-type: none"><li>– Received regular updates on legal and regulatory matters</li><li>– Received briefings on and discussed corporate governance developments, including in relation to the 2018 Code and the Companies (Miscellaneous Reporting) Regulations 2018</li><li>– Reviewed the results of the internal Board and Committee effectiveness evaluation</li><li>– Reviewed and approved the matters reserved to the Board and its Committees' terms of reference</li><li>– Approved the Group's annual Modern Slavery and Human Trafficking Statement</li></ul>








Further details about the number of Board and Committee meetings held during 2019, the Directors' attendance at those meetings and the Board's and its Committees' processes are set out on pages 77 and 78 of this Corporate Governance Report.

## Board leadership and company purpose

### Board decision-making












In making decisions, the Company's Directors are cognisant of all their legal duties, including their duty under Section 172(1) of the Companies Act 2006 to act in the way that is most likely to promote the success of the Company for the benefit of its members as a whole and to have regard (among other matters) to the factors set out in Section 172(1)(a) to (f) of the Companies Act 2006. Examples of some of the principal decisions taken by the Board during the year and an explanation of which factors the Directors had regard to when reaching such decisions, including those set out in Section 172(1)(a) to (f) of the Companies Act 2006, are set out in the table below:

#### Key of factors considered

- |  |   |   |
|--|---|---|
|  Financial impact                 |  Reputation              |  Acting fairly between members |
|  Long-term impact                 |  Community & environment |   |
|  Fostering business relationships |  Employees               |   |

#### Board decision

#### Directors' consideration of factors in accordance with s.172(1)

<b>Successful bid for and award to the Company's ALSA division of a 15-year contract to operate urban bus services in Casablanca, Morocco</b>	 	- The contract would generate revenues of c.€1 billion over its 15-year term and contribute to the delivery of the Company's growth strategy by further expanding the urban bus segment of the Company's ALSA business
		- The Company's investment in a brand new urban bus fleet would improve both the safety of the bus operation and reduce its impact on the environment through newer vehicles emitting fewer harmful emissions
		- The Company's commitment under the contract to redesign the urban bus network and introduce a new ticketing and payment system should enhance passengers' experience of urban buses for the benefit of the Casablanca community
		- The contract award would mean the assumption by the Group of the incumbent operator's drivers who, through becoming part of the Group and being subject to the Group's Global Safety Policies, would benefit from risk profiling and being provided with further training or other actions to reduce risk profiles
<b>Acquisition by the Company's UK division of the business of providing Home to School and Ring and Ride services for vulnerable children and adults in the West Midlands (out of the administration of the previous provider)</b>		- The acquisition would enable the Company to access a new UK market, creating potential opportunity in the longer term for further growth in this market
		- The acquisition would secure the continued provision in the West Midlands of these vital community services
		- The acquisition would secure the employment of c.600 of the employees who worked for the seller companies in administration
		- Improvement of the fleet to be carried out immediately post acquisition would improve the safety and reliability of these vital services and reduce harm to the environment through fewer emissions from the improved fleet
		- The acquisition would result in all transferring employees being paid at the least the Real Living Wage and having access to wider employment opportunities within the National Express Group
		- The acquisition would strengthen the Company's UK bus business' relationship with two of its key stakeholders: Transport for West Midlands and Birmingham City Council, which are invested in the continuation of these vital community services and keen to see the improvements in the services that the National Express Group is able to offer




















#### Casablanca contract – having regard to other stakeholder interests

Subsequent to the award of the Casablanca urban bus contract to the Company's ALSA division, the Casablanca transit authority requested ALSA to start providing services under a transitional contract in advance of commencement of the formal contract to secure the continued provision of services to the public. The Company had due regard to the authority's interest in acceding to such request.



#### Acquisition of West Midlands Home to School and Ring and Ride services business – having regard to other stakeholder interests

One of the principal reasons for the Company's UK division's acquisition of the business of providing Home to School and Ring and Ride services out of the administration of the previous provider was to assist Transport for West Midlands – with whom the Company's UK bus business has been working in alliance to provide public transport services in the West Midlands over many years – in securing the continued provision of these vital services. The Company also had regard to Birmingham City Council's interest in securing these services in accordance with its statutory duty to do so.










Board decision	Directors' consideration of factors in accordance with s.172(1)
<b>Investment by the Company's UK division in a new hosted datacentre</b>	  – The investment would enhance the functionality and capacity of the Company's UK division's datacentre, enabling the UK division to secure customer data, provide access to wider sales channels and speed up the development of customer applications, delivering on the Group's strategic aims of growing its business and enhancing technology
	  – While the project would involve upfront capital expenditure, over the longer term it would have a positive NPV reducing operating expenditure in connection with the datacentre to below current annual levels
	 – The investment would foster new relationships with IBM and Vodafone as the joint suppliers working together to deliver the new hosted datacentre solution, building on the existing relationships the Company has with each such supplier independently
	 – The investment would involve the transfer of certain of the Company's UK division's employees to the suppliers, but their rights would be protected through such transfer
	 – The new datacentre solution would include enhanced cyber security measures, reducing the likelihood of a successful cyber attack on the Company and the consequent reputational risk
<b>Investment by the Company's ALSA and North America divisions in new vehicles</b>	  – Purchasing new vehicles, with long-term useful economic lives, would provide valuable assets to the Company's operating subsidiaries allowing them to continue to provide their commercial services and/or perform their contracts over the long term
	  – Purchasing new vehicles would enable the Group to comply with its legal obligations under its customer contracts to operate services with vehicles under a certain age or meeting a certain specification, averting breach of contract and the risks arising from it, including financial penalties, potential contract termination and potential loss of operating licence
	 – Purchasing new vehicles would maintain the Group's long-term and valued relationships with its preferred vehicle suppliers who, due to volumes and value of orders placed, supply reliable and quality products and after-sales services and offer significant savings against list prices
	 – Purchasing new vehicles would assist the Company in achieving its environmental targets as all new vehicles comply with mandated vehicle emissions standards and over 50% of ALSA's vehicle orders in the year were for hybrid vehicles
<b>Extension of the Board's workforce engagement programme</b>	 – Further engagement between the Board and the Group's workforce would enable the Board to hear the 'voice of the workforce' more clearly on the issues that matter to the Board and to the workforce, helping the Board to better have regard to those issues when making decisions
	 – Further engagement between the Board and the Group's workforce would enhance the Company's reputation as a good employer which is keen to engage with and listen to its workforce
<b>Adoption of new environmental KPIs</b>	 – The adoption of 'science-based' KPIs, based on the science of how industry can contribute to containing global warming to a temperature increase of no greater than 2°C above pre-industrialisation levels, would demonstrate the Group's commitment to playing its part in society's goal of controlling climate change
	 – Further action against climate change by the Company would enhance its reputation and credibility as an environmentally conscious company



### UK datacentre outsourcing – having regard to employee interests

Employee interests were a key consideration in the outsourcing of the UK datacentre as it would involve the transfer of the employment of certain of the Company's UK division's specialist IT employees to the new service provider under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). In approving the outsourcing, the Board took into account the fact that TUPE would operate to protect the fundamental employment rights of those employees through the transfer.

The Board also had regard to the wider benefits to the Group (and consequently all its retained employees) of the outsourcing which would serve to enhance the security of customer data and thereby reduce the risk of a successful cyber attack. It would also help to grow customer sales through enhanced functionality and capacity of the UK division's datacentre and improve customer loyalty through new customer applications, assisting growth of the UK business and, in turn, further opportunities for employees.

Board decision	Directors' consideration of factors in accordance with s.172(1)
<p><b>Acquisition by the Company's North America division of WeDriveU, the premier corporate shuttle service provider in Silicon Valley, USA</b></p>	 <ul style="list-style-type: none"> <li>- The acquisition would deliver favourable financial returns against all three metrics which the Group uses to assess acquisitions and contribute to the delivery of the Company's growth strategy, both immediately by the entry into the large and fast-growing US corporate shuttle market and longer term through leveraging the combination of WeDriveU's brand and experience and the Group's base and quality of operations to grow the business across North America and beyond</li> </ul>
	 <ul style="list-style-type: none"> <li>- By providing an entry point into the US corporate shuttle market which, by its nature provides drivers with more regular and less seasonal work than the school bus business, the acquisition would create more employment opportunities for the Group's current employees working in school bus and, through growth of the Group's corporate shuttle segment, more employment opportunities generally</li> </ul>
	 <ul style="list-style-type: none"> <li>- The acquisition would enable the Company to foster new business relationships with WeDriveU's impressive customer base, which includes major blue-chip corporates</li> </ul>
	 <ul style="list-style-type: none"> <li>- The acquisition could potentially expose the Company to higher reputational risk as a result of the regulatory and legal claims environment in California, USA, where WeDriveU operates. This would be mitigated by WeDriveU's high operating standards as demonstrated through its safety record (as ascertained through due diligence), and through the Group's ability to enhance those standards further through implementation of the Group's Global Safety Policies</li> </ul>
	 <ul style="list-style-type: none"> <li>- The acquisition would enable the Company to serve the communities in which WeDriveU operates by providing commuter shuttle bus services connecting people with their work, and in a way that reduces the impact on the environment by reducing reliance on personal cars</li> </ul>
<p><b>Refinancing of c.£650 million of maturing Euro notes, Sterling bonds and other debt facilities through the Company's debut US private placement of notes and the issue of notes under the Company's EMTN programme</b></p>	 <ul style="list-style-type: none"> <li>- The refinancing would secure the liquidity required for the Company to execute its long-term strategic plans over the 7-12 year blended tenor of the new debt</li> </ul>
	 <ul style="list-style-type: none"> <li>- The new debt would be secured on very favourable financial terms, both as regards coupon and having regard to delayed draw features (reducing double cost of carry)</li> </ul>
	 <ul style="list-style-type: none"> <li>- The refinancing would enable the Company to develop lending relationships with certain debt investors that were new to the Group, and build on those with debt investors that already lend to the Group</li> </ul>
	 <ul style="list-style-type: none"> <li>- The decision to secure debt rather than equity funding would help to ensure that shareholders, including small shareholders who may not be able to take up their rights in a rights issue, would benefit equally from the delivery of the Company's strategy funded by debt</li> </ul>



**Acquisition of WeDriveU – having regard to employee interests**

The Board's regard to the importance of retaining and incentivising the management team of WeDriveU strongly influenced the structure of the acquisition, with the Company initially acquiring 60% of the equity, with put and call options over the remaining 40% equity which continues to be held by the management. The value of these options depends on the success of the WeDriveU business over the next three years aligning the Company's and such management's interests in maximising that value.

To ensure that the Company's Directors have regard to all factors that are relevant when taking decisions, the papers prepared by the Executive Directors, senior management and the Company Secretary which seek a decision from such Directors have always drawn attention to the relevant factors that should be taken into account.

In the year under review, this practice has been enhanced by the inclusion in such papers of a dedicated appendix which collates the factors referred to in Section 172(1)(a) to (f) of the Companies Act 2006.

The minutes of the Company's Board and Committee meetings are also increasingly recording how relevant factors, including those referred to in Section 172(1)(a) to (f) of the Companies Act 2006, have been taken into account, allowing Directors to refer back and remind themselves of the rationale for decision-making as required, including when called upon to take similar or related decisions in future.

## Board leadership and company purpose

### Purpose, Values and culture

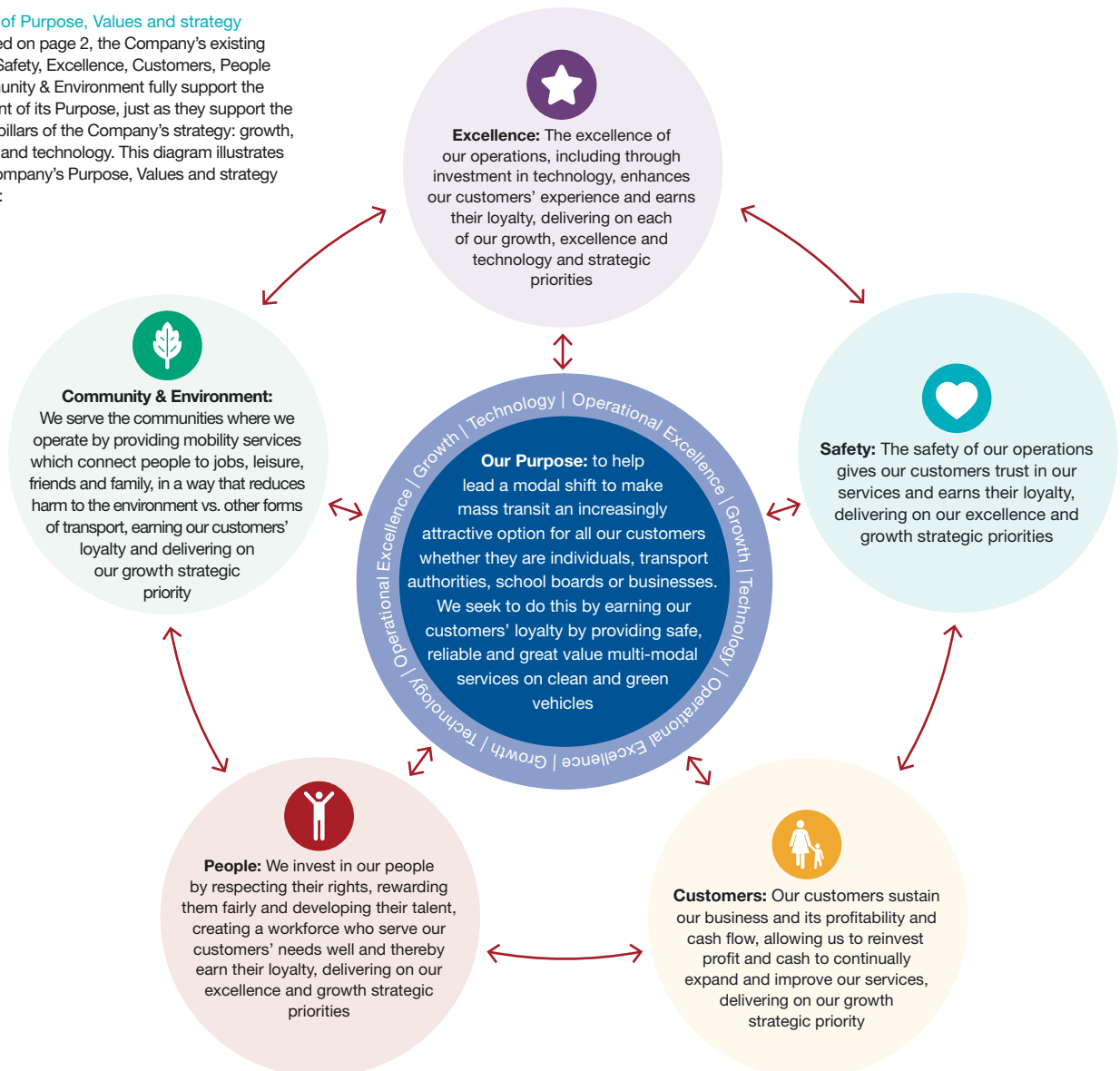
#### Purpose

During the year under review, the Board reviewed and articulated the Company's Purpose to ensure that it reflects the Board's current view of the Company's role in society. Such Purpose is best articulated when put into the context of the Company's Vision and Belief, its approach to achieving its Purpose and its view of how it will succeed in achieving its Purpose, as set out below:

<b>Our Vision is:</b>	to be the world's premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value
<b>This Vision is rooted in a Belief that:</b>	driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future
<b>Our Purpose therefore is:</b>	to help lead this modal shift by making mass transit an increasingly attractive option for all our customers whether they are individuals, transport authorities, school boards or businesses. We seek to do this by earning our customers' loyalty by providing safe, reliable and great value multi-modal services on clean and green vehicles
<b>We will achieve this through an Approach:</b>	that seeks social and environmental leadership to ensure we are a good employer and partner, while using technology to make our services increasingly easier to access, safe and efficient. It is this model of progressive partnership that: delivers industry-leading services for our customers and communities; secures rewarding careers for our people; and generates sustainable returns for our shareholders
<b>We judge Success as:</b>	being seen by 2030 as the world's premier mass transit partner, with a reputation for industry-leading safety, reliability and value for money across a portfolio of easily accessible multi-modal services. At the forefront of technological innovation, National Express will lead the transition to zero emission vehicles, maintain its safety leadership and pioneer new ways to access transport. Our staff will see us as an employer of choice and customers will rely on us as an operator they can trust, with services that help meet their needs while also having a positive impact on their communities. This will, in turn, drive strong, consistent returns for our shareholders

#### Alignment of Purpose, Values and strategy

As explained on page 2, the Company's existing Values of: Safety, Excellence, Customers, People and Community & Environment fully support the achievement of its Purpose, just as they support the three core pillars of the Company's strategy: growth, excellence and technology. This diagram illustrates how the Company's Purpose, Values and strategy are aligned:



## Board leadership and company purpose

### Purpose, Values and culture *continued*

#### Culture

Our Values make clear our priorities and form the foundations of the Company's culture. One Value — Safety — is our highest priority and underpins everything we do. We, as a Board, believe, through the activities we have undertaken to monitor the Company's culture, that it is one of 'safety first' and that our people are truly living by this and our other Values.

The Group's Values Awards are the strongest evidence of this. The Values Awards are an annual event which involves people from across the global business nominating their colleagues for demonstrating behaviours which exemplify the Values. The exceptional number and quality of nominations received each year is a testament to how our people live by our Values. The nominations process, awards events and publication of awards winners across the Group also serve to remind people of our Values and what they mean in practice.

While the Values Awards raise awareness of and recognise and reward the behaviours that demonstrate our Values, there are multiple other input actions which contribute to the creation of a healthy corporate culture. These include:

- our corporate policies, reviewed and approved by the Board, which set a clear expectation, and mandate, for every member of the workforce to perform the Company's business with integrity and in accordance with applicable laws, including its anti-bribery and corruption, anti-slavery and human trafficking, data protection and whistleblowing policies and procedures;
- fair and transparent employee policies and practices which ensure that workers' rights are respected in accordance with applicable laws, their contracts and recognised collective bargaining agreements, together with a number of programmes and initiatives which support the health and wellbeing of the workforce, develop its talent and promote its diversity;

- supplier protocols and procedures which seek to ensure that our key suppliers operate their businesses and respect their workers' rights in the same way that we do;
  - the creation and implementation of Global Safety Policies and Standard Operating Procedures which seek to ensure the safety, efficiency and consistency of our operations across the world by ensuring that every member of the workforce knows what is expected of him or her and understands the processes he or she must follow to meet those expectations;
  - the application and monthly assessment by divisional executive teams and the Group Executive Committee of safety and operational KPIs to enable management to continually monitor and drive improvements in the safety, reliability and efficiency of our services;
  - the work of divisional and Group support functions which enforce the Group's policies, procedures and standards at every level and location of the business around the world, including dedicated safety and operational excellence teams, finance, procurement, HR and legal functions both at Group level and within every division and the Group internal audit function; and
  - the use of visual reminders at the Group's sites across the world of the Company's Values, whether in the form of posters on noticeboards, stickers on vehicles or screensavers on computers, which serve to constantly remind people about the Values.
- In addition to the Group's Values Awards, we, as a Board, use a number of other methods to monitor the Company's culture and assess whether our people are living by our Values. These include
- reviews, in the Boardroom, of the outcomes of staff surveys, customer satisfaction scores and whistleblowing reports. Those can give insights into what the Company does well and what could be improved, as well as any particular areas of concern;

- the Board's collective and Directors' individual visits to the Company's sites and operations (further details of which are set out on pages 71 and 72). During such visits Directors have the opportunity to talk to members of the workforce, customers and other business partners and get a real view of how people, both internally and externally, feel about working for and with the Company;
- the new workforce engagement events (discussed further on pages 72 and 73) which give Non-Executive Directors more one-on-one time with members of the workforce to discuss the issues which matter most to them, which can reveal the true culture of the Company; and
- Directors' attendance at various Company events, such as:
  - divisional management conferences, which the Executive Directors attend to hear about and help direct the priorities of each division to ensure they are aligned with the Company's Purpose, Values and strategy;
  - the NX Network annual conference, attended by both Executive and Non-Executive Directors, which brings together management trainees and high potential individuals from across the Group and allows the Directors to hear from them about the opportunities they have and challenges they face; and
  - the NX Group Values Awards presentation dinner hosted by the Group Chief Executive and attended by other Executive and Non-Executive Directors giving them the opportunity to meet the nominees and hear about the work or actions they have been nominated for and their wider views about the Company.

Through all these monitoring activities, the Board is satisfied that the Company's culture is aligned with its Values.

Where staff surveys, workforce engagement events or other interactions between Directors and members of the workforce or other stakeholders have revealed matters that can be improved upon or have flagged concerns, the Board has discussed these and is content that management is putting action plans in place that are designed to drive those improvements or address those concerns.





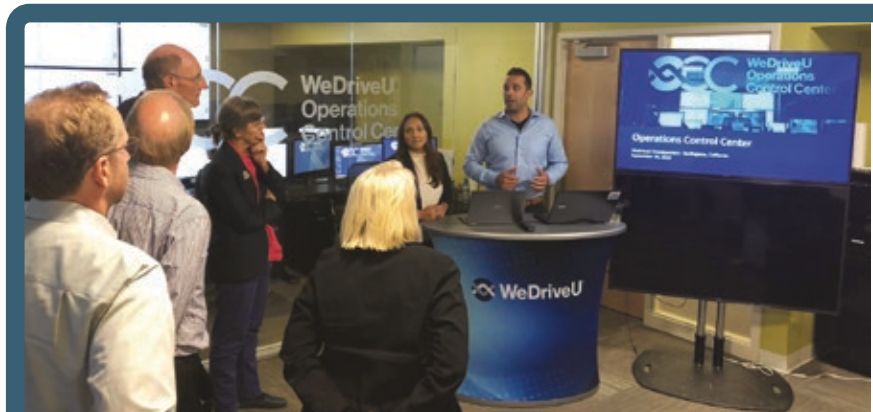
## Board leadership and company purpose

### Stakeholder relations

The Board recognises the value of engaging directly with members of the workforce to ensure an understanding of their views and, in turn, enhance the quality of its decision-making.

As described in the Company's previous Annual Reports, the Directors have for a number of years participated in a programme of engagement with the workforce through their collective visits as a Board, and individual visits by Non-Executive Directors, to the Company's operations. The programme gives Directors the opportunity to meet with and talk to a wide variety of members of the workforce, from drivers and vehicle technicians to their line managers and those working in the functions which support them. The Non-Executive Directors in particular have found these activities invaluable in enhancing their understanding of the Company's operations, safety programmes, excellence initiatives and successes and challenges through being able to see and hear about them directly. Accordingly, the Board has continued with this programme in the year under review.

Further engagement between Board members and the workforce has taken place during the year when the Chairs of the Audit and Safety & Environment Committees undertook their annual internal control audit and safety audit visits (as discussed in the Audit Committee and Safety & Environment Committee Reports on pages 89 and 98 respectively). The two newly appointed Non-Executive Directors, Ana de Pro Gonzalo and Karen Geary, also visited some of the UK division's operations as part of their induction (further details of which are set out on pages 85 and 86).



#### Board visit to California, USA

In September 2019, the Board travelled to California, USA, to undertake a full programme of events, starting on the first day with a series of small-group sessions during which members of the North America division's workforce presented the division's strategic priorities and discussed with the Board how they were being delivered. The day concluded with an informal dinner with the same members of the workforce during which the discussions about those matters and many more continued.

The next day the Board met with one of the Company's major corporate shuttle customers (as discussed further on page 75), following which it proceeded to visit three of the

North America division's school bus and transit customer service centres based in and around the Bay Area to see the progress being made by them against the division's strategic priorities and the Group's safety standards and operational excellence programmes.

While in the Bay Area, the Board also visited the headquarters of WeDriveU, the corporate shuttle provider acquired by the Company earlier in the year. During this visit the Directors met with and talked to a number of WeDriveU's employees about a variety of topics, including how they service their customers' needs and how they engage with their own workforce. The Board was also able to see a demonstration of a new safety technology WeDriveU had invested in.



#### Board visit to Madrid, Spain

In June 2019, the Board travelled to Spain to visit the ALSA division's operational site in Madrid, where the Directors engaged in discussions with members of the ALSA workforce about operational initiatives designed to enhance the customer experience and observed a demonstration of the technology used to exercise real-time management of the Spanish coach network.

The day's activities were followed by a dinner, co-hosted by the Deputy Chairman of the Board and ALSA's Chief Executive, which various members of ALSA's workforce, as well as other ALSA stakeholders, attended, giving the Directors opportunity to have discussions with such stakeholders.





### Chairman's visits to Bahrain and Coventry & Aston, UK

Sir John Armitt:

- visited the Kingdom of Bahrain to speak to the workforce of the Company's Bahrain joint venture about the progressive work they have been doing, with the support of the Ministry of Transport, to redesign the Bahrain bus network and to continue to embed the Group's Global Safety Policies; and
- visited the Company's Coventry and Aston depots to see the UK bus and National Express Accessible Transport operations (NEAT) at work and speak to some of the workforce whose employment had recently transferred to the Group.

As he reported back to the Board following these visits:

“ I could see the impact of the Global Safety Policies and I was particularly impressed by the fantastic spirit and attitude of the NEAT drivers and the professionalism that the UK division has brought to this business since its acquisition earlier in the year”

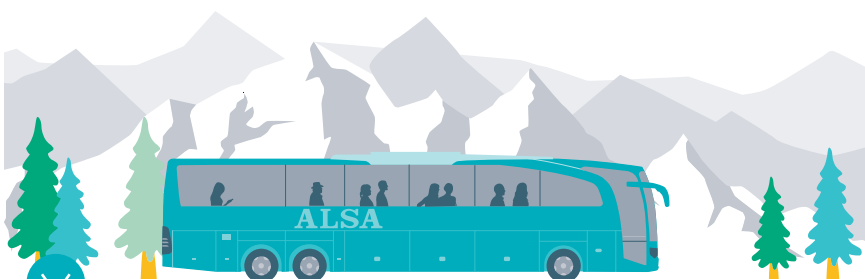
### Deputy Chairman's visits to Morocco and Switzerland

Jorge Cosmen:

- visited Rabat in Morocco, where he observed first-hand the intensive work of the local team to mobilise the significant new contract won by the Company last year; and
- visited some of the urban bus and ski transfer shuttle operations in Switzerland that were acquired by ALSA over the last few years.

As he reported back to the Board following these trips:

“ Members of the workforce now have a real appreciation that the Company is in growth mode. I was pleased to see how motivated the teams are to deliver our new contracts in Morocco, and to serve both our transport authority clients and the people of Morocco well”



In view of the success of this collective Board and individual Director programme of engagement to date and having regard to the Provisions of the 2018 Code, the Board determined to continue its existing engagement programme but also supplement it with additional 'workforce engagement events'. While the Board, supported by the Company Secretary and divisional HR teams, is still developing the precise shape of these events, they currently take the form of informal roundtable discussions between one or two Non-Executive Directors and 10 to 20 members of the workforce drawn from a variety of roles, during which either topics that are pertinent to the Board's discussions and/or topics that are important to the workforce are discussed. The Non-Executive Directors attending the events feedback their observations to other Directors at the next following Board meeting, which prompts further discussions. Since the programme commenced, three of these events have taken place, one in each of the UK, the USA and Spain, details of which are set out on the next page.

The Board's approach to workforce engagement is a variant of the 2018 Code recommendation of having a designated Non-Executive Director responsible for engaging with the workforce.

The Board considers its approach more effective than having a single designated Non-Executive Director because:

- the sheer size of the Group's workforce (with over 51,000 employees, plus many other workers);
- the geographical spread of the Group's operations (across eight countries over four continents); and
- the cultural variations within the workforce across the Group (including as regards languages spoken),

mean it is better to share this responsibility, and privilege, among all the Non-Executive Directors.

This way, more Non-Executive Directors can also hear the views of the workforce for themselves and bring their different observations back into the Boardroom.

It also enables Non-Executive Directors who are best placed, in terms of their own background and skills (including language skills) to participate in workforce engagement events.

The Board also considers its approach more effective than having a Director appointed from the workforce or a formal workforce advisory panel as there would be less free flow of ideas and information in the more formal settings of Board meetings or panel meetings than there can be at informal roundtable discussions (and as there already is during Board and Director visits to operations).

In view of the breadth of the Company's geography and number of different types of worker that make up its workforce, there would also be inherent difficulties in ensuring that any individual worker Director or panel of workers would be truly representative of all the Group's workers in such a way as to ensure the Board can really hear the voice of the workforce, in the way that it can via the Board's approach.



### UK workforce engagement event

Mike McKeon, a Non-Executive Director, attended the Company's UK division headquarters in Birmingham where, after touring the coach station and customer service centre and receiving a presentation from the IT and digital teams, he hosted a roundtable discussion with a group of workers made up of drivers, vehicle technicians, coach station staff, bus revenue inspectors, and representatives of the UK customer service and UK IT and digital teams.

In view of the Group's strategic priorities of growth, technology and excellence, which are often discussed in the Boardroom, the event was given a notional theme of 'putting the customer first' and discussions centred on how the UK division was putting the customer first in order to increase patronage and grow the UK bus and coach businesses through technology and excellence. Topics discussed included the new contactless ticketing technology on buses, the 'NX Way' philosophy of how contact centre staff are trained to provide customer service and the new IT applications being developed to improve the customer experience.

On the day, the discussions went wider to cover topics that the members of the workforce were keen to discuss, including how bodycams and DriveCam are making revenue inspectors and drivers feel safer at work and how the outsourcing of the UK datacentre is impacting people and the way they work. As Mr McKeon observed when he discussed the event with the Board: "While these latter topics were not 'on point', it demonstrates the success of the event that people are willing to talk openly about subjects that matter to them, which can inform the Board's thinking and decision-making on these or similar matters".

### US workforce engagement event

The Chairman and Jane Kingston, a Non-Executive Director, attended a roundtable discussion with a group of workers from the Concord, California, school bus customer service centre. The group included drivers, vehicle technicians and supervisors.

This event started from the premise of a more open agenda, with the workforce members attending invited to share their views generally on what they considered the Company did well and what it could do better. It also gave the Directors the opportunity to ask the workforce about the various safety and excellence programmes the Group had implemented over the last few years and the workforce the opportunity to ask Directors about the Company's strategy and direction.

When reporting back to the Board on the event, Ms Kingston observed that "the members of the workforce participated in the event in a very open way, sharing their views about both positives and negatives". She relayed some examples of the views shared, noting that drivers had praised the training they had received saying how well it had served them and that vehicle technicians had raised concerns about lack of spare parts but confirmed improvements were now being made. One of the Group's major new excellence programmes was also discussed, and ideas were shared about how to communicate the rationale for the programme better, which prompted a Board discussion when the event was reported back to the Board. As Ms Kingston also observed: "It was lovely to hear from the school bus drivers that the best part of their job was looking after the children".



### Spanish workforce engagement event

Jorge Cosmen, the Deputy Chairman, hosted a roundtable discussion in Madrid with approximately 20 members of ALSA's Spanish workforce, including drivers, service technicians, depot workers and sales agents who were drawn from multiple regions of Spain, from the North West to the Mediterranean. The event focused on seeking to answer the question: 'are we living by our Values?', with a particular focus on Customers and Safety Values.

Members of the workforce shared their views on what ALSA does well with its customers and what can be improved, whether ALSA is considered a safe company by its customers and which features of ALSA's services, in terms of both safety and comfort, are most valued by its customers. Recent technological developments were also discussed, such as the MiALSA app which ALSA uses as a means to communicate with its employees. Members of the workforce raised questions about matters of more individual concern to them and also asked Mr Cosmen about the Company's strategy, including in regard to the Spanish concessions renewal process and international expansion.

As Mr Cosmen explained at the next following Board meeting: "I was pleased to see how deeply the commitment to safety is rooted in the business and that our workforce see safety, as we do as a Board, as a key way in which we differentiate ourselves from other transport providers. I was interested to learn about the different ways we are communicating with the workforce and how technology is making a difference even with this. I was also impressed by how aware our people are of the Company's strategy and the risks and opportunities we face as a business". Mr Cosmen also recommended these events to his fellow Non-Executive Directors, noting that "lots can be learned from them".



The Board is committed to maintaining a two-way dialogue with its investors. The purpose of the dialogue is to keep investors informed about the Company's strategy, its performance against strategy, its principal and emerging risks and developments which impact, positively and negatively, on strategy or performance. It is also to understand investors' views on such matters as well as their investment parameters and priorities.

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

The Executive Directors, with the support of the investor relations team and operational management, have undertaken a comprehensive investor relations programme during the year, aligned to the Company's financial reporting calendar and other events, by holding a number of meetings with existing and prospective equity investors and research analysts and giving presentations to investors and analysts following the full and half year results. Details of this investor relations programme are set out in the box on this page.

A number of analysts published equity research notes covering the Company during the year but, as anticipated following the introduction of MiFID II, analyst coverage has again reduced in the year, with only seven analysts currently providing coverage. Details of the firms that currently follow the Company appear in the Investors section of the Company's website. As a result, the Company is engaging more frequently with investment banks' sales teams and attending more investor conferences to ensure that investors continue to receive timely updates and information on the Group's strategy and financial and operational performance. In addition, the Company has hosted a few non-deal roadshows in the past year, including meeting with investors in the USA and France.

As the Board was active in the year in implementing its Board succession plans, as described in the Nominations Committee Report on pages 79 and 80, certain of the Non-Executive Directors also met directly with some of the Company's principal shareholders to hear their views

2019 investor relations programme:	
JAN	– Closed period
FEB	– 2018 full year results announcement and presentation to investors and analysts (London)
MAR	– Chairman meeting with Cosmen family (largest shareholder) – Investor roadshow in respect of 2018 full year results (London and Edinburgh)
APR	– Non-deal investor roadshow (London) – Meeting with HSBC sales desk – Other investor meetings
MAY	– Trading Update and conference call with analysts and investors – AGM (Birmingham) – Non-deal US investor roadshow (Boston, Minneapolis and Des Moines) – Non-deal investor roadshow (London)
JUN	– Investor meetings at investor conference (London) – Meeting with Berenberg sales desk
JUL	– 2019 half year results announcement and presentation to analysts and investors – Other investor meetings
AUG	– Other investor meetings
SEP	– Investor roadshow in respect of half year results (London) – Investor meetings at investor conferences – Meeting with sales desks at HSBC and Jefferies – Other investor meetings
OCT	– Meeting with Exane BNP Paribas sales desk – Q3 Trading Update and conference call with analysts and investors – Investor meetings at investor conference (Paris) – £414 million private placement with roadshow for debt investors in the US and UK – Other investor meetings
NOV	– Meeting with sales desks at Royal Bank of Canada and Jefferies – Investor meetings at investor conferences – £250 million bond placing with roadshow for debt investors in the UK – Other investor meetings
DEC	– Non-deal investor roadshow (London)

on such plans. The Chairman and Senior Independent Director, as well as other Non-Executive Directors, have made themselves available to equity investors to discuss other matters as required.

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

The AGM provides all shareholders with the opportunity to meet with and ask questions of Directors regarding this Annual Report and the matters before the meeting.

Details of the Company's 2020 AGM can be found in the 2020 Notice of AGM. The Board actively encourages shareholders to attend this meeting.

The Group's treasury team maintains regular dialogue with the Group's key relationship banks and other potential lenders to discuss the Group's debt needs and debt service. The Group Finance Director, supported by the Group Treasurer, has also met debt investors in the UK and USA during the year to discuss various topics such as the full and half year results and credit rating movements, and to issue notes in both the US private placement market and the Sterling public bond market.

Investors can find more information about the Company in the Investors section of the Company's website, [www.nationalexpressgroup.com/investors](http://www.nationalexpressgroup.com/investors).

## Board leadership and company purpose

### Stakeholder relations *continued*

The Board also recognises the value of understanding stakeholders' views to inform the Board's decision-making by providing greater context for and understanding of the implications of its decisions on relationships with others.

Engagement with the Company's other stakeholders, such as government ministry and local council customers, transit authority and school board customers, passengers and suppliers, is typically undertaken by the Company's divisions. They use a variety of well established methods, such as governance meetings and customer satisfaction surveys, to ensure that they understand such stakeholders' views. Further details of the Company's key stakeholders, their expectations of us and our priorities in acting as their trusted partner are set out on page 2 of the Strategic Report.

In addition, the Executive Directors have regular contact with key stakeholders as required to meet the Company's needs. For example the Group Chief Executive will, together with his divisional managers, meet with key customers and suppliers. The Group Finance Director, supported by his treasury team, maintains close relationships

with the Company's debt providers (as noted on page 74). The Chairman and the Deputy Chairman will each also meet with passenger transport industry stakeholders to discuss either transport matters generally or the Company's business specifically, the relevant outputs of which are relayed to the wider Board.

Non-Executive Directors have typically obtained their understanding of stakeholder views through the regular reports made to the Board by the Executive and other Directors noted above and through their regular discussions with senior management, including during visits to operations.

During the year under review, the Board has taken additional steps to further that understanding. A new item on the Board's agenda in 2019 was the presentation to the Board by each of the Company's principal divisions of a stakeholder report, explaining who the division's key stakeholders are, how the division engages with them and what impact stakeholder views have had on the division's business. Some examples of how stakeholder views have directly impacted on the Board's key decisions are set out on pages 66 to 68.

In addition, the Non-Executive Directors and, on occasion, the whole Board have had the opportunity during the year to engage directly with some of the Company's key

stakeholders, such as during its visit to Madrid in June when the Directors met with a number of ALSA's key stakeholders at the dinner co-hosted by the Deputy Chairman, and during its visit to California in September, when the whole Board met with Google, one of the Company's most important corporate shuttle customers at Google's offices in Silicon Valley.

During the meeting, Google's Transportation Program Manager explained to the Board Google's philosophy for the provision of shuttle buses to its employees, the benefits such provision brings and some of the challenges that still need to be resolved, and he explained Google's approach to procuring and managing shuttle services. Google's Transportation Program Manager was also able to offer some insights into what the future might hold for Google's business and what that means for its corporate shuttle needs. The meeting was hugely valuable to the Board in enriching its understanding of the corporate shuttle market, which is a fast-growing business segment for the Company.



## Division of responsibilities

### Roles and responsibilities

#### Roles and responsibilities

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

<p><b>Chairman</b> Sir John Armitt CBE<sup>1</sup></p>	<ul style="list-style-type: none"> <li>– Provides overall leadership and ensures effectiveness of the Board</li> <li>– Sets the agenda, character and tone of Board meetings and discussions</li> <li>– Maintains an effective working relationship with the Group Chief Executive</li> <li>– Provides the Board with an understanding of shareholders' objectives and other stakeholders' views</li> <li>– Leads the annual performance evaluation of the Board, its Committees and the Directors and ensures that each Non-Executive Director makes an effective contribution</li> </ul>
<p><b>Deputy Chairman</b> Jorge Cosmen<sup>2</sup></p>	<ul style="list-style-type: none"> <li>– Maintains a close dialogue with the Chairman and the Group Chief Executive</li> <li>– Supports and deputises for the Chairman as required</li> <li>– Assists the Group Chief Executive in strategic delivery and oversight of operational activities as requested</li> </ul>
<p><b>Group Chief Executive</b> Dean Finch<sup>3</sup></p>	<ul style="list-style-type: none"> <li>– Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the executive team in its delivery of strategy</li> <li>– Develops the Group's business model and manages the Group's operations</li> <li>– Oversees the development and implementation by the executive team of the Group's corporate, safety and environmental policies and standards</li> <li>– Establishes and services relationships with key stakeholders</li> <li>– Reinforces the Group's Values and sets expected workforce behaviours</li> <li>– Communicates (with the Group Finance Director) the Group's financial performance and strategic progress to investors and analysts</li> <li>– Ensures the Board is kept fully apprised of the Group's operational and safety performance and of risks and opportunities that may affect or contribute to the delivery of strategy</li> </ul>
<p><b>Group Finance Director</b> Chris Davies<sup>3</sup></p>	<ul style="list-style-type: none"> <li>– Responsible for the financial stewardship of the Group's resources through appropriate accounting, financial and other internal controls</li> <li>– Directs and manages the Group's finance, tax, treasury, IT, risk management, insurance and internal audit functions</li> <li>– Communicates (with the Group Chief Executive) the Group's financial performance and strategic progress to investors and analysts and manages investor relations</li> <li>– Chairs the Group's Diversity &amp; Inclusion Council</li> </ul>
<p><b>Group Business Development Director</b> Matt Ashley<sup>3,4</sup></p>	<ul style="list-style-type: none"> <li>– Responsible for the Group's business development, through the identification and development of major strategic projects, including M&amp;A, major bids and contract opportunities, major asset use initiatives and operational and supply chain efficiency programmes</li> <li>– Works with the Group's Commercial Director, divisional management and other Group function heads to implement such strategic projects</li> </ul>
<p><b>Senior Independent Non-Executive Director</b> Lee Sander</p>	<ul style="list-style-type: none"> <li>– Acts as sounding board for the Chairman and a trusted intermediary for other Directors</li> <li>– Available to investors to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels</li> <li>– Leads the Board in the annual performance evaluation of the Chairman and in developing the long-term plans for Chairman succession</li> <li>– Meets with the Non-Executive Directors without the Chairman present at least annually and more often as required to discuss Board matters</li> </ul>
<p><b>Independent Non-Executive Directors</b> Mike McKeon, Jane Kingston<sup>5</sup>, Chris Muntwyler, Joaquín Ayuso<sup>5</sup>, Dr Ashley Steel, Matthew Crummack, Ana de Pro Gonzalo<sup>6</sup> and Karen Geary<sup>6</sup></p>	<ul style="list-style-type: none"> <li>– Monitor and scrutinise the Group's performance against its strategic goals and financial plans</li> <li>– Provide an objective perspective on the Board's deliberations and decision-making, drawing on their collective broad experience and individual expertise and insights</li> <li>– Monitor and assess the Group's culture, use appropriate and effective means to engage with the workforce and acquire an understanding of other stakeholders' views</li> <li>– Assess the effectiveness of and support and constructively challenge the Executive Directors</li> <li>– Play a lead role in the functioning of the Board's Committees</li> </ul>
<p><b>Company Secretary</b> Jennifer Myram</p>	<ul style="list-style-type: none"> <li>– Provides advice and support to the Board, its Committees, the Chairman and other Directors individually as required, primarily in relation to corporate governance matters, and training and development needs</li> <li>– Responsible, with the Chairman, for setting the agenda for Board and Committee meetings and for high quality and timely information and communication between the Board and its Committees, and between the Directors and senior management as required</li> <li>– Ensures that Board and Committee procedures are complied with</li> </ul>

<sup>1</sup> Independent on appointment

<sup>2</sup> Non-independent Non-Executive Director

<sup>3</sup> Executive Director

<sup>4</sup> Completed his two-year assignment as President and CEO, North America and was appointed as Group Business Development Director on 31 August 2019

<sup>5</sup> Stepped down from the Board on 31 December 2019

<sup>6</sup> Appointed to the Board on 1 October 2019

## Board and Committee meeting attendance

The activities of the Board and its Committees are carried out in scheduled meetings over one or two-day periods during the year. Additional meetings are held and other arrangements made to consider and decide ad hoc matters outside of scheduled meetings.

The table below sets out the Board and Committee membership and attendance by members at meetings held in 2019. All Directors attended all meetings, other than as explained in the notes to the table. Those absences should not be viewed in any way as detracting from the clear commitment of these Directors to their roles. All Directors also attended the AGM on 9 May 2019.

Attendance at meetings	Board	Nominations	Audit	Safety & Environment	Remuneration
Total meetings in 2019	●●●●●●●●	●●	●●●	●●●	●●●●
<b>Executive Directors</b>					
Dean Finch, Group Chief Executive	●●●●●●●●	-	-	-	-
Chris Davies, Group Finance Director	●●●●●●●●	-	-	-	-
Matt Ashley, Group Business Development Director <sup>1</sup>	●●●●●●●○	-	-	-	-
<b>Chairman and Non-Executive Directors</b>					
Sir John Armitt CBE	●●●●●●●●*	●●*	-	●●●	-
Jorge Cosmen	●●●●●●●●	●●	-	●●●	-
Lee Sander <sup>2</sup>	●●●●●●●●	●●	●●●	●●●	●○●●●
Mike McKeon	●●●●●●●●	-	●●●*	●●●	-
Chris Muntwyler <sup>3</sup>	●●●●●○●●	●○	●○●	●●●*	-
Dr Ashley Steel	●●●●●●●●	-	●●●	●●●	●●●●*
Joaquín Ayuso	●●●●●●●●	●●	-	●●●	-
Jane Kingston	●●●●●●●●	●●	-	●●●	●●●●*
Matthew Crummack	●●●●●●●●	-	-	●●●	●●●●
Ana de Pro Gonzalo <sup>4</sup>	●	-	●	●	-
Karen Geary <sup>4</sup>	●	-	-	●	●

\* Board Chairman or Committee Chair. During 2019, Jane Kingston served as Remuneration Committee Chair from 1 January 2019 until 9 May 2019 and Dr Ashley Steel served as Remuneration Committee Chair from 9 May 2019 until 31 December 2019

<sup>1</sup> Matt Ashley could not attend the November 2019 Board meeting due to a last-minute conflict with the Company's other business

<sup>2</sup> Lee Sander was unable to attend the February 2019 Remuneration Committee meeting due to his inbound flight to the UK being delayed

<sup>3</sup> Chris Muntwyler was unable to attend the July 2019 Board, Nominations and Audit Committee meetings due to a prior other commitment that was notified to and approved by the Chairman at the beginning of the year

<sup>4</sup> Ana de Pro Gonzalo and Karen Geary both joined the Board and the Committees of which they were members during the year on 1 October 2019 and attended all meetings held in the year after their appointments

## Independence

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

Sir John Armitt was considered independent on his appointment as Chairman. On the advice of the Nominations Committee, the Board considers all the current Non-Executive Directors to be independent, except for Jorge Cosmen for the reasons explained on page 83. Notwithstanding that they will reach their nine-year tenure on the Board during 2020, the Board also considers that both Lee Sander and Chris Muntwyler will continue to be independent throughout 2020 for the reasons explained on page 83. In addition, notwithstanding that Dr Ashley Steel and Matthew Crummack are both directors of GoCo Group plc, and this cross-directorship could be seen to impair their independence, the Board does not consider it does on the

basis that both demonstrate independence of thought and offer challenge, including of each other's views.

## Conflicts of interest

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

A register of Directors' actual or potential conflicts, together with conflict authorisations previously given by the Board, is maintained by the Company Secretary.

No Director conflict situation currently exists save in respect of Jorge Cosmen (the Deputy

Chairman) as he is a member of the Cosmen family which is a substantial shareholder in the Company and has close links with the Group's business (see page 83). This conflict has been authorised by the Board on the basis that Mr Cosmen's knowledge of the international transport market and his entrepreneurial approach bring significant value into the Boardroom.

Mr Sander's position as President, Americas, Bombardier Transportation is kept under review by the Board as a situation which could give rise to a conflict of interest as a result of the lease by the Company's German Rail subsidiary of Bombardier trains for its RME concession. However, as all decisions relating to the Bombardier trains are taken by the Company's German Rail subsidiary (of which Mr Sander is not a director), the cost of the lease is paid for through the RME concession subsidy and other costs charged by Bombardier to the Company's German Rail subsidiary in 2019 were less than 0.03% of the Group's annual revenue, no actual or potential conflict of

interest currently exists or is expected to arise. Should a decision need to be taken by the Company in connection with the Bombardier trains, Mr Sander would not participate in that decision.

### Commitment and external appointments

Directors' commitment is reviewed as part of the Board and Director evaluation process and the Nominations Committee also keeps it under regular review. All Directors are expected to commit sufficient time to the Board and the Company as is necessary to carry out their duties as a director. On the advice of the Nominations Committee, the Board considers that, notwithstanding external appointments that some of them may have, all the Directors are able to devote sufficient time to the Company. Information on Directors' external appointments can be found on pages 62 to 64.

If a Non-Executive Director wishes to take on an additional external appointment, they are required to seek permission from the Board. The Board will take into consideration the time commitment required by the Non-Executive Director in their role as a Board Director, Committee Chair or Committee member in giving any such permission. Prior to the appointment of the two new Non-Executive Directors, their other commitments were carefully considered by the Nominations Committee as part of the appointment process. Ms de Pro Gonzalo's executive position at Amadeus IT Group, S.A. was considered an attribute as it confers on her recent and relevant experience in the areas in which the Board was looking to strengthen itself. Ms Geary's subsequent appointment as a non-executive director and chair of the remuneration committee at ASOS plc, for which she obtained prior approval from the Board, was also considered an attribute in reinforcing her non-executive director experience. These other roles were also not considered to unduly detract from their commitments to the Company.

Executive Directors are permitted to hold one external FTSE 100 non-executive directorship, or other significant appointment, with a non-competing company provided they first obtain Board approval to do so. No such external appointments are currently held by any of the Executive Directors.

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

### Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which include: strategy; risk appetite and review of Group-wide principal and emerging risks; major M&A, contracts and bids; share capital, debt financing and other liquidity matters; financial results and budgets; key policies; Board and Committee membership; and governance. Other matters, responsibilities and authorities have been delegated by the Board to its standing Committees, comprising its Nominations, Audit, Safety & Environment, Remuneration and Executive Committees. Any matters outside of these fall within the responsibility and authority of the Group Chief Executive and/or the Group Finance Director. The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved by the Board annually, can be found on the Company's website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com).

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

At each scheduled Board meeting, the Board rigorously reviews updates from the Executive Directors, the Group General Counsel and Company Secretary on Group and divisional safety, operating and financial performance, investor relations, legal compliance and corporate governance. Other regular Board agenda items include strategic proposals (including those relating to M&A, major contract bids and capital allocation), risk management (including reviews of risk appetite and Group-level risks), tax and treasury updates, human capital updates (including on employee relations, talent development and diversity promotion) and workforce and stakeholder engagement. Committee Chairs also provide summaries of the main decisions and recommendations arising from Committee meetings to ensure non-members are kept up to date with the work undertaken by each Committee. Senior management and external advisers regularly

attend both Board and Committee meetings, where detailed discussions on specific matters on which their input or advice is needed take place. The Board also seeks to hear external viewpoints inside and outside the Boardroom, including from customers, suppliers and experts in areas relevant to the Company's strategy.

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

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

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

In addition to Board and Committee meetings, the Non-Executive Directors hold private meetings without the Executive Directors present, including to discuss Executive Director performance. There are also opportunities during the year for Directors to have informal discussions outside the Boardroom, either between themselves or with senior management or external advisers. In addition and as explained on pages 71 to 75, Non-Executive Directors also participate in a number of workforce and other stakeholder engagement activities during the year.





Sir John Armitt CBE  
Committee Chair

“ The Nominations Committee’s ambition is to ensure we have the best people governing our business today and excellent and diverse talent in the pipeline to potentially govern the business tomorrow”



### Primary role

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

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

### Key responsibilities

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

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

### Activity highlights

- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of its members, in anticipation of Non-Executive Director changes to the Board and its Committees
- Led the process to recruit two new Non-Executive Directors with relevant skills and experience to the Board and certain of its Committees, thereby enhancing their strength and diversity
- Reviewed the Board and senior management succession plans, including via a review of potential internal successors for executive and senior management positions and other high potential talent
- Reviewed the Board’s Diversity & Inclusion Policy and the Company’s diversity initiatives

### Dear fellow shareholder

I am pleased to present the Nominations Committee Report which explains our work during 2019.

The Committee’s ambition is to ensure we have the best people governing our business today and excellent and diverse talent in the pipeline to potentially govern the business tomorrow. The best people will have the necessary experience and skills to shape and support the Company’s strategy, including through bringing diverse perspectives to bear on strategic decisions in a way that complements and reflects the diversity of the Company’s business.

### Board and Committee composition and succession planning

2019 was a busy year for the Committee as we began to implement the succession plans we have previously developed to ensure the continued effectiveness of the Board and its Committees, having regard to the Company’s strategic priorities.

On 1 October 2019, two new independent Non-Executive Directors – Ana de Pro Gonzalo and Karen Geary – joined the Board and certain of its Committees<sup>1</sup>. Ms de Pro Gonzalo is the serving Chief Financial Officer of Amadeus IT Group, S.A. and, prior to this, she held a number of financial and management roles in various industries. Her strong financial credentials and deep managerial experience, including in a major technology company, bring additional strength to the Company’s Board and its Audit Committee. Ms Geary has served in many executive and non-executive HR roles over her career, including currently as a non-executive director and chair of the remuneration committee of online retailer ASOS plc. She brings her focus on people into the Boardroom and Remuneration Committee.

Further details of the new Directors’ experience and their key strengths, together with those of their fellow Directors, in supporting the Company’s strategy are set out on page 64.

### Membership, meetings and attendance

Committee member <sup>1</sup>	Appointed	Meetings attended
Sir John Armitt CBE (Chair) <sup>2</sup>	01.01.13	●●
Jorge Cosmen	01.12.05	●●
Lee Sander <sup>3</sup>	01.06.11	●●
Chris Muntwyler <sup>3,4</sup>	11.05.11	●○
Joaquín Ayuso <sup>3</sup>	01.06.11	●●
Jane Kingston <sup>3</sup>	26.07.16	●●

<sup>1</sup> Committee membership is shown as at 31 December 2019. Since the end of the year, Joaquín Ayuso, Jane Kingston, Chris Muntwyler and Lee Sander have stepped down from the Committee and Dr Ashley Steel, Matthew Crummack, Karen Geary, Mike McKeon and Ana de Pro Gonzalo have been appointed to the Committee

<sup>2</sup> Chairman of the Board

<sup>3</sup> Independent Non-Executive Director

<sup>4</sup> Mr Muntwyler was unable to attend the July Committee meeting due to another commitment that was notified to and approved by the Chairman at the beginning of the year - please see page 78 for the Board’s process for ensuring Directors’ involvement in meetings they cannot attend

Other attendees: Company Secretary, Group Chief Executive and Group Human Resources Director. Further information about the Committee members is set out on pages 60 to 64

<sup>1</sup> Ana de Pro Gonzalo joined the Audit Committee, Karen Geary joined the Remuneration Committee and both of them joined the Safety & Environment Committee, in each case effective from 1 October 2019. In addition, since the end of the year, both Ms de Pro Gonzalo and Ms Geary have joined the Nominations Committee

## Composition, succession and evaluation

### Nominations Committee Report *continued*

Effective from 31 December 2019, two of the Company's Non-Executive Directors – Joaquín Ayuso and Jane Kingston – also stepped down from the Board and its Committees<sup>1</sup>, Mr Ayuso as he was approaching his retirement and Ms Kingston in view of her commitments on other UK listed company boards. On behalf of the Board, I would like to extend my sincere thanks to Mr Ayuso and Ms Kingston for their long and valued service to the Company.

The Committee expects to continue to implement its succession plans for the Board and its Committees into 2020 and beyond to further enhance their strength and diversity.

The general approach taken by the Committee to succession planning is to maintain and regularly review a matrix of the Directors' experience and skills to ensure that the Board and its Committees are composed of individuals who have the right experience and skills to enable them to shape (and, in the case of the Executive

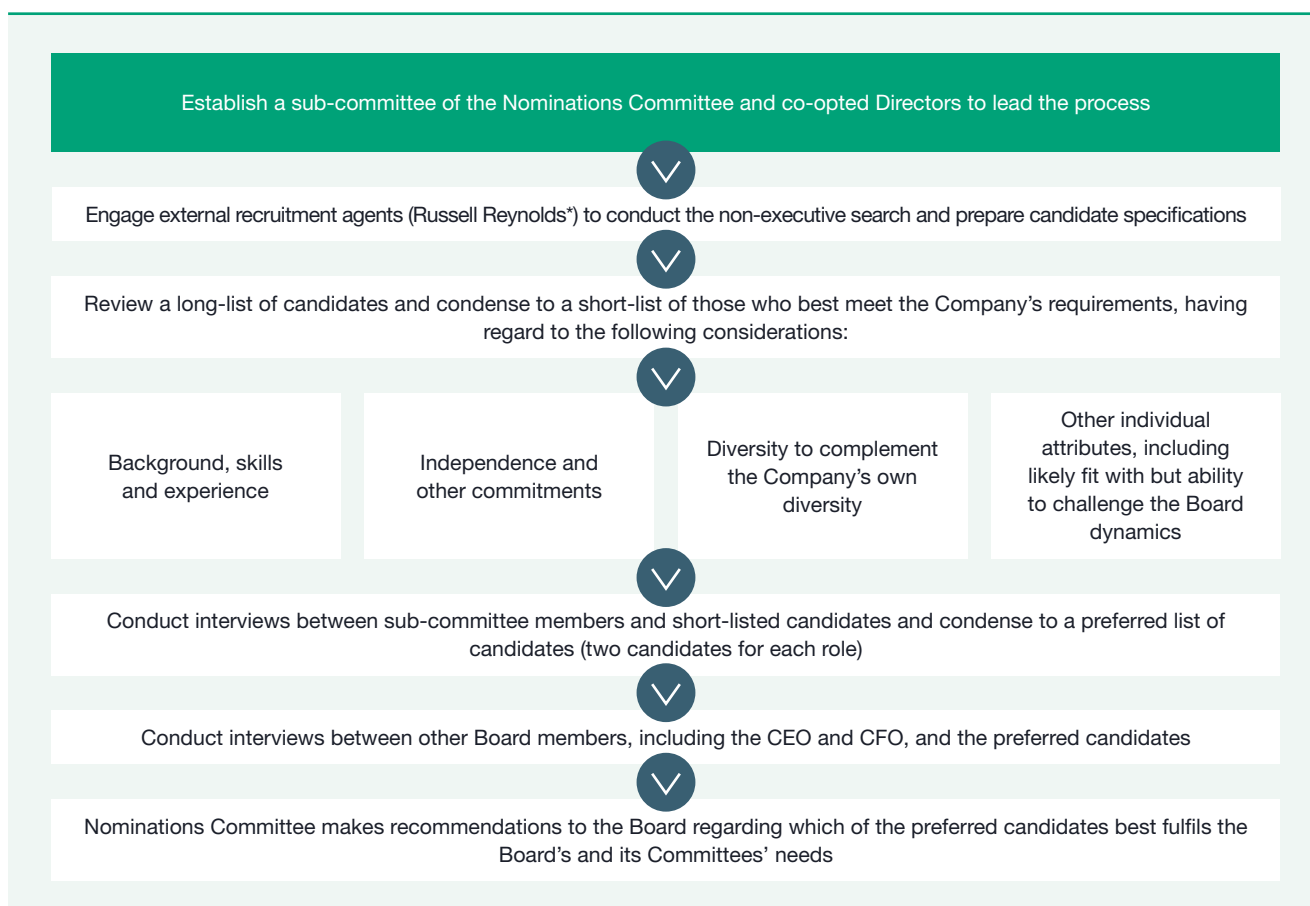
Directors, deliver) the Company's strategy and to monitor and assess the effectiveness of the Company's control environment and the management of risk. A summary of the current matrix is set out on page 83. In the case of Executive Directors, this is supplemented by my and my fellow Non-Executive Directors' continual assessment of their performance. In the case of Non-Executive Directors, the Committee also carefully considers their independence and other commitments. Through these means and having regard also to the Board's Diversity & Inclusion Policy (as set out on the next page), the Committee is best able to identify any gaps in skills, any further development and diversity needed and the best time to implement succession plans.

The effectiveness of the Committee's succession plans is demonstrated by the new Non-Executive Director appointments in 2019 having filled the potential gaps in experience and skills, and reduction in diversity, that would have resulted from the two Directors leaving the Board in 2019.

The process that the Committee followed, together with the particular considerations it took into account, in identifying and nominating the two new Non-Executive Directors is set out in the diagram below. Following their appointment and prior to attending their first Board and Committee meetings, both new Non-Executive Directors also undertook a comprehensive induction programme, details of which are set out on pages 85 and 86.

### Senior management succession planning

During the year, the Board, led by the Committee, has also undertaken its usual programme of senior management succession planning. Senior management for these purposes includes the members of the Group Executive Committee (GEC) who are direct reports to the Group Chief Executive as well as all those talented individuals who have demonstrated the potential for promotion to higher or broader positions in the Group's senior management structure.



<sup>1</sup> Joaquín Ayuso and Jane Kingston have both stepped down from the Nominations Committee and the Safety & Environment Committee and Ms Kingston has also stepped down from the Remuneration Committee

\* Russell Reynolds Associates was engaged to conduct the Non-Executive Director search in view of their knowledge of the Company's current Board members, international reach, strong credentials and participation in the voluntary code of conduct to address gender diversity on UK listed company boards of directors. Beyond their appointment by the Company to conduct executive and non-executive searches, Russell Reynolds does not have any connection with the Company or its individual Directors



### The Board's Diversity & Inclusion Policy is:

- to achieve and then maintain at least 33.3% female representation on the Board
- to ensure that its membership reflects the diversity of the geographies and customers that the Group serves
- to respect the differences of its members and value and encourage the diversity of thought that such differences can bring

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

The programme includes a detailed annual review of such senior managers' experience and skills and their progress and notable achievements during the year to ascertain their potential for further career progression, including potential succession as Executive Directors. I and my fellow Non-Executive Directors also keep the performance of potential successors to Executive Director roles under regular review throughout the year when they present to the Board and when we visit the Company's operations. This gives us the opportunity to observe senior managers' working practices and relationships with their stakeholders first-hand. Our review complements the Executive Directors' assessment of these individuals' performance in their employment through a formal process of mid and full year reviews and continual feedback and support. This programme enables the Board to identify any gaps in the senior management succession pipeline and any requirements for senior managers' further development.

During the year, the Board's senior management succession plans were put into action through the promotion of Gary Waits, Chief Executive of the North America student transportation business, and Judith Crawford, Chief Executive of the North America transit and shuttle business, to the Group Executive Committee, where they now sit alongside Tom Stables, Managing Director UK & Germany, Francisco Iglesias, Chief Executive of ALSA, and others reporting directly to the Group Chief Executive. These promotions were made in view of the continued growth of the North America division and in recognition of Mr Waits' and Ms Crawford's development under Mr Ashley during his two-year assignment as CEO and President North America.

### Board and Company commitment to diversity

The Board is committed to ensuring diversity, in all its forms (including as regards gender, ethnic and social background), both at

Board and senior management level and throughout the Company's workforce. This is because we believe diversity can:

- improve decision-making at all levels of the business by ensuring that diverse perspectives are brought to bear in those decisions;
- attract and retain the best talent by developing a culture of inclusion where all individuals are respected and supported to reach their full potential; and
- better serve our customers, other stakeholders and the communities in which we operate by ensuring that the diversity of our workforce demographic is representative of the diversity of such stakeholders.

This commitment is aligned with our People and Customers Values, which in turn support our strategy of growth by retaining and winning business through having the best talent delivering the best service for our customers.

Our commitment is confirmed in the Board's Diversity & Inclusion Policy, as articulated in the box above. While progress has been made towards the Board's objective of having one third female representation in 2019, it has not yet achieved this objective so the Committee will keep this under review in continuing to implement the Board's succession plans in 2020 and beyond. During 2020, the Board will also review its Diversity & Inclusion Policy in light of the Parker Review.

Importantly, however, the Board has achieved in 2019 its objective of maintaining a membership, including Directors from the UK, Spain, Switzerland and the USA, which reflects the geographic diversity of the Group and its customers. The outcome of the Board's effectiveness evaluation (further details of which can be found on page 84) also confirms that Board discussions demonstrate diversity of thought and include the different perspectives this brings.

A further demonstration of the Board's commitment can be seen in the Company's establishment of a new Diversity & Inclusion Council, chaired by the Group Finance Director and comprising representatives from all the Group's divisions. The Council's objective is to coordinate diversity strategies across the Group and monitor and report on the progress made against such strategies.

In its first year, the Diversity & Inclusion Council's focus was on enhancing gender diversity across the Group, as evidenced through multiple initiatives and activities undertaken in 2019, including:

- the Group's celebration of International Women's Day through a variety of activities across the divisions designed to raise awareness of women at work, including via social media posts featuring female employees from a variety of roles talking about their work experiences;
- the UK division's re-writing of a number of job advertisements to seek to attract more female job applicants;
- the ALSA division's renewal of its collaboration agreement with the Fundación Mujeres (Women's Foundation), the roll-out of targeted recruitment campaigns to attract female drivers and the delivery of specific training programmes for female drivers;
- the North America division's implementation of a new remote working policy for support centre staff, which can benefit all workers but particularly benefits female workers where they are primary caregivers;
- the German Rail business' participation in the annual Mädchen-Zukunftstag (Girls' Day), supported by various German Federal Government and German industry organisations, during which girls are introduced to business and the different roles they can assume in business; and
- the Bahrain bus business' initiative to recruit more female drivers, assisted by the relaxation of the laws on female drivers in certain Middle East regions.

To support the Board's focus on building a strong and diverse senior management succession pipeline, all the divisions have also in the year adopted and implemented specific policies and practices, such as recruiting more female graduates into management and management trainee roles and including more female employees in leadership skills development programmes.

These initiatives have resulted in improvements in gender diversity at a number of levels of the business, from the Board to the divisions and sub-divisions:

- female representation on the Board increased from 17% in 2018 to 28.5% at the end of 2019 (but, with the departure of two Directors on 31/12/2019, currently stands at 25%)
- female representation on the GEC has increased from 29% in 2018 to 31% at the end of 2019
- female representation among the direct reports to members of the GEC has increased from 29% in 2018 to 30% in 2019
- in the North America business, which is the Group's largest division, 58% of the workforce are female (an increase from 57% in 2018)
- in the German Rail business, which is one of the Group's smallest sub-divisions, the percentage of female workers has grown to 12% (from 10% in 2018)

The charts opposite illustrate the gender balances of the Board, the GEC and direct reports to members of the GEC as at the end of 2019.

The Group's workforce already benefits from significant ethnic and cultural diversity reflecting the different countries and cultures in which the Group operates (with statistics harder to produce in view of the restrictions on gathering ethnicity data), but activities continue across the Group to seek to maintain and respect that diversity. A key example is the UK division's work with the Strive Group in the West Midlands to create an external diversity forum through which local businesses can share best practice and support each other in becoming more inclusive. It also commissioned in 2019 an internal survey to understand the cultural and religious events that local workers wish to celebrate.

**Board and Committee independence, commitment and effectiveness**

I am pleased to confirm that, through all the Board and Committee changes which took place in 2019, the Board has remained composed of a majority of independent Non-Executive Directors and that none of the Directors have any unauthorised conflicts of interest.

I am also pleased to confirm that all Directors, including those who served the Company throughout the year under review and those who have recently joined the Board, have, during their tenures to date, demonstrated clear commitment to their roles. Further information about Directors' independence (including of those Directors who will reach their nine-year tenure on the Board during 2020), the Board's conflicts of interest policy and Directors' commitment is set out on pages 77 and 78.

During the year, the Committee facilitated the second internal evaluation of the effectiveness of the Board and its Committees in its current three-year evaluation cycle, ahead of a planned external evaluation in 2020. I also undertook a review of the independence, effectiveness and commitment of each of the Non-Executive Directors, with the Senior Independent Director undertaking the same review of myself, the results of which were taken into account in the evaluation. The outcome was that the Board and its Committees continue to operate effectively under the leadership of myself, as Chairman, and the Chairs of the Committees, having particular regard to the combination of the veteran wisdom of longer-serving Directors and fresh insights from new Directors and the ability of Directors to openly discuss and challenge matters in the Boardroom. As such, the Committee is satisfied with the value of both the collective dynamic of, and the individual contributions made by, the Directors. Further details of the evaluation can be found on page 84.

**Directors' election and re-election**

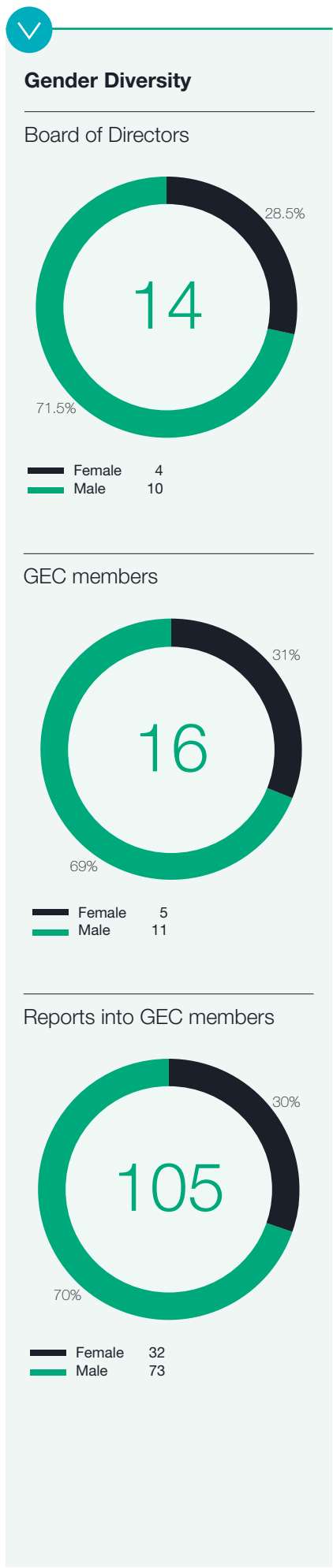
Based on the above conclusion, the Board, on the advice of the Committee, is recommending to shareholders the election to office of Ana de Pro Gonzalo and Karen Geary and the re-election to office of all other serving Directors at this year's AGM.

**Further information**

The Committee believes that its work in 2019 has advanced its ambition as stated at the outset of this Nominations Committee Report. Further information about the Committee's work is set out on pages 83 to 86.



**Sir John Armitt CBE**  
 Chairman  
 27 February 2020



### Board composition, succession planning and diversity

During nine months of the year under review, the Board was composed of 12 Directors, comprising three Executive and nine Non-Executive Directors. Its composition increased (temporarily) to 14 Directors in the last three months of the year following the appointment of two new Non-Executive Directors on 1 October 2019 and prior to the resignation of two Non-Executive Directors on 31 December 2019.

As explained on page 80, the Committee keeps the structure, size and composition of the Board and its Committees under continual review by reference to a matrix of the Directors' experience and skills and with due regard to its Diversity & Inclusion Policy. A summary of the matrix is shown below and demonstrates the breadth of the current Directors' experience and skills.

### Director independence

As part of its continual review, the Committee assesses the independence of individual Directors and the balance of independent Directors on the Board and its Committees. The Board, on the advice of the Committee, considers that all Directors who are seeking election or re-election to office at the Company's AGM in 2020, other than the Executive Directors and Jorge Cosmen, are, and will throughout 2020 remain, independent.

Mr Cosmen is not considered to be independent due to the interests the Cosmen family holds in shares in the Company and Mr Cosmen's close links with the Group's business.

Mr Cosmen's extensive experience of the transport industry and the political and economic environments within which it operates, combined with his deep understanding of the Group's business and his entrepreneurial approach, enables him to provide the Board with superior insights on strategic and operational matters affecting the Group.

In May and June 2020 respectively, Mr Muntwyler, who chairs the Safety & Environment Committee, and Mr Sander, the Senior Independent Director, will have served for nine years on the Board. Notwithstanding such tenure, their fellow Directors consider that both Mr Muntwyler and Mr Sander continue to demonstrate strong independence of thought and approach, including in their challenge, where appropriate, of Executive Directors.

Notwithstanding its strong view of their continuing independence, in February 2020 and as part of its longer term succession plans the Board approved certain changes to the composition of the Board's Committees to mitigate any concerns shareholders may have about lack of independence. Mr Muntwyler and Mr Sander have both stepped down from the Nominations and Audit Committees and Mr Sander has also stepped down from the Remuneration Committee. In addition, the Board plans during 2020 to appoint a new Senior Independent Director.

Subject to re-election by shareholders, both Mr Muntwyler and Mr Sander will continue on the Board while it continues with its succession plans as they make strong contributions to the Company's

leadership. Mr Muntwyler's relevant skills and experience gained from having worked for a number of European transport and logistic companies in executive roles and subsequently non-executive and consulting roles, combined with the passion he demonstrates and perceptions he offers in his role as Chair of the Safety & Environment Committee, including through his annual safety visits, enable him to provide valuable assistance to the Board in its oversight of operational and sustainable business matters. The breadth and depth of Mr Sander's experience in the transport and infrastructure industry, focused in the North American markets, also gives the Board ongoing and valuable insights into these important markets for the Group.

### Director commitment and conflicts

As part of its continual review, the Committee also has regard to individual Directors' other commitments and interests to ensure they do not interfere with their responsibilities to the Company or give rise to any actual or potential conflict of interest. The Board, on the advice of the Committee, considers that all Directors who are seeking election or re-election to office at the Company's AGM in 2020 have sufficient time and capacity to fulfil their responsibilities. Save in respect of Mr Cosmen's potential conflict of interest which has been authorised by the Board, the Committee also does not consider that any Directors have any actual or potential conflicts of interest. Further information about Directors' attendance at Board and Committee meetings and the Board's Conflicts of Interest Policy is set out on page 77.

Director	Transport industry experience <sup>1</sup>	UK listed company experience <sup>2</sup>	Operational/ Management experience	Finance/ Accounting experience	HR/ Remuneration experience	IT/Digital experience	International business experience	Business advisory experience
Sir John Armitt CBE	●	●	●				●	●
Jorge Cosmen	●		●			●	●	●
Dean Finch	●	●	●	●			●	●
Chris Davies	●	●	●	●		●	●	●
Matt Ashley	●		●	●			●	●
Lee Sander	●		●		●		●	●
Mike McKeon		●	●	●		●	●	●
Dr Ashley Steel	●	●			●	●	●	●
Chris Muntwyler	●		●			●	●	●
Matthew Crummack		●	●		●	●	●	
Ana de Pro Gonzalo	●		●	●		●	●	●
Karen Geary	●	●	●		●	●	●	
Joaquín Ayuso	●		●				●	●
Jane Kingston		●	●		●		●	

<sup>1</sup> For Non-Executive Directors, excluding via their non-executive directorships with the Company

<sup>2</sup> For all Directors, excluding via their directorships with the Company

Director effectiveness

A performance evaluation of the Board, its Committees and the individual Directors is conducted annually within a three-year cycle, by an external evaluation in the first year of the cycle followed by two successive internal evaluations. As illustrated by the chart below, 2019 was the third year of the cycle so a second internal evaluation was undertaken ahead of a planned external evaluation at the commencement of a new cycle in 2020.

In line with the cycle illustrated, the 2019 internal evaluation was conducted by way of the Directors completing anonymous online questionnaires regarding the Board and those Committees of which they were members and was supplemented by one-to-one discussions between the Chairman and individual Directors.



The questionnaires surveyed various topics relating to effectiveness, from the leadership and composition of the Board and its Committees, to the quality of information and support provided to them, how well the Board and its Committees were considered to have achieved their objectives, how good the opportunity for debate and challenge in Board and Committee meetings was and how well Directors considered that the Board and its relevant Committees had oversight of the Group’s strategy and its management of risk. In addition, specific questions were added to poll Directors’ views on the approach taken by the Board and its Committees during the year to the 2018 Code, in particular as regards workforce engagement and understanding stakeholder views. Directors’ views were also sought on how well the Board and its Committees had addressed the areas for development identified in the 2018 internal evaluation.

The Company Secretary, in consultation with the Chairman of the Board and Chairs of the Committees, analysed the results of the evaluation by reference to the scores given and the specific observations made, commendations given or improvements suggested, following which such results were presented to and discussed by the Board and its Committees.

The overall outcome of the evaluation was very positive, demonstrating that the Board and each of its Committees continue to function effectively with a high level of probity, integrity and independence, through the mediums of both open and challenging debate in meetings and appropriate engagement outside of meetings.

Both the key strengths and the relatively few areas for further attention identified by the 2019 internal Board and Committee evaluation are shown in the boxes below:

**Key strengths**

- Commendation for the CEO’s informative reports and willingness to discuss successes and challenges
- Open and constructive dialogue in both Board and Committee meetings
- Collaborative and effective communication between all Board members
- Excellent engagement with, and support where appropriate from, senior management
- High level of understanding by all Board members about the Group’s businesses, opportunities and risks
- Strong leadership of all Board Committees and effective discharge by the Committees of their primary responsibilities

**Areas for further attention**

- Board succession planning to remain high on the Board’s agenda to ensure that succession plans continue to be implemented
- More focus to be given by the Safety & Environment Committee to environmental matters to reflect the Group’s new ambitions and commitments in this area
- Continue to review and implement the best methods for ensuring that the Board understands stakeholder views
- Further external viewpoints to be brought into the Boardroom as and when appropriate

When comparing the outcome of the 2019 evaluation against the principal areas identified for increased focus in the 2018 evaluation, the following progress can be noted:

Area for increased focus	Progress during the year under review
Implement the Board's succession plans and review the composition and membership of the Audit and Remuneration Committees to ensure they each comprise the right mix of skills and experience	On the recommendation of the Nominations Committee, the Board appointed two new independent Non-Executive Directors, one with a strong financial and management background who has joined the Audit Committee and the other a seasoned HR professional with experience of executive remuneration who has joined the Remuneration Committee
Increase the time and attention given by the Safety & Environment Committee to the Group's environmental objectives and its performance against them	The Safety & Environment Committee has assessed the Group's new environmental ambitions and reviewed and approved new seven-year environmental KPIs and the Group's performance against them, further details of which are set out in the Safety & Environment Committee Report
Continue to consider and implement the Board's and Committees' plans to address the changes introduced by the 2018 Code, particularly regarding workforce engagement and taking account of stakeholder views in the Board's decision-making processes	<p>The Board's and Committees' plans to respond to the 2018 Code have been implemented in all areas other than some relating to remuneration which have been delayed pending liaison with shareholders as part of the 2021-2023 Directors' Remuneration Policy review, as explained in the Annual Statement by the Chair of the Remuneration Committee</p> <p>The Board's workforce engagement programme has been extended by Non-Executive Directors participating in additional workforce engagement events, as explained on pages 71 to 73, and new methods for the Board to understand stakeholder views have been implemented, as described on page 75</p>
Continue to bring more external viewpoints to the Board's attention	During 2019, the Board received an insightful presentation from one of the Company's major US corporate shuttle customers, further details of which are set out on page 75. More presentations from external speakers are included in the Board's 2020 agenda

## Director induction

On joining the Board, whether in an executive or non-executive role, each Director undertakes a structured and comprehensive induction programme comprised of certain basic modules and additional bespoke modules tailored to the requirements of their role. This programme is designed to fast-track a new Director's understanding of the Group's Purpose, Values, strategy and operations, thereby equipping him or her to perform his or her role. Details of the induction programme, organised by the Company Secretary in conjunction with the Chairman, for the two new Non-Executive Directors who joined the Board during 2019, is illustrated by the diagram below:





“Through the induction I was able to gain real insight into the Company’s strategy and operations and I enjoyed visiting the sites and meeting the teams”

**Ana de Pro Gonzalo**  
Non-Executive Director



“The induction was invaluable in obtaining a better understanding of the complexities of the Group and context in which it operates, which will assist me in discharging my responsibilities”

**Karen Geary**  
Non-Executive Director



### Director ongoing training

Directors also have the opportunity to participate in an ongoing programme of training, including training on their directors’ duties and other legal responsibilities (provided by external legal advisers), training on takeover market activity (provided by external financial advisers) and the seminars provided by the Deloitte Academy. Various activities on the Board’s agenda also serve to enhance their understanding of the business, as explained below:



### Directors’ understanding of the business

During the year under review, in addition to their receipt of regular reports from the Group Chief Executive and Group Finance Director on the business and financial results and risks and opportunities, as well as regular reports from the Group General Counsel and Company Secretary on legal and corporate governance matters, Directors’ understanding of the business was enhanced by:

- detailed briefings given by each of the Group’s major business divisions in which such divisions presented, and the Board reviewed, their progress against strategic objectives and budget;
- focused briefings on the three core pillars of the Group’s strategy, being growth (in the form of a review of the performance of acquisitions one year on); technology (in the form of a review of the opportunities presented by the Group’s technology initiatives and the risks presented by transport industry disruptors); and operational excellence (in the form of a review of the Group’s programme of delivering excellence through the development and implementation of best practice and the development of talent to implement such programme);
- a special presentation from the Group’s procurement function on its approach to purchasing and engagement with key supplier stakeholders; and
- quarterly reports on human capital, organised around seven key objectives of: employee engagement; diversity and inclusion; resourcing and retention; talent management; benefits, reward and recognition; employee relations; and enhancing HR effectiveness.





Mike McKeon  
Committee Chair

“A key focus of the Audit Committee has been supporting the Board in the continued evolution of the Group’s risk management framework and processes. This gives the Board a strong degree of assurance that both those principal and emerging risks which could adversely affect the delivery of the Company’s strategy or impact negatively on its financial performance or business operations are being identified and managed appropriately”



**Primary role**

To assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the Group’s published financial information, the adequacy and robustness of the Group’s system of internal control and risk management and the adequacy and effectiveness of its internal and external audit processes

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

**Key responsibilities**

- Monitor the integrity of the Group’s published financial information and review and challenge where appropriate any significant financial judgements and estimates made by management
- Evaluate the adequacy, robustness and effectiveness of the Group’s internal financial and other controls
- Support the Board in evaluating the adequacy, robustness and effectiveness

of the Group’s risk management systems, both for identifying, managing and mitigating principal risk and identifying and mitigating, where possible, emerging risks

- Review the Group’s policies, processes and controls for the detection and prevention of fraud, bribery and modern slavery and for compliance with applicable laws, regulations and codes of conduct
- Approve the activities, review the findings and assess the effectiveness of the Group’s internal audit function
- Monitor the activities, review the findings and assess the independence and effectiveness of the external auditor
- Review the contents of the Company’s Annual Report and Accounts and advise the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position and performance, business model and strategy

**Activity highlights**

- Scrutinised the Company’s half and full year financial statements
- Assessed and challenged the robustness of the Group’s going concern and viability statements
- Monitored the implementation and impact of accounting standard IFRS 16
- Monitored the findings and effectiveness of the internal audit function as a more focused third line of defence function
- Supported the Board in the identification and management of risk, including via a detailed review of divisional risk
- Reviewed progress made by the Group against one of its principal Group risks - cyber security breach
- Reviewed and approved changes to the Group’s treasury policy and considered and confirmed the Group’s tax strategy
- Reviewed the results of an anti-bribery risk assessment conducted by management during the year
- Commenced preparations for an external audit tender in 2020

**Membership, meetings and attendance**

Committee member <sup>1</sup>	Appointed	Meetings attended
Mike McKeon (Chair) <sup>2</sup>	03.07.15	● ● ●
Lee Sander <sup>2</sup>	01.06.11	● ● ●
Chris Muntwyler <sup>2,3</sup>	11.05.11	● ○ ●
Dr Ashley Steel <sup>2</sup>	01.01.16	● ● ●
Ana de Pro Gonzalo <sup>2,4</sup>	01.10.19	●

Other attendees: Company Secretary, Chairman of the Board, Group Chief Executive, Group Finance Director, Group Financial Controller, Group Director of Insurance & Risk, Head of Group Internal Audit and representatives of the external auditor, Deloitte.

Further information about the Committee members is set out on pages 60 to 64.

<sup>1</sup> Committee membership is shown as at 31 December 2019. Since the end of the year, Mr Sander and Mr Muntwyler have stepped down from the Committee  
<sup>2</sup> Independent Non-Executive Director  
<sup>3</sup> Mr Muntwyler was unable to attend the July Committee meeting due to a pre-approved other commitment - please see page 78 for the Board’s process for ensuring Directors’ involvement in meetings they cannot attend  
<sup>4</sup> Ms de Pro Gonzalo was appointed on 1 October 2019 and there was only one Committee meeting in the year since her appointment

### Dear fellow shareholder

I am pleased to present the Audit Committee Report for 2019 which explains the important role the Committee plays in the Company's governance framework by supporting the Board with assessing the integrity of the Company's financial reporting and assessing the adequacy and effectiveness of the Company's management of risk and internal controls.

A key focus of the Audit Committee in the year under review has been supporting the Board in driving the continued evolution of the Group's risk management framework and processes, giving the Board a strong degree of assurance that both those principal and emerging risks which could adversely affect the delivery of the Company's strategy or impact negatively on its financial performance or business operations are being identified and managed appropriately.

### Evolution of risk management

In 2018 the Board articulated for the first time its risk appetite and developed its risk matrix within which the Group's principal risks were both identified and assessed for their impact and likelihood. The Board also responded early to the 2018 Code by creating an emerging risk register. 2019 has seen the Board, with the support of the Committee, build on this evolution of the Group's risk management framework and processes through the clarification of the respective roles and responsibilities of the Board and Committee. The Board remains responsible for reviewing both the Group's principal and emerging risks. The Committee has assumed the role of conducting 'deep dives' into particular Group risks, detailed reviews of divisional risk registers and reviewing reports from the Group's internal audit function on the effectiveness of the Group's risk management controls. This allocation of responsibility is illustrated in the tables below:



#### Board risk management responsibilities

- Consider and approve the Group's risk appetite
- Review and approve the Group's principal risk register and its processes to identify such risks and actions to manage them
- Review and approve the Group's emerging risk register and its processes to identify such risks

Confirmation of the Board's robust assessment of the Company's emerging and principal risks, together with a description of the principal risks and the procedures in place to identify emerging risks, are set out on pages 48 to 53 of the Strategic Report. A description of the Company's emerging risks can also be found there. I explain below the Committee's activities in supporting the Board with the identification and management of risk in the year under review.

### Divisional risk management

The Committee's detailed review and challenge of the UK division's risk register comprised an analysis of the processes to identify risk, to develop actions plans to manage risk and to create accountability for such activities. The Committee also considered the work of the Group's internal audit team in giving assurance that such processes were being followed. The Committee was pleased to note the robustness of the UK division's processes, the high level of engagement by the UK division's workforce with such processes and the commercial benefits achieved via the conversion of certain risks into opportunities through their active management.

The Committee is scheduled to undertake detailed reviews of the North America and ALSA divisions' risk registers in 2020 and will report on them next year.

### Cyber security

At the Board's request and in view of the ever-increasing threat of cyber attacks, their potential high impact on operations and the severity of sanctions that can and are being imposed by relevant regulators for any resulting personal data breaches, the Committee conducted a 'deep dive' into one of the Group's principal risks – cyber security breach.

In 2018 the Company commissioned IBM to conduct a global review of the Group's cyber security arrangements and advise the Company on the next stage of their development. A key focus of the Committee in 2019 has been to continually monitor and assess the Group's progress against the recommendations made by IBM. These covered three core initiatives: security leadership and resources; security strategy, framework and policies; and general IT practices. The Committee has overseen significant activity by the Group, led by management and assisted by new dedicated IT security resource, to create and commence implementation of detailed actions plans to address each of these initiatives. Such plans support the Group's strategic priorities, including investment in and development of technology to advance the customer offering (by enhancing the security of such offering) and growth (by ensuring that new businesses acquired are subject to detailed cyber due diligence pre-acquisition and are promptly wrapped within the Group's cyber security arrangements post-acquisition).

The Committee is assured by the progress made by the Group in the year, although, with the ever-increasing incidence and sophistication of cyber attacks and the consequent need for the Group to remain vigilant, the Committee expects cyber security to remain one of its key areas of focus into 2020 and beyond.

### Refocused internal audit activities

In 2019, the Committee reviewed the work of the Group's internal audit (IA) function against a plan which was refocused, under the supervision of the Committee, on its role as the core third line of defence in the Group's three lines of defence (3LOD) model of internal control as illustrated on page 91.

In the first half of the year, the IA team carried out, with the divisions, an extensive exercise to formally agree and document against each divisional risk the controls around them and the allocation of responsibility for those controls among the Group's first, second and third lines of defence. The output included a rationalisation of the internal audit plan for the second half of the year to refocus the IA team's efforts on auditing the controls around the Group's principal risks as well as the most material divisional risks (with the Group's first and second lines of defence responsible for the controls of other divisional risks). The IA resource was reallocated around these priorities, with external resource engaged to provide specialist assurance where required.



#### Audit Committee risk management responsibilities

- Conduct 'deep dives' into specific Group risks, as requested by the Board
- Undertake detailed reviews of the divisions' risk registers and their processes to identify and manage risk
- Review internal audit reports on the effectiveness of Group and divisional risk management controls

The Committee also reviewed a number of detailed reports on the findings of IA's refocused audits, together with a report from PwC which was commissioned by the IA team to undertake a specialised audit of the Group's cyber security programme. From these, the Committee has gained valuable assurance on the effective operation of internal controls (including the IA third line of defence control itself). The Committee is also pleased to have observed that the work undertaken to reallocate responsibility for certain of the first and second lines of defence is driving a cultural change within the Group by increasing awareness of, and engagement at all levels of the business with, internal controls. This should serve the Group well for the future.

### Preparation for external audit tender

To ensure compliance with applicable law and in view of the tenure of the Company's incumbent auditor – Deloitte – the Committee took certain preparatory steps during the year towards an external audit tender which will take place in 2020. These included inviting six audit firms to register their interest in participating in a tender and undertaking a review, with the input of firms that expressed an interest, of their independence by assessing the work they currently undertake for the Group. Of the six that were invited, three have declined to be considered for the 2020 tender. One explained that it was not their current policy to take on new audit engagements. Another, after due consideration and discussion with myself and the Group Finance Director on scope, stated that they did not believe they had adequate resources to carry out the audit. The final firm declined as a result of not being able to attain adequate independence from the Group to carry out the audit.

The Committee therefore expects to undertake the audit tender, with the three firms that have indicated their willingness to tender, in the second half of 2020. Following its conclusion, the Committee will make recommendations to the Board on the appointment of an auditor for a new term starting from 1 January 2021, following which the Board will consider and make its own recommendation to shareholders for approval at the Company's 2021 AGM. The Committee will report further on the audit tender process and outcome next year.

### Committee composition and effectiveness

The Committee's composition was fully compliant with all relevant recommendations of the 2018 Code throughout the year under review.

As a result of the implementation of the Board's wider succession plans, the membership of the Committee was supplemented in the year by the appointment of Ana de Pro Gonzalo. Ms de Pro Gonzalo has significant financial and managerial experience from her role as the serving Chief Financial Officer of Amadeus IT Group, S.A., a number of managerial positions she held prior to this, and her training and practice as an auditor in the early part of her career. The Committee welcomes Ms de Pro Gonzalo to its membership, particularly as it supplements the number of members with recent and relevant financial experience.

The Committee's performance was evaluated as part of the 2019 internal evaluation of the effectiveness of the Board and its Committees. The outcome of the evaluation confirmed that the Committee continues to operate highly effectively and determined that Committee members have good oversight of, and are able to raise appropriate challenges in respect of, important financial matters, such as management's significant accounting judgements and the implementation of new accounting standards.

### Committee engagement

In September 2019, I, on behalf of the Committee, visited a number of our school bus and transit operations in Chicago and Toronto, primarily to learn more about two major programmes designed by the Group's Delivering Excellence team to address ongoing operational challenges.

Hearing directly about such programmes from the people involved in their development and implementation and seeing their impact on the ground enables me and, through sharing my observations with my fellow Committee members, the Committee to better understand how operational changes are affecting financial performance. This in turn enhances our effectiveness as a Committee when reviewing the Group's financial results. My visits supplement the Board's other workforce engagement activities, details of which can be found on pages 71 to 73.

### Further information and looking ahead

Further information about the Committee's activities during the year, including its work on financial reporting matters, its review of the Company's system of internal control and its oversight of the Company's relationship with its external auditor, are set out on pages 90 to 93.

Looking ahead, the Committee is cognisant of a number of key external reviews that will likely impact its future work. These include the review into the quality and effectiveness of audit by Sir Donald Brydon and previous reviews on the UK audit market and the workings of the UK regulator, the FRC.

While it remains unclear what action the UK Government will take in response to these reviews, the Committee notes the actions already being taken by the FRC and will have regard to these and any future developments in carrying out its work during 2020.

I hope you find the information in this report and on the following pages about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.



Mike McKeon  
Audit Committee Chair  
27 February 2020

**Financial reporting**

The Committee is responsible for considering and satisfying itself, having consulted with Deloitte LLP, that the Company and Group have adopted suitable accounting policies and appropriately applied the same, that management has made appropriate accounting judgements and estimates and that the conclusions reached by management as regards the Company's going concern status and its long-term viability are appropriate. Further details of the work performed by the Committee in the discharge of these duties is set out below.

**Going concern and viability**

The Committee has reviewed the Company's going concern status and viability statement,

including by conducting a careful assessment of the rationale for the three-year viability period, the nature of the incidence of risks modelled during such period and the potential aggregate financial impact of such risks. The Committee is satisfied, in particular having regard to the successful refinancing by the Company of a significant portion of its debt during the year and the upgrade in its credit rating, that management's conclusions that the Company is viable and a going concern, as supported by the views of the Company's auditor, are appropriate.

**New accounting standard**

Following significant preparatory work undertaken during 2018, which involved a detailed review of the terms of all the Group's

leases, throughout 2019 the Committee monitored the Group's implementation of new accounting standard IFRS 16 'Leases' in respect of those leases which were to be accounted for in accordance with such standard. Further details of the impact of IFRS 16 are set out in note 2 of the Consolidated Financial Statements.

**Significant accounting judgements and estimates**

The preparation of the Consolidated Financial Statements requires the application of certain judgements and estimates. The Committee considered the following significant accounting judgements and estimates as part of its review of the Consolidated Financial Statements:

Significant judgement/estimate	Committee action and conclusion
<b>Goodwill impairment (see notes 1 and 14 to the Consolidated Financial Statements)</b>	
<p>The Committee considered whether the carrying value of goodwill held on the Group's Balance Sheet at the year end (£1,486 million) should be impaired.</p> <p>The potential risk is that this goodwill cannot be supported by the future cashflows of the business, particularly in relation to the ALSA (£778.1 million) and North America (£679.4 million) businesses, with the key estimation being made in relation to the application of discounted cash flows on a value in use basis. The discount and future growth rates applied are highly sensitive to change because both must reflect a long-term view of the underlying growth rate of relevant countries' economies.</p>	<p>The Committee considered a detailed report from management which explained the impairment analysis and testing undertaken on the value of the ALSA and North America goodwill balances. These were modelled on forecast cash flows, discounted using a country-specific weighted cost of capital (WACC) and a terminal value based on a perpetual growth rate and, in the case of ALSA's goodwill, were tested according to various impact scenarios based on assumptions made on the outcome of the Spanish long haul concession renewal programme.</p> <p>The Committee concluded, based on management's careful analysis and testing which demonstrated that there were healthy levels of headroom in the asset valuation, and following consultation with Deloitte and additional sensitivity testing following their challenge on the Spanish concession assumptions, that it concurred with management's view that there is not a material risk of recoverability. As such, neither the ALSA nor North America goodwill assets as at the balance sheet date are impaired.</p>
<b>Insurance and other claims provisions (see note 1 to the Consolidated Financial Statements)</b>	
<p>The Committee considered the adequacy of the provisions associated with insured and other claims arising predominantly from traffic accidents and employee incidents, particularly in North America.</p> <p>The estimation of such provisions, including those arising on acquisition, is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not yet reported at the balance sheet date.</p> <p>Given the level of uncertainty, complexity and judgement involved in making these estimations there is a risk that the eventual outcome could be materially different from that estimated and provided for.</p>	<p>The Committee considered and discussed with management a report prepared by the Group Risk &amp; Insurance Director with the input of the Group General Counsel which set out details of the status of the North America and other material open claims made against members of the Group. This report gave their assessment, made with the benefit of advice from external legal counsel and insurance brokers, on the likely outcome of such claims, together with an explanation of the methodology used to determine the value of provisions for such claims, based on which management was of the view that the level of provision was appropriate.</p> <p>The Committee concluded that management's estimation of the provision for North America insurance and other claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.</p>
<b>WeDriveU put option liability (see note notes 1 and 25 to the Consolidated Financial Statements)</b>	
<p>The Committee considered whether the value of the liability ascribed to the put option in respect of the remaining 40% of the shares in WeDriveU was reasonable.</p>	<p>The Committee considered and discussed with management the valuation of the put option based on key assumptions made around the projected net debt forecasts, and the expected timing of exercise of options, together with specific testing and challenge by Deloitte of that calculation and those assumptions. Based on management's estimation of the liability and Deloitte's extensive testing and challenge of the same, the Committee has satisfied itself of the reasonableness of management's assessment of the put option liability.</p>

While not significant financial matters, the Committee also carefully considered and reviewed the Company's accounting for: other business combinations made in the year under review; financial instruments; the application of IFRIC 12 to the Rabat contract; the Group's leases in accordance with IFRS 16; and the Group's principal pension schemes. The Committee is satisfied that the judgements and estimates made by management on these matters, which Deloitte has concurred with, are reasonable and that they have been appropriately accounted for or otherwise disclosed in the Consolidated Financial Statements.

## Internal control and risk management

The Committee is responsible for monitoring the adequacy and effectiveness of the Company's system of internal control. It also supports the Board in its activities in identifying and managing risk. The latter is covered in the Audit Committee Chair's letter on page 88. The information about the former is set out below and should be read in conjunction with the Audit Committee Chair's letter on page 88.

### System of internal control

The Company's system of internal control is based on a three lines of defence model as illustrated in the diagram below:



These lines of defence include the following activities:



- Regular Board and Committee meetings throughout the year, to consider a structured programme of agenda items determined by reference to Board reserved matters and Committee Terms of Reference and the needs of the business
- Annual strategy review by the Board, performed following detailed input from the divisions and relevant Group functions, and development and implementation of divisional plans to deliver against Group strategy
- Annual and monthly budget reviews, performed at Group and divisional level
- A devolved organisational structure below Board level with clear leadership, allocation of responsibility and reporting lines
- Monthly GEC meetings at which all Group functional heads report to the CEO/CFO on key successes, challenges, developments in the month and pre-agreed KPIs
- Monthly and weekly divisional executive meetings at which divisional management teams discuss key successes, challenges, developments in their businesses and agree actions
- Approved delegated authorities to ensure all major decisions relating to business change, including via M&A and bids, and significant capital and operating expenditure are taken at the appropriate level
- Group and supporting divisional policies and procedures regarding tax and treasury compliance, anti-bribery and corruption, modern slavery and human trafficking, and data usage and protection
- Audits by the Group internal audit function
- Group-wide whistleblowing procedures
- Global Safety Policies and Standard Operating Procedures to set high and consistent standards of safety and operation across the Group, and achieve safe and efficient operating outcomes

### Board reserved matters and delegated authorities

The Board reserves to itself decisions relating to the most material matters, including significant acquisitions and disposals, capital and operating expenditure, accounting policies, treasury and tax policies, and material decisions relating to employees, pensions and litigation. The Board's reserved matters are available on the Company's website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

The Board delegates a number of key tasks and responsibilities to its principal standing Committees, comprising its Nominations, Audit, Remuneration and Safety & Environment Committees, details of which are set out on page 59 and in the reports given by the principal standing Committees in this Corporate Governance Report. It also delegates certain other material decisions that are executive in nature to its Executive Committee, comprised of the Group Chief Executive and Group Finance Director.

The Board and its Committees ensure the preservation of these controls to themselves and delegation of other decisions to appropriate levels of divisional management and/or Group functional heads through its Group delegated authorities framework, which is regularly reviewed and approved by the Board.

### Treasury strategy and compliance

The Company maintains a treasury policy which sets the approved level and nature of the Group's debt and hedging facilities and the headroom to be maintained under them. The Committee regularly reviews the treasury policy, approves changes to it where appropriate and monitors the Company's compliance with it. During the year, two such reviews were completed.

### Tax strategy and compliance

The Company's tax strategy can be found on the Company's website. From time to time, the Committee will review the Company's tax strategy to ensure that it remains appropriate. The Committee also regularly receives updates from management about the Group's tax affairs, including the status of any tax audits and tax compliance matters.

During the year, the Committee undertook such a review and, following discussion and having regard to the Group's risk appetite and the importance of its relationship with its regulators including HMRC and other tax authorities, the Committee concluded that the Group's tax strategy remains appropriate.

### Anti-bribery and corruption

The Company has a zero tolerance approach to bribery and corruption, as confirmed by the Company's anti-bribery and corruption policy and the supporting local policies that apply to members of its Group and its Bahrain joint venture. The Company and the members of its Group also have in place a range of procedures, including regular training targeted at members of its workforce, Group and local gifts and hospitality policies and Group and divisional procurement, contracting and partnering practices, which are designed to prevent bribery.

In the year under review, under the supervision of the Committee the Group undertook an assessment of the risk of bribery in each of its business divisions and Group functions and, having regard to the outcome of such assessment, local plans have been put in place to develop additional specific procedures to mitigate the highest exposures to risk, which plans are expected to be implemented during 2020.

### Data privacy

The Company respects the personal data privacy of its customers, members of its workforce and other individuals in respect of whom it and members of its Group process personal data. The Company and Group therefore have in place policies which mandate the lawful processing and protection of such personal data in accordance with applicable laws, and procedures which are designed to achieve the same. Further information about the Group's significant and ongoing work on its cyber security programme, as one such measure of protection, is discussed in the Audit Committee Chair's letter on page 88.

The Company will continue to monitor legal developments and best practice in this important area, including the introduction of new data privacy laws in California and other US States in which the Company's subsidiaries operate, and take appropriate steps to ensure compliance with the same.

### Whistleblowing

The Company is supportive of a culture in which both members of its workforce and other stakeholders feel able to raise concerns, in confidence if preferred. To this end, the Company and Group have in place comprehensive policies and procedures which are designed to enable the workforce and others to raise any concerns they have, including a confidential whistleblowing helpline. A summary of the Group's whistleblowing policy and the helpline telephone numbers appear on the Group's website.

In line with the 2018 Code, the Group's whistleblowing arrangements, together

with reports arising from them, are regularly reviewed by the Board and the Committee can confirm, on behalf of the Board, that during the year under review the Board conducted a full review of the Group's whistleblowing arrangements. This resulted in the Board approving amendments to the Group's and its divisions' policies to ensure they expressly refer to whistleblowing arrangements being accessible by the workforce in its widest sense and in relation to concerns they may have about any form of wrongdoing, as envisaged by the 2018 Code.

### Internal audit

The purpose of the Company's Internal Audit (IA) function is to provide the Committee with assurance on the effectiveness of the Company's internal controls through independent observation and objective assessment of such controls, including those designed to prevent incidents of fraud, theft and other wrongdoings. This is done via a programme of audits undertaken by IA throughout the year against a plan reviewed and approved by the Committee.

In addition to its ongoing oversight of IA's work, as set out in the Committee Chair's letter the Committee is responsible for monitoring the effectiveness of the IA function. In this regard, the Committee was pleased to see the IA team take a number of steps during the year to enhance its profile, including the issue of periodic internal newsletters to highlight the purpose and value of IA's work. A new 'value scorecard' was also developed by which parts of the business whose work was subject to internal audit could score IA against various criteria. IA scored particularly well against the objectivity and efficiency criteria. As a result of IA's refocused work and the assurance it gives, and having regard to the scores awarded through the value scorecard, the Committee is satisfied that the Company's IA function continues to be effective.

### Internal control effectiveness

As noted above, the Committee is responsible for monitoring the effectiveness of the Company's internal system of control. In respect of the Group tax accounting function, the Committee reviewed and assessed the need to address some control findings in relation to its oversight of tax accounting in certain parts of the Group. It is satisfied that management has a plan in place to address these findings and will review its implementation in 2020. Other than in relation to this area of technical non-cash accounting, no significant weaknesses or control failures were found and identified opportunities to strengthen control have been taken and will themselves be subject to regular review as part of IA's work.

## External Audit

The Committee is responsible for reviewing both the effectiveness of the Company's external audit process and the auditor's independence and objectivity.

### Auditor and audit plan

Having first been appointed as auditor on 1 January 2011, on the recommendation of the Board Deloitte LLP was re-appointed by shareholders at the Company's 2019 AGM to conduct a statutory audit and express an opinion on the Consolidated Financial Statements and the Company's Financial Statements. The current external audit partner (appointed with effect from 1 January 2016) is Stephen Griggs, Head of Audit and Risk Advisory for Deloitte in the UK.

The 2019 external audit plan prepared by Deloitte was based on the performance of full scope audit procedures for each of the Company's UK and Germany, North America and ALSA divisions. Following consideration and consultation with management, Deloitte's audit plan, together with its audit fee proposal (of £1.5 million), was approved by the Committee.

### Non-audit services and independence

The Company operates a non-audit services policy which sets out the circumstances in which its audit firm may be considered and engaged to provide permitted non-audit services as well as the services which its audit firm is prohibited from providing, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and concluded that it remained fit for purpose. It also reviewed the Company's compliance against the policy, which was confirmed by reference to a list of non-audit services provided by Deloitte during 2019. These comprised only the interim review of the half-year results, the total value of fees for which was £0.1 million, representing c.7% of the Group's audit fee for the year under review.

Having regard to the above, together with Deloitte's report submitted to the Committee confirming its independence by reference to the firm's internal safeguards and also the length of tenure of both the audit firm (of less than 10 years) and the audit engagement partner (of less than five years), the Committee assured itself of the ongoing independence of Deloitte.

## External audit effectiveness

The Committee reviewed the effectiveness of Deloitte's performance as auditor shortly following completion of its work by means of an evaluation. This took the form of questionnaires completed by members of the Group and divisional finance teams and was supplemented by feedback from the Executive Directors and members of the Committee, together with consideration of the FRC's latest Audit Quality Inspection Report on Deloitte.

The evaluation confirmed that Deloitte continues to perform its audit work to a high standard, in particular as a result of its comprehension of the Company's business, control processes and the matters on which significant accounting judgements or estimates are required and its appropriate validation or challenge of management's views.

### Tender and re-appointment

As noted in the Committee Chair's letter, the Committee will put the statutory audit out to tender during 2020 with a view to appointing an auditor for the year commencing January 2021. Pending such tender and on the recommendation of the Committee, the Board is proposing a resolution at the Company's 2020 AGM to re-appoint Deloitte as external auditor for its 2020 financial year.

### Fair, balanced and understandable

Having carefully reviewed the content of the 2019 Annual Report, and considered a paper from management explaining the approach taken in preparation of the Annual Report, including having regard to all applicable laws, the FRC's best practice guidance and the 2018 Code, and having heard the views of its auditors, the Committee recommended, and in turn the Board confirmed, that the 2019 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.





Chris Muntwyler  
 Committee Chair

“ The Group has delivered its best ever safety performance, attaining for the first time Target Zero with no responsible fatalities in the year. This is a truly commendable achievement in respect of which I congratulate Dean Finch, his management team and every member of the workforce who, through their relentless focus and intensive efforts on improving safety over many years, have made it happen”



**Primary role**

To oversee the effectiveness of the Group’s safety, health and wellbeing and environment strategies, policies, targets and initiatives, to assess the Group’s performance against them, and to monitor the Group’s exposure to, and management of, risk in these areas.

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

**Key responsibilities**

- Monitor the Group’s safety, health and wellbeing and environmental leadership, performance and culture
- Review the Group’s strategy and framework of policies, targets, programmes and initiatives for managing safety risks across the Group and for managing the

- Group’s impact on the environment
- Review the Group’s performance against these matters and assess the integrity of external reporting of that performance

**Activity highlights**

- Monitored the Group’s performance against its safety and environmental policies and targets
- Reviewed major accidents and incidents and the action plans developed or lessons learned in response to them
- Reviewed local health and wellbeing programmes for the workforce
- Reviewed and approved the adoption of new environmental KPIs and monitored the Group’s performance against them
- Received updates on new environmental regulations and the development of environmental reporting best practice

**Dear fellow shareholder**

I am pleased to present the Safety & Environment Committee Report for the year under review. The Company’s safety performance in 2019 has been exceptional. The Company has also taken important steps during 2019 to seek to continue to reduce its impact on the environment. These results and actions reflect the Company’s appreciation of its role and responsibility in wider society to provide safe mobility services in a sustainable way.

The Committee plays an important role in the Company’s corporate governance framework, supplementing the Board’s and Audit Committee’s oversight of the Group’s management of risk and system of internal control. It does so by maintaining a specific and dedicated focus on monitoring and reviewing the effectiveness of the Group’s safety and environmental strategies, policies and targets.

**Safety governance, policies and programmes**

Dean Finch, the Group Chief Executive, has overall responsibility for safety, supported by the Group Safety Director and divisional managing directors. Together they set the tone from the top by ensuring that the safety of the Group’s passengers, workforce and other road users – which is one of the Group’s five core Values – is also the Group’s number one priority. The results of the Group’s employee surveys undertaken in the year – in which questions asked about whether we live by our Safety Value scored consistently highly – confirm that this safety leadership has been translated into an embedded culture of ‘safety first’ across the Group.

During the year under review, the Committee has monitored the Group’s safety plans and reviewed the implementation and effectiveness of the Group’s safety policies and processes. It has also continued to review all major safety accidents and events, together with the Group’s response to them, to ensure that any appropriate lessons are learned from them.

**Membership, meetings and attendance**

Committee member <sup>1</sup>	Appointed	Meetings attended
Chris Muntwyler (Chair) <sup>2</sup>	11.05.11	● ● ●
Sir John Armit CBE <sup>3</sup>	01.01.13	● ● ●
Jorge Cosmen	01.12.05	● ● ●
Lee Sander <sup>2</sup>	01.06.11	● ● ●
Mike McKeon <sup>2</sup>	03.07.15	● ● ●
Dr Ashley Steel <sup>2</sup>	01.01.16	● ● ●
Joaquín Ayuso <sup>2</sup>	01.06.11	● ● ●
Jane Kingston <sup>2</sup>	26.02.14	● ● ●
Matthew Crummack <sup>2</sup>	06.05.15	● ● ●
Ana de Pro Gonzalo <sup>2,4</sup>	01.10.19	●
Karen Geary <sup>2,4</sup>	01.10.19	●

<sup>1</sup> Committee membership is shown as at 31 December 2019. Since the end of the year, Mr Ayuso and Ms Kingston have stepped down from the Committee  
<sup>2</sup> Independent Non-Executive Director  
<sup>3</sup> Chairman of the Board  
<sup>4</sup> Ms de Pro Gonzalo and Ms Geary were appointed on 1 October 2019. There was only one Committee meeting in the year since their appointment

Other attendees: Company Secretary, Executive Directors, Group Safety Director and Head of Property. Further information about the Committee members is set out on pages 60 and 64.



The focus of these plans in 2019 has been to complete, consolidate and embed the implementation across the business of the Group's five new Global Safety Policies. As a result management's unyielding focus on driving this implementation and following assurance given to the Committee by the Group's Internal Audit team about the progress being made, the Committee is pleased to report that the Group remains on track to achieve full implementation by the end of 2020.

Key examples of activity undertaken by the Group in the year in implementing the five new Global Safety Policies include:

- the further roll-out of DriveCam, which is now installed on the entire UK fleet, over 21,000 vehicles in the USA and over 1,350 vehicles in Spain, together with the regular provision to drivers of DriveCam coaching, with the effectiveness of that coaching improving across all divisions;
- the implementation of driver risk profiling for all drivers, which gives drivers risk scores based on a range of factors including DriveCam events, driving assessments, accidents and customer complaints, and also gives them access to their risk scores through downloadable apps or other means;
- the continued provision of training for drivers, supervisors and managers in modules such as driver risk profiling, DriveCam coaching, speeding and hazard awareness, as well as the provision of training to over 200 more driver evaluators on best practice for driver evaluation; and
- the continued enforcement by the Group of its zero tolerance attitude to speeding and mobile device usage by drivers, through re-training, discipline or, where appropriate, dismissal of drivers.

During the year, the Group has also advanced its other safety programmes and developed ad hoc new safety initiatives to address common risks, including:

- the World Class Maintenance Programme, which seeks to promote best practice across vehicle maintenance practices and procedures by the creation and adoption of Standard Operating Procedures throughout the Group;
- a new vehicle fire action plan, which promotes best practice maintenance methodologies to reduce the risk of vehicle fires arising from vehicle component wear or software faults; and
- a specific action plan for raising awareness among UK bus drivers of the risk of low bridge strikes.

The Committee members have been pleased to observe, first-hand when they have visited the operations as part of the Board's engagement programme (as described on pages 71 to 73), how the Group's workforce has continued to embrace the Target Zero message and ambition.

Target Zero is the campaign that was launched in 2017 to accompany the five new Global Safety Policies. It promotes a clear and simple message to every member of the workforce – that any fatality is unacceptable and that the Company's ultimate goal is to achieve a year of zero responsible fatalities. The message was refreshed in the year by using examples of recent accidents and incidents on posters and videos displayed across the Group's operational sites to raise awareness of them and seek to prevent repeat incidents.

The Committee believes that the programme of change, created by the new Global Safety Policies and enhanced by the Target Zero campaign, has helped to drive a cultural change throughout the Group in the way that members of the workforce view safety as their own responsibility and priority. This cultural change has, in turn, contributed to the Group's outstanding safety performance.

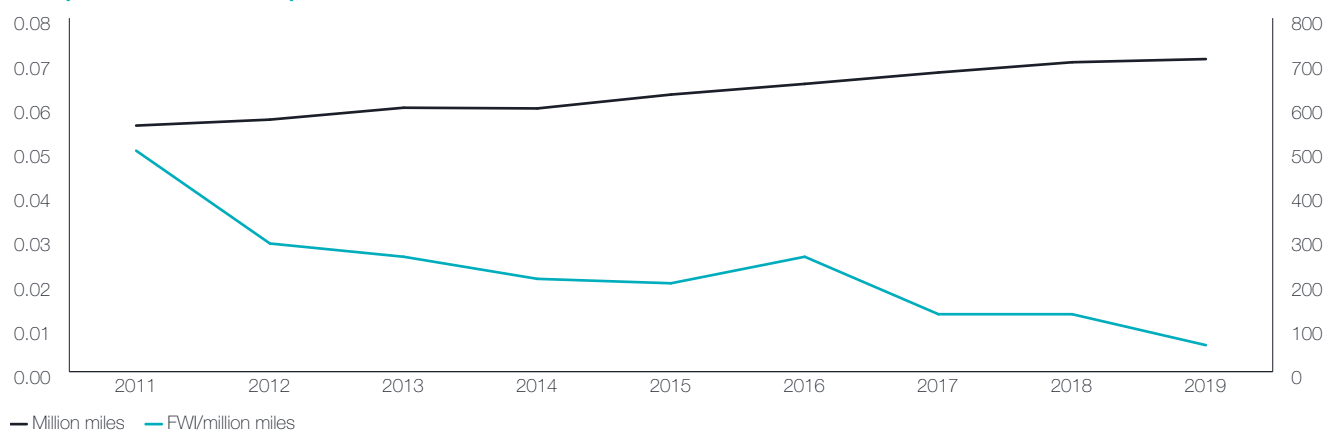
## Safety performance

In 2019 the Group has delivered its best ever safety performance, attaining for the first time Target Zero with no responsible fatalities in the year. This is a truly commendable achievement in respect of which I congratulate Dean Finch, his management team and every member of the workforce who, through their relentless focus and intensive efforts on improving safety over many years, have made it happen.

The combination of zero responsible fatalities and fewer major and lost time injuries across the Group over the 12 months to 31 December 2019 means that the Group has also achieved, in 2019, its lowest ever Fatalities and Weighted Injuries (FWI) Index score since this measure was introduced by the Group in 2011. The 2019 FWI score is over 83% lower than the Group's FWI score in 2011 and more than half the Group's previous lowest ever FWI score achieved in both 2017 and 2018. The graph at the bottom of this page illustrates these impressive reductions.

In view of these excellent safety results, the Committee was able to confirm to the Remuneration Committee that there was no event in the year under review which would trigger the 'safety underpin' – the feature of the Directors' Remuneration Policy which permits the Remuneration Committee to use discretion to reduce Executive Director remuneration and which is also applied to senior managers' remuneration.

## FWI per million miles operated





“The Group’s UK coach business is the only organisation in the transport sector to have been awarded the British Safety Council’s Sword of Honour for five consecutive years and its UK bus business was commended for being the safest public transport company of all those audited by the British Safety Council across the world in the year”

The Group’s robust safety management systems have once again been recognised through a number of industry accolades and accreditations in 2019:

- the British Safety Council awarded both UK coach and UK bus the prestigious Sword of Honour for a fifth and fourth consecutive year respectively, recognising their commitment to excellent standards of health, safety and environment management;
- the UK division retained, in both UK coach and UK bus, its ISO 45001 certification relating to occupational health and safety;
- ALSA retained, in both Spain and Morocco, its ISO 39001 certification relating to road traffic security and its CSEAA safety certificate, and was awarded the highest excellence scores through the certification process; and
- the North America business renewed its ANSI/AIHA Z10 certification, which recognises the business for having the management programmes to support the safe operation of activities related to student and transit transportation services within the USA and Canada.

The Group’s UK coach business is the only organisation in the transport sector to have been awarded the British Safety Council’s Sword of Honour for five consecutive years and its UK bus business was commended for being the safest public transport company of all those audited by the British Safety Council across the world in the year.

Management’s view, endorsed by this Committee, is that many of the Group’s safety programmes and practices are likely to be industry-leading. For example, the Group considers that, in North America, it has the strictest screening programme for new drivers in the industry, the strictest safety monitoring system for drivers of any school bus company and its school buses have more on-board safety equipment than any other operator. The Committee believes that these industry-leading safety programmes and practices lead to superior safety performance.

To date, while the Committee has been able to assess the Group’s safety performance by reference to its FWI score and other internally set KPIs, it is harder to assess its performance relative to other passenger, freight or other transit providers as there is no mandatory public reporting of safety performance data in the industry.

In this context, the Committee welcomed in the year a report prepared by Lytx, the third party supplier of the Group’s DriveCam technology, which benchmarked the Group’s ‘DriveCam risk score’ – the measure which Lytx uses to ascribe relative risk ratings to drivers – against Lytx’s transit customer base. This gave the Committee first-time insight into the Group’s relative driver safety performance against that of a sub-set of the wider industry. The Committee was extremely pleased to learn that every one of the Group’s divisions achieved a lower DriveCam risk score than the Lytx industry average risk score. The Group’s UK bus business’ DriveCam risk score was also the lowest, and therefore the best, among all Lytx’s customers. This benchmarking has reinforced the Committee’s view of the industry-leading status of the Group’s safety programmes.

The superiority of the Group’s safety programmes is also helping us to realise other important benefits. These include financial benefits as a result of the Group being involved in fewer road traffic incidents and being subject to fewer insured claims. This, in turn, reduces the Company’s exposure to insurance deductibles and assists the Company in maintaining acceptable premium rates on its motor insurance policies.

### Health and wellbeing of the workforce

The Group is committed to promoting the health and wellbeing of its workforce through a series of division-led programmes and initiatives which focus on occupational health as well as the wider physical and mental health of workers. In 2019, these included:

- in the UK division:
  - further visits by the Health Bus – the mobile clinic staffed by medical professionals who can offer confidential health advice and checks to employees – to our UK offices and depots, which received over 1,100 visitors in the year, bringing the total visitors since its introduction to 7,810;
  - continued promotion of the Employee Assistance Programme which offers mental health wellness assistance to employees, including via a new app which allows employees to track how they feel with a pathway to further support if needed;
- in the North America division:
  - continued promotion of the Wellness Screening Programme – which incentivises employees to undertake full biometric screenings, giving them early warning of medical conditions enabling them to seek early treatment – supplemented by a disease management and pharmacy support programme which assists employees with serious health conditions to best manage those conditions;
  - development of the wider Wellbeing Plan, which has focused in the year on driving behavioural changes among workers to improve their health and wellbeing, supported by regular newsletters raising awareness of particular health topics such as breast cancer and heart health;
- in the ALSA division:
  - participation in the Pulse Project, which is about working with other companies, educational organisations and medical professionals to conduct health research aimed at improving drivers’ physical and psychological condition;
  - continued promotion of the For Your Health programme, which encourages employees to improve their lifestyle and personal wellbeing through physical activity, good nutrition and self-care for mental health, supported by the regular For Your Health blog accessible to employees via the internet or the miALSA app on which health and wellbeing information is published.

Some of the Group’s health and wellbeing programmes have also been recognised externally during the year, with:

- the UK coach and UK bus businesses retaining their ISO 45001 certification in occupational health and safety; and
- ALSA becoming the first national passenger road transport company to be awarded the International Healthy Company Award (in the Large Company category) for its For Your Health programme by the ORH (Human Resource Observatory) organisation.

It has been pleasing for the Committee to see the Group's commitment to the health and wellbeing of its workforce evidenced, and recognised, in this way.

### Evolution of approach to the environment

As I noted in my introduction, the Company has an essential role to play in wider society by providing people with mobility services in both a safe and sustainable way.

The Group, overseen by the Committee, has taken a number of progressive steps over recent years to reduce or mitigate its own impact on the environment, as demonstrated by its broadly positive performance against its five-year 2014-2018 environmental KPIs (see page 201 of the Company's 2018 Annual Report).

Building on these steps, the Group now has an increased focus on providing its mobility services to customers in a way that can reduce both our and their impact on the environment. As more of our customers prioritise the sustainability of the transport services they are using or procuring, the more we wish to align ourselves with these priorities and work with our customers to achieve this important mutual goal.

A key example of how the Group is working to achieve this goal is through its vehicle purchasing strategy. As can be seen from the explanations (on pages 66 to 68) of how the Company's Directors have discharged their duties under Section 172(1) of the Companies Act 2006, some of the Board's principal decisions are about allocating capital to the purchase of new vehicles. In every such decision taken during 2019, the Board has had due regard to the environment by considering the rationale for purchasing either diesel, electric or alternative fuel propelled vehicles.

Indeed, the Group set out a leadership position on its approach to a cleaner and greener future in its 2019 preliminary results announcement by committing to never buying another diesel vehicle in the UK. As set out in the Strategic Report, the Group's ambition is to operate only zero emission vehicles (ZEVs) in UK bus by 2030 and in UK coach by 2035. The Committee intends to review the Group's progress against this ambition each year and will consider with management how this ambition can be expanded into other parts of the Group. Through realising this ambition and taking other appropriate steps, the Group intends to reduce its total carbon emissions per million passenger kilometre (tCO<sub>2</sub>e/million pass km) over the coming years.

### Environmental regulations and reporting

For the year under review, I am pleased to report that the Group has again maintained full compliance with all relevant environmental requirements, with no reported violations, enforcement actions or valid compliance or penalty notices.

As required by law, we set out, on page 47 of the Strategic Report, details of our total GHG emissions, by division and by scope (per the GHG Protocol Corporate Standard) alongside intensity metrics for the year ended 31 December 2019. The Committee has reviewed these results and notes that, while the Group has seen a relatively small year-on-year increase in total GHG emissions, this increase is lower than the growth in passenger kilometres operated by the Group during the year, reflecting the Group's continued investment in greener vehicles. As a result, the Committee is pleased to have seen a reduction in the Group's intensity metrics (-9.00% in total tCO<sub>2</sub>e/£million revenue and -2.02% in total tCO<sub>2</sub>e/million pass km).

The Committee is cognisant of the UK Government's Streamlined Energy and Carbon Reporting requirements, which will take effect for the Company in respect of its next financial year ending on 31 December 2020, and will report against those revised requirements next year. It is also reviewing the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and will make appropriate proposals to the Board about reporting in line with these going forwards. A current status report against these is set out on page 45 of the Strategic Report.

### Environmental KPIs

We further explain, on page 46 of the Strategic Report, how the Company, following careful review by the Committee, has in 2019 adopted six new environmental KPIs, three of which are 'climate science' or 'science based' targets and the other three more traditional targets. The three 'science based' targets relate to: total scope 1 & 2 emissions per million passenger kilometre (tCO<sub>2</sub>e/m pass km); scope 1 & 2 traction carbon emissions per million passenger kilometre (tCO<sub>2</sub>e/m pass km); and traction energy use per million passenger kilometre (MWh/m pass km) and are based on the Sectoral Decarbonisation Approach (SDA) developed by the United Nations established Intergovernmental Panel on Climate Change (IPCC). The three 'non-science based' targets relate to: building emissions, water usage and non-hazardous waste to landfill volumes.



“As more of our customers prioritise the sustainability of the transport services they are using or procuring, the more we wish to align ourselves with these priorities and work with our customers to achieve this important mutual goal”

All the new environmental KPIs operate as absolute targets to be assessed at the end of a seven year measurement period in 2025 but, to track the Group's progress towards these absolute targets, the Committee has reviewed the Group's performance against them in 2019, which is shown in the KPI table on page 46. It is good to see that we have made a strong start towards reaching the absolute targets for each of the three 'climate science' KPIs and the building emissions KPI, with year-on-year reductions in each measure. We are also pleased to see the reduction in waste to landfill volumes, reversing the increasing trend since 2014.

The Committee intends to keep the new environmental KPIs and the Group's performance against them under careful review over the seven year measurement period to ensure the KPIs remain both achievable and stretching and the Group continues to make progress against them.

### Environmental LTIP measures

Aligned with the Group's new leadership position, in early 2020 the Committee together with the Remuneration Committee considered, and recommended to the Board, the addition of new environmental performance measures to the Long-Term Incentive Plan (LTIP) awards made to Executive Directors and senior managers. These combined 25% weighted measures – 15% apportioned to a reduction in the Group's total carbon emissions (tCO<sub>2</sub>e/ m pass km) and 10% to an increase in the number of ZEVs operated by the Group's UK division – demonstrates our commitment to achieving our environmental ambitions. Further information about the new LTIP environmental performance measures can be found in the Directors' Remuneration Report.

### Committee engagement

In April 2019, I, on behalf of the Committee, undertook my now traditional annual safety tour. In consultation with our Group Safety Director, I decided to return to visit some of our operations in North America as it is our largest and fastest-growing division yet is also faced with some of the most challenging operational issues, particularly due to the ongoing driver shortages in the US labour market.

I chose to visit for the second time one of our school bus operations in New York (which the Group acquired in 2016 and which I first visited in 2017) to assess its progress in implementing the Group's Global Safety Policies since my prior visit. I was very pleased with the progress the new management team had made and that action plans were in place to drive further improvements. Although still a new team, it was good to see how engaged they were with the Group's best practices.

I also visited a number of our businesses in and around the Great Lakes region, including the Group's CDT paratransit business in Chicago (which we acquired in 2017) and a number of our customer service centres in Illinois and Wisconsin (which vary in size and complexity of their operations), to observe their safety practices. I was particularly impressed with the level of professionalism at all sites, whether large or small, and how seriously safety is taken, reflecting the tone from the top. It was interesting to observe how everyone I spoke to at each of the different sites was speaking the same language about the Group's Global Safety Policies and the benefits they were deriving from them.

My annual safety tours have always represented an excellent opportunity for me to talk to members of our workforce, including the drivers and technicians on the 'front line' and their line managers, and hear and see, first-hand, how the Group's Global Safety Policies and other safety programmes and technology are making a difference.

### Committee composition and effectiveness

The Committee's membership is comprised of all the Company's Non-Executive Directors and its meetings are also attended by the Executive Directors, underlining the importance which the Board attaches to its activities. During 2019, we welcomed Ana de Pro Gonzalo and Karen Geary, our two new Non-Executive Directors, to the Committee.



The performance of the Committee during the year was evaluated as part of the internal evaluation of the effectiveness of the Board and its Committees. The Committee scored very well on all measures of effectiveness, including in particular its high level of attention to safety matters.

### Looking ahead

I once again wish to congratulate Dean Finch, his management team and everyone else in the Group who has played a role in the achievement of Target Zero. Having reached this fantastic result, the executive management team and Committee have agreed that there is no room for complacency as the Group will need to work harder still to maintain this achievement through the continued application and further development of its safety policies and processes. The Committee will therefore continue to monitor and review the Group's work in this regard.

In addition, with the spotlight being shone on the impact that businesses have on the environment and how the environment can impact them, and the pivotal role that the Group, as a mass transit provider, has to play in advancing sustainable travel for its customers and thereby sustaining its own business, the Committee will also continue to monitor the Group's performance in this important area.

I trust that you, as the owners of this Company, are as proud as this Committee of the Company's achievements in relation to safety and as interested as this Committee in the Company's continuing evolution in relation to environmental matters.

For those of you who will attend this year's AGM, I look forward to seeing you there and answering any questions you may have on this report or the Committee's work.

**Chris Muntwyler**  
Safety & Environment Committee Chair  
27 February 2020



Dr Ashley Steel  
Committee Chair

“ The Committee is satisfied that the Directors' Remuneration Policy has operated as intended to appropriately reward and incentivise Executive Directors having regard to the significant alignment between the Executive Directors' remuneration outcomes and the superior financial returns delivered to shareholders”



### Activity highlights

- Considered the alignment of Executive remuneration with the Group's strategy
- Reviewed and confirmed the outcome of the 2019 annual bonus and the 2017 three-year Long-Term Incentive Plan awards for Executive Directors and senior management<sup>†</sup> and ensured that the Directors' Remuneration Policy is operating as intended
- Undertook the 2020 salary review for Executive Directors and senior management<sup>†</sup>, having regard to a wide array of internal and external factors
- Set targets and performance measures for the 2020 annual bonus and LTIP awards to Executive Directors and senior management<sup>†</sup>
- Reviewed and determined 2020 fees

- for the Chairman
- Considered the relationship between executive pay and wider workforce pay
- Considered corporate governance developments and market practice relating to executive and wider workforce pay

The Committee's terms of reference, which are reviewed and approved annually and which explain the Committee's primary role and key responsibilities, are available on the Company's website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

<sup>†</sup> The Company's senior management whose remuneration is determined by the Committee is comprised of the divisional managing directors and the Group functional heads who are direct reports to the CEO and who together form the Group Executive Committee

### Dear fellow shareholder

On behalf of the Board I am pleased to present the 2019 Directors' Remuneration Report. 2019 was an exceptional year for the Group, in terms of both its financial and safety performance. This performance has demonstrated the continued success of the Group's strategy and its significant and ongoing investment in safety.

This is my first report since becoming Chair of the Remuneration Committee. To begin, I would like to thank Jane Kingston, who chaired the Committee for over five years, for her excellent leadership and her support to me during transition. I would also like to welcome Karen Geary, who joined the Committee on 1 October 2019 and brings additional strength to its membership.

2019 was the second year under the current three-year Directors' Remuneration Policy (the Policy). The Policy has continued to provide an effective framework enabling us to appropriately reward and incentivise Executive Directors and senior management to sustain the Group's success.

### 2019 financial results

In 2019, the Group delivered another year of record-breaking financial results. The results are all the more remarkable as they have been achieved in the context of continuing headwinds, including the ongoing uncertainty around Brexit in the UK and the continuing pressures of wage inflation and price competition in North America.

The Group's significant outperformance as regards total shareholder return relative to both the FTSE 250 Index and its peer group over each of the last three, five and ten-year periods is shown in the chart at the top of the next page.

Due to the strength of these results, the Board is recommending its fourth consecutive 10% increase in the final dividend for the year ended 31 December 2019.

### Membership, meetings and attendance

Committee member <sup>1</sup>	Appointed	Meetings attended
Dr Ashley Steel (Chair) <sup>2,3</sup>	29.01.19	●●●●
Jane Kingston <sup>2,4</sup>	26.02.14	●●●●
Lee Sander <sup>2,5</sup>	01.06.11	●○●●
Matthew Crummack <sup>2</sup>	01.05.16	●●●●
Karen Geary <sup>2,6</sup>	01.10.19	●

<sup>1</sup> Committee membership is shown as at 31 December 2019. Since the end of the year, Lee Sander has stepped down from the Committee

<sup>2</sup> Independent Non-Executive Director

<sup>3</sup> Appointed to the Committee on 29 January 2019 and as Chair on 9 May 2019

<sup>4</sup> Chair of the Committee until 9 May 2019 and a member until 31 December 2019

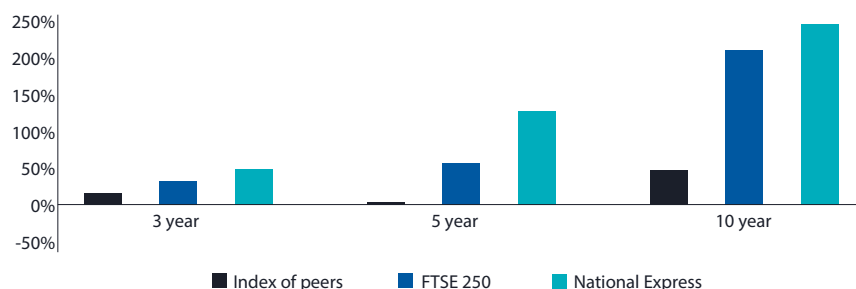
<sup>5</sup> Mr Sander was unable to attend the February 2019 Committee meeting due to his inbound flight to the UK being delayed – please see page 78 for the Board's process for ensuring Directors involvement in meetings they cannot attend

<sup>6</sup> Ms Geary was appointed on 1 October 2019 and attended the only Committee meeting in the year held since her appointment

Other attendees: Company Secretary, Company Chairman\*, Group Chief Executive\*, Human Resources Director and representatives of the independent remuneration advisers, PwC. \*Do not attend during discussions relating to their own remuneration.

Further information about the Committee members is set out on pages 60 to 64.

## Total shareholder return



## 2019 non-financial results

The leadership team has delivered an outstanding safety result. Notably there have been no responsible fatalities in the year. In addition, there have been fewer major and lost-time injuries. The Group's Fatalities and Weighted Injuries (FWI) Index score is now the lowest since the measure was adopted in 2011. Following consultation with the Safety & Environment Committee, the Committee is therefore satisfied that the safety underpin to the Executive Directors' and senior management's annual bonus and LTIP awards has been met.

The Executive Directors have also made excellent progress in the year against their non-financial bonus objectives. These were based on strategic targets around continuing to embed the Group's safety programmes and delivering growth through driving excellence and technological innovation while also appropriately managing risk.

## 2019 remuneration outcomes

The Committee approved the following remuneration outcomes for Executive Directors:

- for each of the Group Chief Executive and Group Finance Director, awards of 100% of their respective 2019 maximum annual bonus opportunities;
- for the Group Business Development Director, an award of 55% of his 2019 maximum annual bonus opportunity; and
- for all Executive Directors, 91.53% vesting of their 2017 LTIP awards as a result of the Group's performance against each of the TSR, EPS and ROCE performance measures over the 2017-2019 performance period, as shown in the table below:

Performance measure	Proportion of LTIP award	2017-2019 performance outcome
Diluted normalised earnings per share	1/3rd	Three-year growth rate of 26.5%
Relative total shareholder return vs. FTSE 250	1/6th	Outperformance over three years of 11.3%
Relative total shareholder return vs bespoke group	1/6th	Outperformance over three years of 28.8%
Average return on capital employed	1/3rd	Average return over three years of 12.2%

The remuneration outcomes are shown in the 'Remuneration at a glance and in context' section on page 103, together with, on pages 103-106, explanations of how executive remuneration is linked to the Company's strategy and its KPIs and how it achieves clarity, simplicity, proportionality and predictability while ensuring mitigation of risk and alignment to culture.

The Committee is satisfied that the Policy has operated as intended to appropriately reward and incentivise Executive Directors having regard to:

- the significant alignment between the Executive Directors' remuneration outcomes and the superior financial returns delivered to shareholders;
- the linkage between Executive Directors' non-financial bonus targets and the Group's strategic priorities of growth, technology and operational excellence which have been advanced in the year; and
- the linkage between Executive Directors' non-financial bonus targets and the Group's overriding priority of safety and achievement by the Group of Target Zero and its lowest ever FWI score in the year.

Given the above, the Committee did not exercise discretion under the Policy.



## 2019 performance highlights

Group revenue

£2.74bn

up 10.2%<sup>1</sup>

Normalised profit before tax

£240.0m

up 7.8%<sup>1</sup>

Statutory profit after tax

£148.3m

up 6.9%<sup>2</sup>

Normalised basic earnings per share

34.5p

up 4.9%<sup>3</sup>

Free cash flow

£178.7m

Target Zero

Zero

responsible fatalities

FWI Index

4.513

Total shareholder return

30%

during 2019

Reduction in CEO pay

£588,000

from 2018

<sup>1</sup> On a constant currency basis

<sup>2</sup> On a continuing basis

<sup>3</sup> 34.4p on a normalised diluted basis

## 2020 base pay and fees

Having satisfied itself that the Policy remains fit for purpose for 2020, the Committee undertook a full review of Executive Directors' and senior management's salary levels. This encompassed a review of various factors, including:

- the growing size and international status of the Group;
- economic factors, including general employment statistics, average earnings increases or decreases and inflation rates in each of the labour markets in which the Group operates; and
- the Group's workforce pay and related practices in 2019 and budgeted for 2020, as shown in the box below:



- The general pay increase awarded in 2019 to various categories of UK employees of between 2.2% and 2.85%
- The average pay increase awarded in 2019 to the top decile of UK employees with over 12 months service of 12.75%, which included UK employees who received increases relating to performance and promotion, including assumption of wider responsibilities
- The overall budgeted 2020 average pay increase for UK employees of 2.5%
- The Group's commitment to paying its workforce the Real Living Wage in the UK or its equivalent in other countries, or, where no equivalent exists, at least the national minimum wage in each of the labour markets in which the Group operates
- The Group's commitment to enhancing the diversity of its workforce
- The Group's UK gender pay gap median and mean data<sup>1</sup>
- The Company's CEO pay ratios<sup>1</sup>

<sup>1</sup> Further information about the UK gender pay gap and the CEO pay ratios are set out on page 102

To assist further with the review of Executive Directors' salaries, PwC carried out a benchmarking exercise of the Group Chief Executive's and the Group Finance Director's base salaries and total on-target remuneration and those of their counterparts in three comparator groups. This was the first such exercise the Committee had carried out for a number of years.

It confirmed that Mr Finch's 2019 on-target remuneration was below the upper quartile of two out of three comparator groups and markedly below the median of a bespoke comparator group that included companies in the FTSE 250 with a similar market capitalisation to the Company and deriving at least 25% of their revenues from international operations. It also confirmed that Mr Davies' 2019 on-target remuneration was below the median of all three comparator groups.

The Committee and Board believe that a failure now to align the pay of the Group Chief Executive and Group Finance Director, who have over the last few years consistently delivered top quartile performance, with the market rate of pay for such performance could present challenges around retention of the current executive team and the ability to recruit high quality executives in the future.

Given the above, the Committee recommended to the Board, and the Board approved, the following 2020 salary increases for Executive Directors:

- for Dean Finch, Group Chief Executive, an 8.5% increase. This reflects the increased scope, scale and complexity of Mr Finch's role now relative to when he was appointed 10 years ago. During this time, the Group's international operations have expanded significantly

as a result of Mr Finch's strategic vision and focus on sustainable growth and market penetration. The increase also reflects Mr Finch's outstanding performance in role and the high levels of growth in value demonstrated in recent years. The resulting salary is positioned below the median for comparable organisations of similar size and complexity;

- for Chris Davies, Group Finance Director, an 8.5% increase. Mr Davies joined the Group in 2017 at a below market rate base salary as this was his first CFO role. The increase in salary recognises he is now established in role which, in view of the Group's expansion as noted above, has become larger and more complex; and
- for Matt Ashley, Group Business Development Director, a 2.5% increase to reflect him being new in this role.

The salary increase for Matt Ashley of 2.5% is in line with the average increase awarded to the UK workforce. The upper decile increases awarded to members of the UK workforce who have performed very strongly and/or whose responsibilities have materially grown was 12.75%. The increases for Messrs Finch and Davies of 8.5% are therefore consistent with the Group's wider workforce pay policies and practices, which have an emphasis on fairly rewarding performance and recognising the level of responsibility that each role has.

The Committee also approved a 2.5% increase in the Chairman's fees for 2020 following a benchmarking exercise which confirmed that their increase in line with the average UK workforce increase was appropriate.

## 2020 pensions

2020 will be the second year in which Mr Finch's pension allowance will be reduced in line with his voluntary offer to reduce it from 35% to 30% of base salary over three years in equal amounts (such that, in 2020, his allowance will be equal to 31.6% of base salary). The other Executive Directors will continue to receive pension allowances of 25% of base salary. However, as part of the next Policy review the Committee will be aligning the pension contribution for all Executive Directors to those available across the UK workforce on 1 January 2023.

## 2020 bonus and LTIPs

The Committee considers that the structure, performance conditions and award opportunity for Executive Directors' and senior management's annual bonuses and LTIPs remain appropriate and will therefore be the same in 2020 as in 2019, save in respect of the following three adjustments:

- Executive Directors' and senior management's FWI bonus target will be reduced from 10% to 5% (but otherwise will be calculated on the same basis). Their other safety-related bonus targets will be increased from 8% to 13% (keeping the total weighting of safety targets at 18%). This is because the Group's FWI score as an output measure is increasingly affected by one-off events, meaning it is more appropriate to move management's focus to input safety objectives;
- Casablanca safety incidents will be excluded from the Group's FWI score for the next two years. This is due to it being a significant new operation which will be performed at the outset with the prior operator's fleet and where it is expected to take time to embed fully the Group's Global Safety Policies. Executive Directors

and local management will therefore be set Casablanca-specific input safety objectives instead to ensure continued focus in this area; and

- two additional performance measures will be added to Executive Directors' and senior management's LTIP awards in 2020 to align their pay with the Group's environmental ambitions. These relate to reductions in the Group's total carbon emissions per million passenger kilometre (tCO<sub>2</sub>e/m pass km) and an increase in the number of zero emissions vehicles (ZEVs) operated in the UK. The three-year threshold, on-target and stretch targets for such measures are set out on page 119 of the Annual Report on Remuneration. These were determined by the Committee, following advice from specialist environmental consultants, as appropriately challenging three-year staging posts towards the Group's environmental ambitions to continue to reduce total carbon emissions and to operate only zero emission vehicles in UK bus by 2030 and in UK coach by 2035. The two measures together will have a weighting of 25% - split 15% for the reduction in tCO<sub>2</sub>e/m pass km and 10% for the increase in ZEVs - reducing the weighting of each of the existing performance measures (TSR, EPS and ROCE) from 33.3% to 25% each.

For reasons of commercial sensitivity, further details of the Executive Directors' financial and non-financial annual bonus performance targets will be disclosed in the 2020 Annual Report on Remuneration.

### UK gender pay gap

During the year, the Committee reviewed the Group's latest UK gender pay gap data. It shows that, as at 5 April 2018, the aggregate median gender pay gap was 14.90% (5 April 2017: 13.34%) and the aggregate mean gender pay gap was 3.40% (5 April 2017: 4.24%).

We remain of the view that the Group's UK gender pay gap is not a symptom of unequal pay for equal work among men and women, but rather there being more men than women in senior roles across the relevant UK businesses. The Company's various initiatives to encourage more women to assume senior roles, which should assist in closing the gender pay gap over time, are set out in the Nominations Committee Report.

### CEO pay ratios

2019 is the first year in which the Company is publishing its CEO pay ratios, comparing the Group Chief Executive's total remuneration with that of the Group's UK employees whose full time equivalent remuneration ranks them at the 25th, 50th and 75th percentile of UK employee pay. These ratios are, respectively, 156:1, 136:1 and 110:1. They demonstrate that the majority of the Group's

UK employees are comprised of drivers and technicians and that the Group operates a lean management structure. Following careful consideration, the Committee is satisfied that the median pay ratio is consistent with the Company's pay, reward and progression policies. When setting the CEO's pay, the Committee has regard to the same fundamental considerations as those taken into account by the UK management team when setting pay for all other UK employees. These include the Company's policy to pay market rates of pay that reward employees fairly for work done and have due regard to individual performance and Company performance where the individual has the ability to influence wider Company performance. The CEO has ultimate responsibility for, and the greatest ability to influence, the Company's performance, returns to shareholders and, importantly, the safety of the workforce and passengers. To reflect this, the CEO's remuneration package has a higher weighting on performance-related pay (including the annual bonus and LTIP) compared with the majority of the workforce. This means the pay ratios are likely to fluctuate depending on the outcomes of incentive plans in each year.

### Corporate governance developments

In 2019, we considered the Principles and Provisions of the 2018 Code and we kept market practice in response to them and other executive pay developments under review. The Directors' Remuneration Report explains how the Principles and Provisions of the 2018 Code relating to remuneration have been applied and complied with, respectively, save for those explained on page 106. The Company has in 2019 remained wholly compliant with its current Policy approved by shareholders at the Company's 2018 AGM.

### Committee composition and effectiveness

As noted on page 99, during the year I assumed chairmanship of the Committee and, as a result of the Board's wider succession plans, Karen Geary joined the Committee. Details of our respective experience can be found on pages 63 and 64. Since the end of year Lee Sander has also stepped down from the Committee. The Committee's membership was and remains fully compliant with the 2018 Code.

The outcome of the Committee's performance evaluation, undertaken as part of the Company's internal evaluation of the effectiveness of the Board and its Committees, was very positive and highlighted as a particular strength the Committee's careful consideration and application of the Directors' Remuneration Policy in a way intended to promote the delivery of the Company's strategy.

### Committee engagement

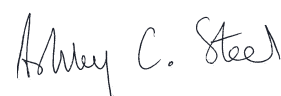
In February this year, I wrote to principal shareholders to explain the approach the Committee has taken to Executive Directors' pay increases in 2020 and the proposed addition of the new environmental performance measures to the Executive Directors' and senior management's LTIP awards. The Committee also intends to engage with its principal shareholders during 2020 as it develops its new Policy for 2021-2023.

The Committee notes that the 2018 Code encourages engagement with the workforce to explain how executive remuneration aligns with wider company pay policy. As noted on pages 71 to 73, during 2019 the Board supplemented its usual workforce engagement programme by undertaking additional workforce engagement events. These presented useful opportunities for discussions about the Board and this Committee's approach to executive and wider workforce remuneration. To assist further such discussions in future, this Directors' Remuneration Report seeks to explain some of the areas of parity in the approach between executive and workforce pay.

### Looking ahead

I am satisfied that the current Policy has served the business well and trust you agree that the Committee and Board have applied it appropriately.

During 2020 we will be reviewing the Policy, taking into account market factors and the 2018 Code, to develop our new Policy for 2021-2023. Meanwhile, I welcome any comments you have.



**Dr Ashley Steel**  
Remuneration Committee Chair  
27 February 2020



# Directors' Remuneration Report

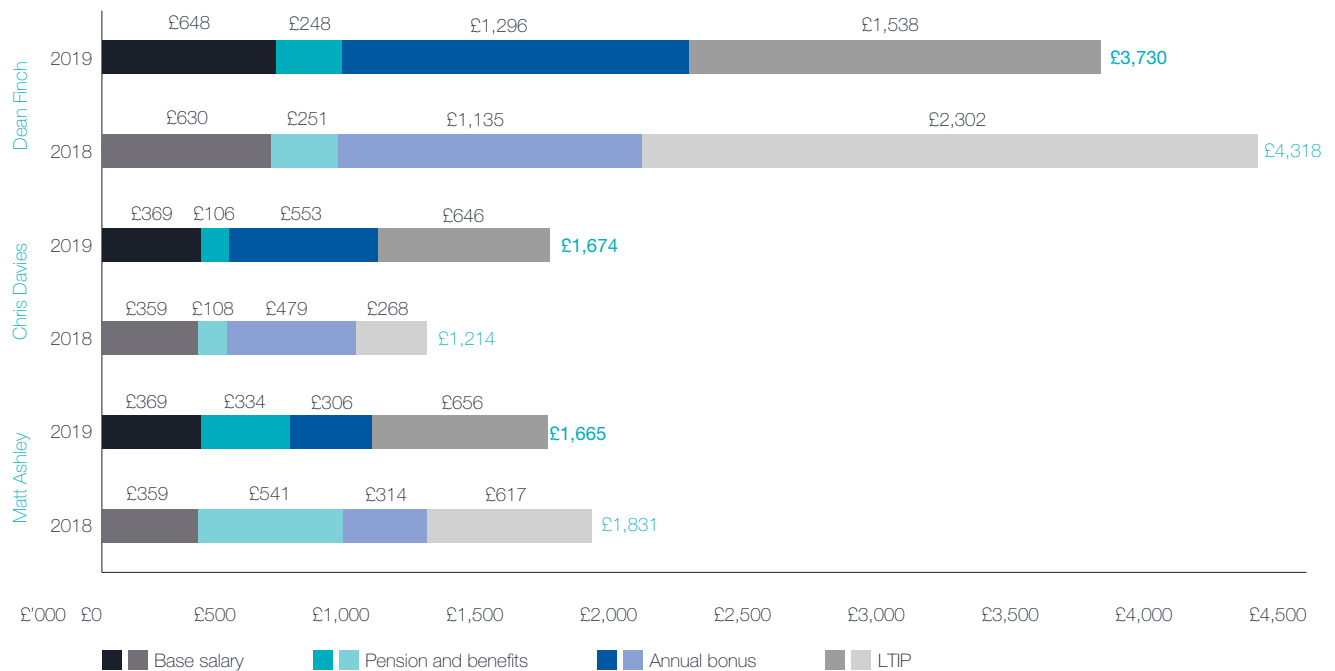
## Remuneration at a glance and in context

### Introduction

In this section we illustrate the total remuneration outcomes for the Executive Directors for the year under review and we explain:

- how the Company's executive remuneration policy supports its strategy and sustainable success;
- how the Company's executive remuneration policy and practices achieve the principles of clarity, simplicity, proportionality and predictability as well as how they assist in mitigating risk and ensuring alignment to corporate culture; and
- where the Company has not fully complied with parts of three Provisions of the 2018 Code relating to remuneration.

### Illustration of Executive Directors' total remuneration for 2019



### Supporting strategy and sustainable success

The Committee believes that the Company's sustainable success is driven by a wide variety of factors. These include its strategy and the environmental, social and governance (ESG) factors which are discussed in the Strategic Report and the Corporate Governance Report. They also include the Company's ability to achieve consistently strong financial results. Strong financial results, in terms of earnings, cash flow and return on capital employed, enable the Company to continue to invest in each of its core strategic pillars of growth, technology and operational excellence, and to achieve its number one priority of safety. It is these investments which help generate and sustain strong results year on year and which in turn allow the Company to return value to shareholders year on year, earning their support for the Company's continued delivery of its strategy.

The table at the top of the next page describes how elements of the remuneration schemes operated under the current Directors' Remuneration Policy support the Company's strategy and long-term sustainable success.



## Directors' Remuneration Report

### Remuneration at a glance and in context continued

Strategic priority	Element of Policy	Linkage
<b>Growth</b>	Group profit before tax (PBT)/North American earnings before interest and tax (EBIT) targets in annual bonuses and EPS performance measure in LTIPs	Profit and related earnings targets and performance measures drive management's efforts to achieve both organic growth, through new business wins and cost efficiencies, and inorganic growth, through company and business acquisitions, ensuring an appropriate focus on margin growth over pure revenue growth
	Group free cash flow target in annual bonuses	Availability of free cash flow facilitates the pursuit of an ambitious M&A strategy and the continual investment in technology enhancement and operational excellence
	ROCE performance measure in LTIPs	Return on capital employed is a key measure to validate the quality of capital allocation and ensure that investment is both appropriate and sustainable
<b>Technology enhancement</b>	Personal bonus targets linked to both the development of digital capabilities and building stronger cyber security	Enhanced digital capability, for example through improved customer ticketing applications, improved ease of ticketing and payment system integration with business partners and more accurate and timely customer billing control systems, can improve profitability through both top-line revenue growth and cost savings
<b>Operational excellence</b>	Personal bonus targets linked to delivering operational excellence programmes	Operational excellence, for example through creating and implementing best in class operating procedures for managing driver risk and maintaining vehicles and developing innovative programmes that deliver operational efficiencies, can also improve profitability through achieving cost savings and enhance reputation by mitigating risk
<b>Safety</b>	Safety underpin in annual bonus and LTIPs Maintenance of low FWI score Personal bonus targets linked to the delivery of safety initiatives	Our ability to get people where they need to go safely and our culture for putting safety first is key to achieving the trust and loyalty of our customers and so to making mass transit an increasingly attractive option and achieving our Purpose

### Supporting clarity, simplicity, proportionality and predictability and ensuring mitigation of risk and alignment to culture

The table below explains how the current Directors' Remuneration Policy and the practices of the Committee in applying it address the factors set out in Provision 40 of the 2018 Code:

Provision 40 factor	Element of Directors' Remuneration Policy and/or practice
Clarity – clarity and transparency is achieved through a combination of explanations for decisions taken and advance disclosure of the nature and weighting of annual bonus targets and LTIP performance measures	<p>The Committee's rationale for increasing Executive Directors' salaries in 2020 has been explained in detail on page 101 of the Annual Statement by the Remuneration Committee Chair</p> <p>The key constituents of Executive Directors' 2019 annual bonus targets and LTIP performance measures were disclosed in advance on page 76 the 2018 Annual Report and those for 2020 are set out on pages 118 and 119 of the Annual Report on Remuneration</p> <p>The Committee informed its principal shareholders about its decisions on Executive Directors' salaries and the proposal to add environmental performance measures to Executive Directors' LTIP performance measures, as referred to on page 102 of the Annual Statement by the Remuneration Committee Chair</p>
Simplicity – the current Directors' Remuneration Policy achieves simplicity via being composed of an appropriately limited range of remuneration components designed to attract and retain executives and incentivise their performance in the short and longer term	<p>Executive Directors' remuneration is currently composed of only four elements:</p> <ul style="list-style-type: none"> <li>– base salary</li> <li>– a range of typical other benefits, including payments in lieu of pension contributions</li> <li>– annual bonus awards which are subject to a mixture of financial and non-financial (including safety and other strategic) targets, a proportion of which awards are deferred into shares for one year, and</li> <li>– annual LTIP awards which are subject to three-year performance measures and two-year holding periods post vesting</li> </ul> <p>In the year under review, Executive Directors' remuneration has also benefited from being simpler than in prior years due to:</p> <ul style="list-style-type: none"> <li>– the last of Mr Finch's five-year LTIP awards having vested</li> <li>– the last of Mr Davies' two-year Recruitment Incentive Awards having vested, and</li> <li>– Mr Ashley's assignment to North America coming to an end, and his related relocation assistance package ceasing going forward</li> </ul>

Provision 40 factor	Element of Directors' Remuneration Policy and/or practice
<p>Risk – a range of features of the current Directors' Remuneration Policy assist in mitigating the risks of excessive rewards and inappropriate behaviour</p>	<p>Executive Directors' salary increases are capped at 10% over RPI in any year, other than for increases given for internal promotion and market equalisation, and their maximum annual bonus opportunities and LTIP awards are also both capped at a percentage of their base salaries</p> <p>A proportion of Executive Directors' bonus awards are deferred into shares for one year post award, and they must retain their vested LTIP shares for two years post vesting, including post termination of employment</p> <p>Both malus and clawback provisions apply to the whole of Executive Directors' bonus awards and vested LTIP shares for a period of two years post award or vesting, including in both cases post-termination of employment</p> <p>The Committee may exercise discretion to defer or to reduce, including to nil, Executive Directors' annual bonus and LTIP outturns if the safety underpin is triggered by a systematic failure by management to put in place and operate effective safety processes</p> <p>There is strong linkage between Executive Directors' remuneration arrangements and the Company's strategy and KPIs, as explained on page 104</p>
<p>Predictability – some of the same features of the current Directors' Remuneration Policy which mitigate risk also ensure that outcomes are within a predictable range</p>	<p>Executive Directors' salary increases are capped at 10% above RPI in any year, other than for increases given for internal promotion and market equalisation, and their maximum annual bonus opportunities and LTIP awards are both capped at a percentage of their base salaries</p> <p>The Committee may exercise discretion to defer or reduce, including to nil, Executive Directors' annual bonus and LTIP outturns if the safety underpin is triggered. The Committee may also use its judgement to determine the level of achievement of Executive Directors' non-financial bonus targets</p>
<p>Proportionality – this is achieved through the strong links between executive pay and performance</p>	<p>The linkage between Executive Directors' remuneration arrangements and their performance in delivering the Company's strategy is explained on page 104</p> <p>The outcomes of Executive Directors' LTIP awards will be reflective of, and so proportionate to, performance as they are linked to positive financial and, for 2020 LTIP awards, progressive environmental performance measures. The same is true of those elements of Executive Directors' annual bonus awards which are linked to financial targets and strategic objectives. The Committee is also able to use its judgement to determine the outcome of Executive Directors' annual bonus non-financial targets in such a way as to ensure they appropriately reflect performance</p>
<p>Alignment to culture – this is achieved through strong links between executive pay and the Company's Values, which Values in turn help the Company to achieve its Purpose</p>	<p>The Company's Values of: Safety, Excellence, Customers, People and Community &amp; Environment help the Company to achieve its Purpose, as explained and illustrated on page 69. These Values are in turn promoted through different aspects of the Executive Directors' remuneration:</p> <ul style="list-style-type: none"> <li>– Safety, People and Community are supported by the FWI and other safety bonus targets and the new LTIP environmental performance measures which focus management's attention on achieving a safer and more environmentally friendly transport network for the benefit of its passengers, drivers and the wider community</li> <li>– Customers, People and Excellence are supported by the financial bonus targets and financial LTIP performance measures which focus management's efforts on achieving profits which facilitate growth, and the non-financial bonus targets which drive operational efficiencies to reduce costs. Financial health allows the Company to expand its transport network into new customer markets and invest in and improve the excellence of its customer service, at the same time as creating new and improved opportunities for the workforce in terms of their pay and prospects for variety and security of work and promotion within a successful organisation</li> </ul>



**Comments on the 2018 Code**

The table below explains those Provisions of the 2018 Code that the Company has either partially complied with during 2019 through elements of the Company's existing Directors' Remuneration Policy or not yet complied with during 2019. These matters will be considered as part of our review when determining our Directors' Remuneration Policy for 2021-2023.

Code Provision	Element of Directors' Remuneration Policy	Additional Commentary
Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes (part of Provision 37)	<p>75% of Executive Directors' annual bonus maximum opportunities are subject to financial targets and 25% are subject to non-financial targets which are typically aligned with the Company's strategic and risk management priorities, including safety. Executive Directors' LTIPs are subject to financial performance measures (TSR, EPS, ROCE) and, from 2020, new environmental performance measures (Group tCO<sub>2</sub>e/m pass km and UK ZEVs)</p> <p>Executive Directors' annual bonuses and LTIPs are also subject to a safety underpin that enables the Committee to use its discretion, acting reasonably and proportionately, to defer or to scale back bonus outcomes or levels of LTIP vesting, including to nil, where, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs that has a material adverse impact on both the reputation of the Company and its share price</p>	<p>Setting targets and performance measures that relate directly to the Company's financial, strategic and sustainable performance substantially removes the potential for formulaic outcomes that are misaligned with the interests of shareholders and wider stakeholders</p> <p>The Committee has, through the safety underpin, discretion to control the most likely situation in which Executive Directors' remuneration outcomes could be misaligned with shareholders', and wider stakeholders' interests, being an incident affecting the Company's reputation and its share price (that does not affect other financial performance metrics or the achievement of non-financial (non-safety-related) bonus targets) as a result of a fundamental failure by management to control safety risks that they can influence through input measures</p>
The remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares (part of Provision 36)	<p>Executive Directors must retain their LTIP shares for a period of two years post vesting, including after termination of employment</p> <p>Executive Directors' LTIPs are also subject to good and bad leaver provisions which enable the Committee, where an Executive Director is a good leaver, to exercise discretion to allow any unvested awards to vest on their normal vesting, retaining leaving Executive Directors' interests in shares for even longer post employment. Where Executive Directors are bad leavers, their unvested LTIPs will lapse but malus and clawback may apply to LTIPs that vested in the prior two years</p>	Through the operation of these elements of the Company's LTIP, Executive Directors will retain interests in their vested and potentially also unvested LTIP shares post their employment with the Company

In addition, the Company has not, in 2019, aligned Executive Directors' pensions with those available to the workforce although, as explained on page 101, Executive Directors pensions will be aligned with those available across the UK workforce on 1 January 2023.



## Background information about the Directors' Remuneration Policy

The Directors' Remuneration Policy (the Policy) was approved by shareholders at the AGM on 16 May 2018 and came into effect from that date. It is intended to apply for three years until the AGM in 2021. The full Policy can be found on pages 74 to 84 of the Company's 2017 Annual Report and on its website at [www.nationalexpressgroup.com/about-us/corporate-governance/remuneration](http://www.nationalexpressgroup.com/about-us/corporate-governance/remuneration).

## Annual Report on Remuneration

This Annual Report on Remuneration describes how the Policy was applied in the financial year to 31 December 2019, and how it will be applied in the financial year commenced 1 January 2020. The single total figure of remuneration tables and information in this Report about the vesting and award of LTIPs and the statement of Directors' shareholdings and share interests have been audited, as required by section 498(1)(c) of the Companies Act 2006.

### 1. Background remuneration information (as previously reported in 2018, and updated for developments in 2019)

#### (a) Chris Davies' appointment as Group Finance Director

Chris Davies joined the Company on 2 May 2017, was appointed as an Executive Director on 10 May 2017 and became the Group Finance Director on 1 June 2017. On appointment as an Executive Director, he was granted two Recruitment Incentive Awards (RIA) under the Company's Long-Term Incentive Plan (LTIP) in recognition of certain incentives he forfeited on leaving his previous employer. The first RIA, which had a one-year term but was subject to the same performance conditions as applied to the three-year LTIP awards granted to executives in 2015, vested on the first anniversary of grant (i.e. on 10 May 2018). The second RIA, which had a two-year term but was subject to the same performance conditions as applied to the three-year LTIP awards granted to executives in 2016, vested on the second anniversary of grant (i.e. on 10 May 2019), so in the year under review, and is referred to where appropriate in the remaining sections of this report.

#### (b) Matt Ashley's appointment as President and CEO, North America

Matt Ashley relinquished his role as Group Finance Director, but retained his executive directorship, on 31 May 2017 to take up a two-year assignment as President and CEO, North America, based in Chicago from 1 September 2017. In order to support him in this role, the Company provided him (and his family) with a relocation assistance package (including tax equalisation and exchange rate protection) for the duration of the assignment in line with normal practice for an international relocation at executive level. Mr Ashley's assignment came to an end during the year under review, on 31 August 2019, at which time he (and his family) returned to the UK and he assumed, in addition to his continuing executive directorship, the role of Group Business Development Director.

In respect of the eight months of the year ended 31 December 2019 during which Mr Ashley was performing his role as President and CEO, North America, he continued to receive certain elements of his relocation assistance package, including a compensation allowance equal to 10% of salary (to part recognise the loss of household income arising from his spouse's loss of UK employment) and reimbursement of the costs of rented unfurnished accommodation, rented company car, US medical and travel insurance and occasional return flights to the UK. In addition, the Company reimbursed the costs of Mr Ashley's (and his family's) flights and shipping costs on their return to the UK following the end of his assignment. As Mr Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year, as set out in this Report under 'Relocation benefits', is the total grossed-up of cost of tax amount (except in relation to the compensation allowance) paid by the Company on his behalf. In 2019, this amounted to £227,828 (2018: £434,311).

### 2. Single total figure of remuneration for Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director who served during the financial year ended 31 December 2019 (with comparative figures provided for 2018).

The subsequent information and tables give more detail on various elements of the Executive Directors' remuneration, including how the Committee measured the performance outcomes with respect to the annual bonus and LTIPs and if and how they exercised discretion in relation to such outcomes.

£'000		Base salary	Taxable benefits <sup>1</sup>	Pension allowance	Sub-total	Annual bonus <sup>2</sup>	LTIPs vested <sup>3</sup>	Sub-total	Relocation benefits	Total
Dean Finch	2019	648	32	216	896	1,296	1,538	2,834	-	3,730
	2018	630	30	221	881	1,135	2,302 <sup>5</sup>	3,437	-	4,318
Chris Davies	2019	369	14	92	475	553	646	1,199	-	1,674
	2018	359	18	90	467	479	268 <sup>5</sup>	747	-	1,214
Matt Ashley	2019	369	14	92	475	306	656	962	228 <sup>4</sup>	1,665
	2018	359	17	90	466	314	617 <sup>5</sup>	931	434 <sup>6</sup>	1,831

<sup>1</sup> Taxable benefits comprise the gross of tax value of car allowance, private medical insurance and death-in-service and life assurance cover. The increases and decreases in value of such taxable benefits in 2019 (vs. 2018) are attributable to the different costs to the Company of private medical and life assurance cover

<sup>2</sup> The annual bonus represents the gross bonus declared and to be paid in March 2020 in connection with the performance achieved in 2019. As explained on page 109, a proportion of the bonus will be paid in cash immediately and a proportion will be deferred for one year in the form of forfeitable shares in the Company and will vest thereafter, subject to continued employment or, if earlier, termination of employment if good leaver status is confirmed

<sup>3</sup> The 2019 LTIP values shown represent the estimated value of shares that are scheduled to vest in April 2020 arising from three-year awards made to Messrs Finch, Davies and Ashley in April and May 2017. All such awards were based on a three-year performance period ended on 31 December 2019 and their values have been calculated using a share price of 450.135p (being the three-month average to 31 December 2019). The values also include the dividend equivalent of 41.94p per share earned during the vesting period on the shares to vest. These translate to a total dividend equivalent entitlement, to be paid in cash on vesting (as determined on grant), to Dean Finch of £131,089, to Chris Davies of £55,051 and to Matt Ashley of £55,953. The actual value of vested shares will be confirmed in next year's report

<sup>4</sup> As explained in paragraph 1(b), Matt Ashley continued to receive, for part of the year under review, a relocation assistance package to support him (and his family) in his role as President and CEO, North America, in accordance with the terms of his two-year assignment which ended on 31 August 2019. As Mr Ashley is liable to tax on these deemed relocation benefits, the amount shown as paid to him in the year is the estimated total grossed-up of cost of tax amount (except in relation to the compensation allowance) paid by the Company on his behalf. Additionally, in respect of the relocation benefits paid to him in the USA during the year, the total amount shown includes the converted value of such benefits based on an exchange rate of \$1.276:£1, being the average rate for 2019

<sup>5</sup> Since the 2018 LTIP values of vested shares (which included dividend equivalent payments to be made on vesting) were estimated in last year's report, the figures shown for 2018 in this year's report have been adjusted to reflect the actual vesting date values on 12 April 2019 for Messrs Finch and Ashley for their three-year LTIPs and for Mr Finch's last legacy five-year LTIP (share price of 414.0p) (which vesting date was deferred from the respective scheduled vesting dates of 8 April 2019 (for the three-year LTIPs) and 9 April 2019 (for the five-year legacy LTIP) due to the Company being in an ad hoc prohibited dealing period from 5 April 2019 until the close of business on 11 April 2019), and 10 May 2019 for Mr Davies' two-year LTIP (RIA) (share price of 410.8p). The difference in value is an increase for each Director as follows: £115,310 for Dean Finch, £11,420 for Chris Davies and £30,268 for Matt Ashley

<sup>6</sup> The actual total grossed-up of cost of tax amount paid by the Company in relation to Matt Ashley's relocation assistance package in 2018 has been confirmed as equal to the amount estimated in 2018

**(a) Base salary**

As explained in the 2018 Annual Report on Remuneration, the Committee determined that Executive Directors' base salaries would be increased by 2.8% with effect from 1 January 2019, which increase was broadly in line with that awarded to the Company Group's wider UK workforce. The Executive Directors' salary increases reflected the strong financial performance of the Group and the solid individual performances of each of the Executive Directors. Accordingly, the base salaries set by the Committee for 2019 were £648,000 for Dean Finch and £368,800 for both Chris Davies and Matt Ashley.

**(b) Pensions**

In lieu of pension contributions, the Executive Directors receive a pension allowance (gross) which does not qualify as salary for the purpose of any other benefit or entitlement. In the year to 31 December 2019, the Group Chief Executive received an annual allowance of 33.3% of salary and each of the other two Executive Directors received an allowance of 25% of salary. As volunteered by him, Mr Finch's pension allowance will reduce further in 2020 to 31.6% of salary and the other Executive Directors will continue to receive allowances of 25% of salary. Benefits provided to Mr Finch under his previous unfunded pension arrangement ceased to accrue with effect from 5 June 2016.

**(c) Annual bonus**

**(i) Summary of 2019 bonus structure**

A summary of the structure of 2019 performance-related bonuses for Executive Directors is set out in the table below:

**Group Chief Executive**

Maximum opportunity	200% of salary
Target weighting	75% financial 25% non-financial (including 18% safety related)
Deferred element	25% of bonus earned up to 125% of salary 50% of bonus earned between 125% – 150% of salary 75% of bonus earned between 150% – 200% of salary

**Other Executive Directors**

Maximum opportunity	150% of salary
Target weighting	75% financial 25% non-financial (including 18% safety related)
Deferred element	25% of bonus earned up to 125% of salary 50% of bonus earned between 125% – 150% of salary

It is a pre-condition to the award:

- of any element of the bonus that the Committee has determined that a significant negative event has not occurred that has had a material adverse impact on both the reputation of the Company and its share price as a result of the systematic failure of management to put in place and operate effective safety processes (the safety underpin); and
- of all other elements of the bonus that the Group must have achieved at least the threshold level of normalised profit before tax for the year (the financial underpin).

The Committee has reviewed the Group's financial performance, safety performance and the Executive Directors' personal performance against the financial and non-financial targets to which the Executive Directors' 2019 bonus opportunities were subject in determining the outcome of such bonus opportunities.

**(ii) 2019 bonus performance conditions**

The following table sets out performance conditions attached to the Executive Directors' 2019 bonus opportunities:

Structure	Chief Executive Director (% of base salary)	Other Executive Directors (% of base salary)	Performance conditions
Maximum bonus opportunity	200%	150%	Proportion of bonus subject to compulsory deferral into Company shares for one year from award
Bonus potential at 95% of budgeted normalised PBT/EBIT	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted normalised PBT/EBIT	50%	37.5%	Awarded on achieving budget
Stretch bonus potential at 105% of budgeted normalised PBT/EBIT	100%	75%	Awarded on achieving stretch target
Bonus potential at 90% of budgeted free cash flow	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted free cash flow	25%	18.75%	Awarded on achieving budget
Stretch bonus potential at 110% of budgeted free cash flow	50%	37.5%	Awarded on achieving stretch target
Non-financial targets (underpinned by achievement of 95% of budgeted normalised PBT/EBIT)	50%	37.5%	Awarded on meeting key strategic objectives tailored to each Executive Director's responsibilities

**Note**

The financial and non-financial targets attached to Mr Finch's and Mr Davies' 2019 bonus opportunities all related to the Group's performance, including Group normalised PBT and Group free cash flow. As Mr Ashley performed two different roles during 2019, the first eight months as President and CEO, North America and the last four months as Group Business Development Director, the profit-related target attached to his 2019 bonus opportunity was split as to 8/12<sup>ths</sup> North America EBIT and 4/12<sup>ths</sup> Group PBT, the free cash flow target was Group based and the non-financial targets were a mixture related to both his roles. This is reflected in the outcomes table on the next page

### (iii) 2019 bonus targets, outturns and awards

The following table sets out the targets, performance outturns and awards in respect of Executive Directors' 2019 bonuses:

Measure	Weighting	Threshold	Target	Maximum	Actual	Bonus value achievable between Threshold and Maximum (% of salary)			Actual bonus value achieved (% of salary and/or £'000)		
						Dean Finch	Chris Davies	Matt Ashley	Dean Finch	Chris Davies	Matt Ashley
<b>Financial targets</b>	75%										
Group normalised PBT		£211.0m	£222.1m <sup>1</sup>	£233.2m	£240.0m	0%-100%	0%-75%	0%-25% <sup>5</sup>	100%	75%	0%
North America normalised EBIT		\$133.0m	\$140.0m <sup>2</sup>	\$147.0m	\$157.0m <sup>3</sup>	-	-	0%-50% <sup>5</sup>	-	-	25.5%
Group free cash flow		£117.9m	£131.0m <sup>4</sup>	£144.1m	£178.7m	0%-50%	0%-37.5%	0%-37.5% <sup>6</sup>	50%	37.5%	37.5%
<b>Non-financial targets<sup>7</sup></b>	25%					0%-50%	0%-37.5%	0%-37.5% <sup>6</sup>	50%	37.5%	20%
Total bonus awarded									200% £1,296	150% £553	83% £306
To be paid in cash									59% £769	71% £392	75% £230
To be deferred in shares									41% £527	29% £161	25% £76

<sup>1</sup> The original Group normalised PBT target was set at £222.1m. This was adjusted to £219.0 million to reflect foreign exchange rate movements and underspend in relation to growth capital profit

<sup>2</sup> The original North America normalised EBIT target was set at \$140.0 million. This was adjusted to \$141.4 million to reflect growth capital profit

<sup>3</sup> A number of internal adjustments to the reported North American result reduced normalised EBIT for these purposes to \$141.5 million. These adjustments included the reversal of the impact of IFRS 16 and the exclusion of the credit on revaluing the WeDriveU put liability

<sup>4</sup> The original Group free cash flow target was set at £131.0 million. This was adjusted to £127.6 million to reflect foreign exchange rate movements and underspend in relation to growth capital profit

<sup>5</sup> As Mr Ashley's two-year assignment as President and CEO, North America came to an end on 31 August 2019 and he assumed the new role of Group Development Director, 8/12ths of his bonus opportunity in relation to profit measures was allocated to North American normalised EBIT and the remaining 4/12ths was allocated to Group normalised PBT. However, due to the short time in his Group Development Director role, there was no award of the 4/12ths of bonus opportunity related to Group normalised PBT

<sup>6</sup> Similarly, in view of Mr Ashley's performance of two roles in the year, 8/12ths of his bonus opportunity in relation to non-financial targets was allocated to North American strategic targets and the remaining 4/12ths was allocated to Group related strategic targets. However, due to the short time in his Group Development Director role, there was no award of bonus opportunity for the Group-related strategic targets

<sup>7</sup> Details of the non-financial targets, and the corresponding performance outturns for each of the Executive Directors, are set out on pages 110 to 112

No discretion was applied by the Committee in determining the Executive Directors' bonus awards.

The cash element of the bonus award will be paid, and the deferred element of the bonus award will be granted in the form of forfeitable shares in the Company under the rules of the Executive Deferred Bonus Plan (EDBP), to Executive Directors in March 2020. The forfeitable shares:

- will be calculated based on the Company's average share price for the five business days immediately preceding the date of grant;
- will be held in the Company's Employee Benefit Trust which in turn holds the beneficial interest in them on trust for the Executive Directors and accounts to the Executive Directors for dividends paid on such shares while held in trust;
- are not subject to any performance conditions and will vest on the first anniversary of grant subject to continued employment, or on earlier termination of employment provided good leaver status is confirmed; and
- are subject to malus and clawback for a two-year period from the date of grant, including post termination of employment.

### (iv) Summary of non-financial bonus targets and corresponding performance outturns for 2019

As noted above, Executive Directors' non-financial bonus targets represent 25% of their respective annual bonus opportunities and the Committee determined that both Dean Finch and Chris Davies merited the maximum payout of this opportunity and Mr Ashley merited a payout equal to 20% of salary out of a maximum 37.5% of salary opportunity. Further details of the non-financial targets, their individual weightings and the Executive Directors' performance as assessed against them are set out on pages 110 to 112.

Dean Finch's and Chris Davies' non-financial bonus targets comprised a series of Group related objectives aimed at delivering the Group's overall strategy and/or managing its risk, relevant to their respective roles. Matt Ashley's non-financial bonus targets comprised a mixture of safety and strategic objectives relevant to the North America business in respect of the eight months of the year he served as President and CEO, North America. He was treated as having the same Group related non-financial bonus objectives as Mr Finch in respect of the four months of the year in which he served as Group Business Development Director.

Objective	Performance assessment
<p><b>Dean Finch, Chris Davies and Matt Ashley – safety – deliver a year-on-year Fatalities and Weighted Injuries (FWI) Index score for the Group on a per million mile basis for 2019 at least as good as the 2018 FWI Group score (DF/CD: 10% of 25% /MA 4/12ths of 10% of 25%)</b></p>	<p><b>DF/CD: Achieved in full (10% out of 10%) / MA: No award in view of short time in Group role</b></p> <p>The Group's FWI score – measured on a per million mile basis – improved significantly in 2019 reducing by more than half (-54%). The combination of there being zero responsible fatalities in the year and fewer major and lost time injuries meant that the Group achieved its best ever FWI score.</p>
<p><b>Matt Ashley – safety – deliver a year-on-year Fatalities and Weighted Injuries (FWI) Index score for North America on a per million mile basis for 2019 at least as good as the 2018 FWI North America score (8/12ths of 10% of 25%)</b></p>	<p><b>MA: Achieved in full (8/12ths of 10% out of 10%)</b></p> <p>North America's FWI score – measured on a per million mile basis – also improved significantly in 2019, reducing by more than a quarter (-28.6%). North America also achieved its second consecutive year of no responsible fatalities.</p>
<p><b>Dean Finch, Chris Davies and Matt Ashley – safety – improvement in Group systems and processes (DF/CD: 8% of 25%/ MA 4/12ths of 8% of 25%)</b></p>	<p><b>DF/CD: Achieved in full (8% out of 8%) / MA: No award in view of short time in Group role</b></p>
Continue the development of driver oversight and driver risk profiling	Throughout 2019, the Group has continued to improve its driver oversight and driver risk profiling via the Global Safety Policies becoming further embedded throughout the Group's divisions. This has resulted in an overall reduction during the year in the number of drivers categorised as high risk.
Progress the implementation of the vehicle fire action plan	Good progress has been made with the vehicle fire action plan in the year, with the number of vehicle fires in 2019 reducing to more than half the number in 2018. The Group's UK bus business achieved 12 months without a vehicle fire (having suffered an average of six a year in the previous five years).
Complete the DriveCam fitment programme consistent with the 2020 rollout plan	DriveCam fitment in 2019 has continued in accordance with the 2020 roll-out plan, with the entire UK fleet, the majority of the North American fleet and part of the ALSA fleet now fitted. In addition, DriveCam risk scores have improved across the Group by 34%, including as a result of reductions in seven out of eight of the most prevalent risky driving behaviours. Legal challenges with fitment of DriveCam remain in Canada and one US State, which the Group continues to work through to seek to find a solution.
Progress fatigue monitoring in UK coach and evaluate whether there is a wider application	Having tested different systems during 2019, the Group's UK coach division has selected 'Seeing Machines' technology, which will now be rolled out across the UK coach fleet in 2020. The Group's US school bus and motor coach businesses are also in the process of testing alternative systems which may present a better solution for wider application and a decision will be made in 2020.
Improve the management of speeding	Continuous speed monitoring, via various different technologies, is in place across each of the Group's divisions and local managers assess driver speeding as a matter of routine.
<p><b>Matt Ashley - safety – improvement in NA systems and processes (8/12ths of 8% of 25%)</b></p>	<p><b>MA: Achieved in full (8/12ths of 8% out of 8%)</b></p>
Continue the development of driver oversight and driver risk profiling	The North American business' implementation of the Group's driver oversight and driver risk Global Safety Policies resulted, in 2019, in the creation of driver safety scorecards for all drivers, the holding of over 20,000 driver coaching sessions and the coaching of over 94,000 DriveCam coaching events. This intensive oversight has contributed to the North America business', and the Group's, excellent safety performance.
Progress the implementation of the vehicle fire action plan	During 2019, some vehicles in the North American fleet suffered thermal events which were thoroughly investigated, and a number of steps have been taken by the North America business to further embed the vehicle fire action plan, including training of maintenance technicians to detect causes of fires, training of drivers on the role they can play in preventing fires and clarification of supervisors' responsibilities.
Complete the DriveCam fitment programme consistent with the 2020 roll-out plan	In North America alone, DriveCam has now been fitted to over 21,000 vehicles in accordance with the 2020 roll-out plan, with the only exceptions being the fleet in Canada and in one US State where legal challenges remain that the Group is working to overcome.
Improve the management of speeding	Continuous speed monitoring takes place in the North America business.
Integrate new businesses into our safety programmes and apply our Standard Operating Procedures	As part of due diligence on acquisitions, safety audits of acquisition targets are undertaken and gap analyses are performed to identify any gaps between their processes and our safety systems. Post acquisition, action plans have been developed and are being implemented to close those gaps and all management teams of acquisition targets are given training in the Group's safety systems.
Continue to monitor and improve DoT compliance ratings	Daily monitoring of compliance takes place with interventions made wherever appropriate to ensure a continued high level of compliance.
Reinforce driver accountability as the next step in the Target Zero campaign	Drivers continue to be held to account for failures to comply with the Group's safety policies and procedures, including via termination of employment wherever appropriate.



Objective	Performance assessment
<b>Dean Finch and Matt Ashley – other strategic or risk management objectives (DF: 7% of 25%/ MA 4/12ths of 7% of 25%)</b>	<b>DF: Achieved in full (7% out of 7%) / MA: No award in view of short time in Group role</b>
Drive year-on-year passenger and revenue growth in all business units	There has been passenger growth across the Group (5.1%) and in every business unit, including ALSA (12.8%) and UK coach (5%). Passenger growth in the UK bus business has been the fastest of any UK city region. Revenue has also grown across the Group (10.2%) and in every business unit, with particularly strong growth in Germany (33.6%), ALSA (11.7%) and North America (11.1%), and the UK seeing steady growth (3.9%).
Build and develop talent throughout the Group	Multiple initiatives in 2019 have served to develop talent, including extending the NX Network, facilitating more cross-divisional talent moves, strengthening partnerships with universities, focusing on diversity and inclusion and continuing to build the strength of the Group's management, including by a programme of changing out underperforming managers, and to develop succession plans for high potential individuals.
Retain key customer contracts at acceptable returns	A number of key contracts were retained by the Group in 2019, including the North America transit business' two largest contracts (at improved margins and on larger shares of revenues), a number of strategically important concessions in Spain and a key airport contract in the UK (each at acceptable returns). Contracts retained in the North America school bus business achieved an average 5.9% price increase. Contracts retained in Morocco, coupled with significant new contract wins, have tripled the size of the Group's business in the country and are expected to deliver healthy returns.
Drive an effective M&A strategy	The Group completed nine acquisitions in 2019, strengthening its position in its chosen markets. These included the acquisition of a majority stake in WeDriveU (facilitating the Group's entry into the fast-growing US corporate shuttle market), four other acquisitions in the USA, three in Spain, including one in the Canary Islands (marking the Group's entry into this new, attractive market) and one in the UK (enabling the Group to establish its new accessible transport business – NEAT). The Group's disciplined approach to M&A has ensured that these, and previous, acquisitions deliver returns in excess of the Group's target rate.
Deliver Standard Operating Procedures in North America and improve on-time performance in North America	Projects undertaken by the Group's Delivering Excellence team and North America Operations Improvement team in 2019 have resulted in the development, testing and roll-out of 33 new Standard Operating Procedures across the North America school bus business. A suite of new KPIs, including on-time performance, are being used to track their effectiveness and an improvement in on-time performance can be seen. The SOPs have also created and are starting to deliver significant cost saving opportunities.
Implement effective strategies to reduce Group risk	A number of risk reduction strategies have been employed by the Group in 2019, including its safety strategies (from embedding the Group's new Global Safety Policies to the trial and further deployment of new and existing safety technologies, resulting in the Group's best ever safety performance and ability to manage its insurance and claims costs in an increasingly hard environment), its new cyber security strategy (designed to achieve enhanced protection through consistent application of new policies and practices across the Group) and its general improved approach to risk management, using the three lines of defence model.
Continuously implement and refine the Group strategy to enhance our position in chosen markets	For the purpose of refining both the three-year strategy and vision to 2030, a comprehensive analysis was undertaken of our market positioning and market potential and 10 key strategic goals were identified, against which good progress has been made, including through diversification, organic growth and M&A.
<b>Chris Davies – other strategic or risk management objectives (7% of 25%)</b>	<b>CD: Achieved in full (7% out of 7%)</b>
Complete thorough due diligence on 2019 acquisitions and carry out post integration reviews of 2018 acquisitions to ensure returns are being maximised	Full due diligence was undertaken on all 2019 acquisitions, and enhanced due diligence was undertaken on the acquisition of WeDriveU, with best practices for due diligence, from financial modelling to legal reviews, developed and implemented during the year. A full review was also undertaken of 2018 acquisitions to verify target returns were being achieved.
Implement effective strategies to reduce Group risk	Spearheaded the Group's new cyber security strategy, leading the programme to implement the IBM review recommendations relating to security leadership, security frameworks and policies and general IT practices, and extended the Group's cyber insurance. Designed and delivered the improved approach to risk management, using the three lines of defence model, supporting the refocus of the internal audit function and assisting the Audit Committee with clarification of the roles and responsibilities of the Board and Audit Committee.
Effectively manage bond and other debt refinancing in 2019	Delivered the most successful debut issuance by a UK issuer of a US private placement, raising c.£414m at a favourable coupon and blended tenor, and achieved a significantly oversubscribed UK bond issuance, raising a further c.£250m, under the Group's EMTN programme at a favourable coupon and long tenor. Successfully refinanced other debt facilities, including via the first UK debt market SONIA (replacement of LIBOR) loan.
Deliver effective tax and treasury strategies	Carried out work to review and confirm the Group's low risk tax strategy. In addition to securing the successful debt refinancing in 2019 (noted above), ensured compliance with treasury policy, secured new working capital facilities, resolved complex Moroccan funding and hedging requirements, resolved historical hedging issues and actively managed the Group's cash position to optimise use of available cash.

Objective	Performance assessment
Improve the commercial delivery of the finance function	Reviewed and restructured the Group finance function, outsourced complex treasury accounting, materially up-weighted investor relations activities, and advanced a global shared services strategy.
Complete an end-to-end global review of IT, legal and risk costs and embed improved governance processes	Outsourced a number of IT services to achieve more functionality and/or flexibility at lower cost, undertook a benchmarking of internal and external legal costs driving savings in North America, managed steady insurance costs and delivered better governance processes for cyber security and M&A.
<b>Matt Ashley - other strategic or risk management objectives (8/12ths of 7% of 25%)</b>	<b>MA: Achieved in part (8/12ths of 2% out of 7%)</b>
Deliver cost control initiatives to support improvements in the business	During 2019, a number of initiatives were identified and implemented which have delivered cost savings and/or other operational efficiencies, including a review of drivers' master schedules, a review of fleet usage, outsourcing of certain back-office functions and a rationalisation of North America head office space and staff.
Devise and deliver improvements in asset utilisation	A major review of the North America fleet utilisation was undertaken during the year which has resulted in a 14% improvement in fleet efficiency and a significant reduction in capital requirements for new vehicles in the current year.
Build and develop talent throughout the business	Various new and pre-existing programmes were used during the year to develop talent in the North America business. These included a new strategic hiring and promotion plan and a new general manager onboarding process. 14 employees graduated from the existing 'Building the Bench' programme which targets high performing individuals and trains them to become general managers and another 18 employees enrolled in the existing Advanced Leadership programme designed to accelerate the development of high potential individuals.
Deliver Standard Operating Procedures (SOPs) and improve on-time performance	Projects undertaken by the Group's Delivering Excellence team and North America Operations Improvement team in 2019 have resulted in the development, testing and roll-out of 33 new SOPs across the North America school bus business. A suite of new KPIs, including on-time performance, are being used to track their effectiveness and an improvement in on-time performance can be seen. The SOPs have also created and are starting to deliver significant cost saving opportunities.
Improve the quality of service delivery	The review of drivers' master schedules, supported by revised daily, weekly and monthly governance procedures for managing and reviewing service delivery, has been key to improving the quality of service delivery in the North America school bus business, resulting in a 2.6% improvement in on-time performance across that business.
Develop and deliver effective bid strategies to grow margin in the contract renewal process	A new bid modelling and pricing process was devised for the North America school bus business, resulting in 2019 in a 5.9% average price increase across the school bus contract portfolio. A new approach to bidding for transit contracts, based on building trusted relationships and our safety and technological leadership, was implemented in our North America transit business, resulting in the renewal of our two largest contracts at improved margins on greater revenue.
Deliver an acquisition strategy that grows the business and provides sustainable returns	Significant steps were taken during 2019 to strengthen three elements of the North America acquisition strategy: acquisition sourcing (by refining our acquisition criteria and in-sourcing the financial modelling performed to assess those criteria); due diligence (by refining existing strong processes and documents); and integration (by ensuring earlier and then ongoing engagement and more frequent reviews of acquisition target performance against business cases).

#### (d) Long-Term Incentive Plan (LTIP) vesting and awards

##### (i) LTIP awards vesting in 2020

The three-year LTIP awards granted to the Executive Directors in 2017 are scheduled to vest in April 2020 as the measurement period relating to them ended on 31 December 2019. Details of the performance conditions attaching to the 2017 LTIP awards, and the extent to which they have been met, are set out in the table below:

Performance condition	Weighting	Threshold (30% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual	Actual restated to remove IFRS 16 impact <sup>1</sup>	Total percentage vesting
TSR <sup>2</sup> vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median to Upper Quintile (Rank 89 of 218)	–	52.0%
TSR <sup>2</sup> vs. Bespoke Index <sup>3</sup>	1/6	Equal to Index	–	≥ Index + 10% p.a.	Index + 9.6% p.a.	–	97.2%
EPS <sup>4</sup>	1/3	29.8p	31.6p	34.4p	34.4p	34.4p <sup>5</sup>	100.0%
ROCE <sup>4</sup>	1/3	9%	10%	12%	12.2% <sup>6</sup>	12.5% <sup>7</sup>	100.0%
<b>Total vesting</b>							<b>91.53%</b>

<sup>1</sup> As explained on page 76 of the 2018 Annual Report, the Committee determined to assess the EPS and ROCE performance measures on the LTIP awards scheduled to vest in 2020 and 2021 after neutralising the impact of IFRS 16 on such measures. The EPS and ROCE performance measures attaching to the LTIP awards granted from 2019 onwards have already factored in the impact of IFRS 16

<sup>2</sup> For TSR performance measures, straight-line vesting occurs between threshold and maximum performance

<sup>3</sup> Comprising three other UK-based passenger transport groups, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

<sup>4</sup> For EPS and ROCE performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance

<sup>5</sup> Actual EPS restated is earnings per share after removing the impact of IFRS 16

<sup>6</sup> Actual ROCE is the average over the three year performance period

<sup>7</sup> Actual ROCE restated is the average over the three year performance period after removing the impact of IFRS 16

It is a pre-condition to the LTIP awards vesting that the Committee has determined that a significant negative event has not occurred that has had a material adverse impact on both the reputation of the Company and its share price as a result of the systematic failure of management to put in place and operate effective safety processes (the safety underpin).

No discretion was applied by the Committee in determining the Executive Directors' LTIP awards as their outturns were determined according to the levels of vesting against each of the financial performance measures set and the 'safety underpin' was not triggered. Furthermore, no discretion was exercised in relation to Executive Directors' LTIP outturns as a result of or having regard to the appreciation in the Company's share price over the year under review.

### (ii) Vesting details

The three-year LTIP awards granted to the Executive Directors in 2017 took the form of nil cost options which are scheduled to vest on 20 April 2020 (being the first working day after the third anniversary of grant). In relation to these awards:

- as shown in the table at the bottom of page 112, 91.53% of the performance conditions have been met;
- as committed to by the Remuneration Committee at the time of grant, each Executive Director will receive a cash payment (gross) equivalent to the total dividend paid by the Company on the number of vested shares during the vesting period;
- the vested shares are subject to a compulsory two-year holding period, save that sufficient shares may be sold to cover tax liabilities arising on exercise of the options, and each Executive Director is also entitled to receive cash dividend equivalent payments on the vested shares during the holding period while the options remain unexercised; and
- malus and clawback provisions apply to the retained vested shares for two years from the date of vesting, including post termination of employment.

The table below shows the number of shares over which the 2017 LTIP nil cost options were granted, the number of shares which are expected to vest, the total amount of the awards to vest, the amount of the awards to vest attributable to share price appreciation and the cash dividend payment due on vesting for each Executive Director:

Executive Director	Number of shares over which option was awarded	Number of shares scheduled to vest	Amount of awards to vest <sup>2</sup>	Amount of award to vest attributable to share price appreciation <sup>2</sup>	Cash dividend payable on vesting
Dean Finch	341,476	312,564	£1,406,960	£281,104	£131,089
Chris Davies	143,403 <sup>1</sup>	131,261	£590,852	£118,050	£55,051
Matt Ashley	145,752	133,411	£600,530	£119,983	£55,953

<sup>1</sup> Chris Davies was also awarded a Company Share Option Plan (CSOP) over 8,194 shares which, on exercise, will effectively reduce the number of LTIP option shares by the same number

<sup>2</sup> The amount of the LTIP awards to vest, and the part of that amount attributable to share price appreciation, are estimated based on the Company's average share price over the three months to 31 December 2019 (of 450.135 pence per share). The actual amounts, which will be determined by reference to the Company's share price at the relevant vest date in 2020, will be set out in next year's report

### (iii) LTIP awards made in 2019

Details of LTIP awards granted to the Executive Directors in 2019 are set out in the table below:

Executive Director	Grant date	Number of shares awarded	Award type	Award amount	Face value of award <sup>1</sup> £,000	Performance period	Performance conditions
Dean Finch	15.04.19	313,044	Nil cost option	200% of salary	1,296	01.01.19–31.12.21	TSR, EPS and ROCE – see below
Chris Davies	15.04.19	133,624	Nil cost option	150% of salary	553	01.01.19–31.12.21	TSR, EPS and ROCE – see below
Matt Ashley	15.04.19	133,624	Nil cost option	150% of salary	553	01.01.19–31.12.21	TSR, EPS and ROCE – see below

<sup>1</sup> The face value has been calculated by multiplying the number of shares awarded by the share price at the time of grant. The relevant share price was 414.0p on 12 April 2019, this being the closing share price on the last business day preceding the date of grant. For Dean Finch, the face value represented 200% of his then annual salary and for Messrs Davies and Ashley it represented 150% of their then respective annual salaries

### (iii) Performance conditions attaching to 3-year 2019 LTIP awards

Performance level	EPS (1/3 of award)	ROCE (1/3 of award)	TSR vs. FTSE 250 Index (1/6 of award)	TSR vs. Bespoke Index <sup>1</sup> (1/6 of award)	Percentage of award vesting <sup>2,3</sup>
Below Threshold	Less than 35.3p	Below 8%	Below Median	Below Index	0%
Threshold	35.3p	8%	Median	Equal to Index	EPS and TSR: 25% ROCE: 0%
Target	37.4p	9%	–	–	EPS and ROCE (only): 50%
Maximum	39.0p or above	11% or above	Upper Quintile	≥ Index + 10% pa	100%

<sup>1</sup> Comprising three other UK-based passenger transport groups, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

<sup>2</sup> For TSR performance measures, straight-line vesting occurs between threshold and maximum performance

<sup>3</sup> For EPS and ROCE performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance

Vested shares will be subject to a compulsory two-year holding period and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalents are payable in cash on vested shares over the vesting period and during the holding period while options remain unexercised.

## Directors' Remuneration Report

### Annual Report on Remuneration continued

#### (iv) Indicative vesting levels for other outstanding LTIP awards

The indicative vesting levels for other outstanding LTIP awards assuming their respective performance conditions had been tested through to 31 December 2019 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period) are set out in the table below:

LTIP award year/type	EPS		ROCE		TSR vs. FTSE 250 Index		TSR vs. Bespoke Index <sup>1</sup>		Total (max 100%)
	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	
2018 3-year LTIP	1/3	68.3%	1/3	100%	1/6	100%	1/6	66%	83.8%
2019 3-year LTIP	1/3	0%	1/3	100%	1/6	54%	1/6	0%	42.3%

<sup>1</sup> Comprising three other UK-based passenger transport groups, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

#### (v) Executive Deferred Bonus Plan (EDBP)

The table below sets out the awards under the EDBP in the form of forfeitable shares in the Company:

- which vested on 8 March 2019 and relate to the one-year deferred element of Executive Directors' bonuses for the financial year ended 31 December 2017 and in respect of which dividends have been paid to Executive Directors via the Employee Benefit Trust during the one-year deferred period for which they will have been held; and
- which were granted to the Executive Directors on 8 March 2019 and relate to the deferred element of their bonuses for the financial year ended 31 December 2018. These shares, which have a one-year deferred period, are scheduled to vest on 8 March 2020 and Executive Directors are entitled to receive dividends on them during the one-year deferred period, provided they do not lapse.

Executive Director		As at 1	Vested 8	Granted 8	Lapsed	As at 31	Market price	Date of grant	Date of vesting
		January 2019	March 2019	March 2019		December 2019	at date of vesting		
Dean Finch	2018	119,939	119,939	–	–	–	431.4p	08.03.18	08.03.19
	2019	–	–	97,302	–	97,302	–	08.03.19	08.03.20
Chris Davies	2018	24,708	24,708	–	–	–	431.4p	08.03.18	08.03.19
	2019	–	–	29,673	–	29,673	–	08.03.19	08.03.20
Matt Ashley	2018	37,021	37,021	–	–	–	431.4p	08.03.18	08.03.19
	2019	–	–	18,263	–	18,263	–	08.03.19	08.03.20

Forfeitable share awards in the Company relating to the one-year deferred element of the bonus declared for the financial year ended 31 December 2019 (see page 109) will be granted to the Executive Directors in March 2020, subject to the rules of the EDBP, and will ordinarily vest on the first anniversary of grant. Dividends paid on these shares during the deferred period will be passed on to the Executives. These shares are subject to malus and clawback for a two-year period from the date of grant, including post termination of employment.

### 3. Single total figure of remuneration for Non-Executive Directors

The table below sets out the single total figure of remuneration (fees) for the Non-Executive Directors who served during the financial year ended 31 December 2019 (with comparative figures provided for 2018):

Non-Executive Director	2019 Fees £'000	2018 Fees £'000
Sir John Armitt CBE (Chairman and Nominations Committee Chair)	253	246
Jorge Cosmen (Deputy Chairman)	54	53
Lee Sander <sup>1</sup> (Senior Independent Director)	65	61
Mike McKeon (Audit Committee Chair)	65	64
Jane Kingston <sup>2</sup> (Remuneration Committee Chair until 9 May 2019)	58	64
Dr Ashley Steel <sup>3</sup> (Remuneration Committee Chair from 9 May 2019)	62	53
Chris Muntwyler <sup>1</sup> (Safety & Environment Committee Chair)	65	64
Joaquín Ayuso <sup>1</sup>	54	53
Matthew Crummack	54	53
Ana de Pro Gonzalo <sup>4</sup>	13	–
Karen Geary <sup>4</sup>	13	–

<sup>1</sup> A travel allowance of £4,000 is payable to certain overseas based Directors for attendance at each Board meeting or other Board related matter held outside their continent of residence. For 2019, the allowances paid were as follows: Joaquín Ayuso £4,000 (2018: £4,000), Chris Muntwyler £8,000 (2018: £8,000) and Lee Sander £24,000 (2018: £20,000)

<sup>2</sup> Stepped down as Chair of the Remuneration Committee on 9 May 2019 and therefore received a pro-rated proportion of the annual Committee Chair fee

<sup>3</sup> Appointed as Chair of the Remuneration Committee on 9 May 2019 and therefore received a pro-rated proportion of the annual Committee Chair fee

<sup>4</sup> Appointed to the Board on 1 October 2019 and therefore received a pro-rated proportion of the annual Non-Executive Director fee

With effect from 1 January 2019:

- the Committee determined that the Chairman's fee would increase by 2.8% to £253,000, broadly in line with the general pay increase awarded to the Group's UK employees;
- the Board determined that the Non-Executive Directors' base fee would also increase by 2.8% or £1,500 p.a. and the Senior Independent Director's fee would increase by £1,500 p.a., in each case also broadly in line with the general pay increase awarded to the Group's UK employees and to retain such fees at close to the median of non-executive director fees paid by the FTSE 250; and
- the Board Committee Chair fees would remain unchanged as they remained appropriate.

## 4. Payments to past directors and payments for loss of office

### (a) Payments to past Directors

There were no payments made to past Directors during or in respect of the financial year ended 31 December 2019.

### (b) Payments for loss of office

There were no payments made for loss of office to any former Director during or in respect of the financial year ended 31 December 2019.

## 5. Statement of Directors' shareholdings and share interests

### (a) Directors' share ownership guidelines

In accordance with the Directors' Remuneration Policy and to align the interests of Executive Directors more closely with those of shareholders, Executive Directors are encouraged to build up a shareholding in the Company over a five-year period from 2015 or their respective date of appointment if later. The Committee takes into account whether Executive Directors have met their shareholding targets when granting new LTIP awards.

The shareholding target for the Group Chief Executive is shares with a value equal to 200% of salary and for the other Executive Directors is shares with a value equal to 150% of salary. As demonstrated by the table set out in paragraph 5(b) below, as at 31 December 2019 Mr Finch and Mr Ashley have met these targets and Mr Davies is on track to meet this target within five years of his appointment.

There is no shareholding requirement, nor shareholding guidelines, for Non-Executive Directors.

### (b) Executive Directors' interests in shares

Details of the Executive Directors' and their connected persons' beneficial interests in the Company's shares, and of the Executive Directors' other share interests, in each case as at 31 December 2019, are shown in the table below:

Executive Director	Shares held directly			Other share interests	
	Shareholding target (% salary)	Shareholding value at 31 December 2019 (% salary) <sup>1</sup>	Beneficially owned	Forfeitable shares held under the EDBP not subject to performance conditions	Outstanding LTIP share option awards subject to performance conditions
Dean Finch	200%	396%	448,733 <sup>2</sup>	97,302	980,295
Chris Davies	150% <sup>5</sup>	100%	48,595 <sup>3</sup>	29,673	416,077
Matthew Ashley	150%	209%	145,794 <sup>4</sup>	18,263	418,426

<sup>1</sup> The Company's closing share price of 469.60p as at 31 December 2019 has been used for the purposes of this calculation and has been applied to the beneficially owned and forfeitable shares held under the EDBP in arriving at the shareholding value as at 31 December 2019

<sup>2</sup> The shares beneficially owned by Mr Finch include 91,600 shares that he owns free from restriction, 182,283 shares representing the net of tax LTIP vested shares which remain subject to a compulsory holding period until 5 March 2020 and 174,850 shares representing the deemed net of tax LTIP vested shares which remain subject to a holding period until 12 April 2021 (being the number of the vested but unexercised shares to which he is entitled under a LTIP option which vested on 12 April 2019 as reduced by the number of such shares that would need to be sold to satisfy income tax at a rate of 45% and employees' NICs of 2% on the exercise of such option)

<sup>3</sup> The shares beneficially owned by Mr Davies include 16,071 shares that he owns free from restriction and 32,524 shares representing the deemed net of tax LTIP vested shares (being the number of the vested but unexercised shares to which he is entitled under a LTIP option which vested on 12 April 2019 as reduced by the number of such shares that would need to be sold to satisfy income tax at a rate of 45% and employees' NICs of 2% on the exercise of such option)

<sup>4</sup> The shares beneficially owned by Mr Ashley include 75,877 and 69,917 shares representing the net of tax LTIP vested shares which remain subject to compulsory holding periods until 5 March 2020 and 12 April 2021 respectively

<sup>5</sup> Chris Davies' shareholding level applies to the five-year period commencing from his date of appointment on 10 May 2017

The appendix on page 121 provides more information about all outstanding LTIP awards held by the Executive Directors. More information about the EDBP is also set out in paragraph 2(d)(v) on page 114.

### (c) Non-Executive Directors' interests in shares

The details of the Non-Executive Directors' and their connected persons' interests in shares as at 31 December 2019, all of which are held beneficially, are shown below:

Non-Executive Director	As at 31 December 2019
Sir John Armitt CBE	10,500
Jorge Cosmen <sup>1</sup>	69,237,515
Lee Sander	1,000
Mike McKeon	10,000
Dr Ashley Steel	15,416
Chris Muntwyler	-
Matthew Crummack	2,696
Jane Kingston <sup>2</sup>	5,100
Joaquín Ayuso <sup>2</sup>	-
Ana de Pro Gonzalo <sup>3</sup>	-
Karen Geary <sup>3</sup>	-

<sup>1</sup> Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which is shown on page 123 as a substantial shareholder in the Company

<sup>2</sup> Stepped down from the Board on 31 December 2019

<sup>3</sup> Appointed to the Board on 1 October 2019

(d) Other information

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings in shares and options over shares in the Company.

The closing price of a Company's ordinary share at 31 December 2019 was 469.6p (2018: 374.0p) and the range during the year ended 31 December 2019 was 371.0p to 476.0p per share.

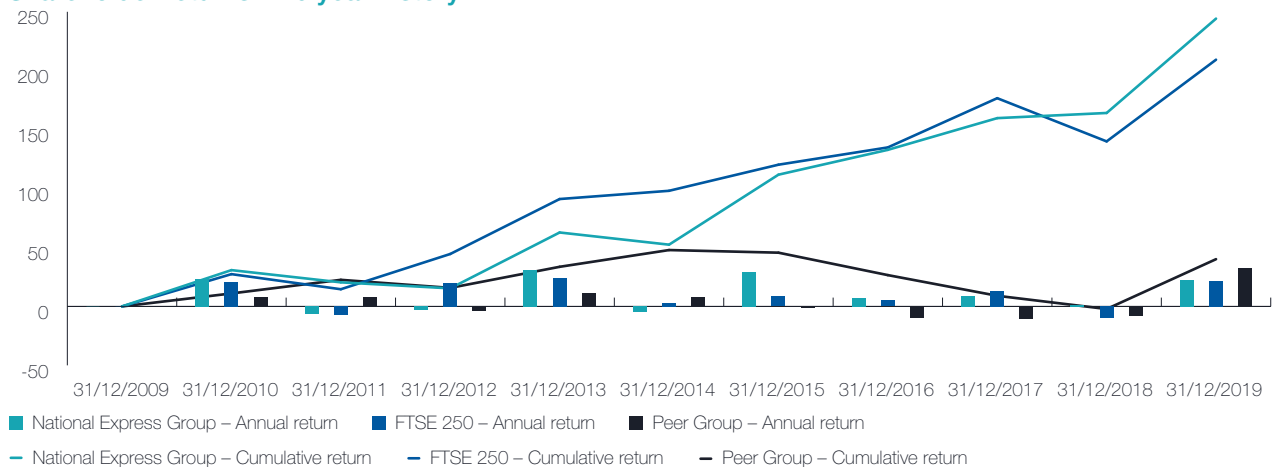
(e) Changes since year end

There have been no changes in Directors' shareholdings between 31 December 2019 and the date of this report.

6. Comparison of overall performance

The graph below shows a comparison of the Company's cumulative total shareholder return (i.e. share price growth plus dividends paid) and annual return against the FTSE 250 Index and a Bespoke Index over the last 10 years. The FTSE 250 Index has been selected as the Company is a constituent of that Index and the Bespoke Index shows performance against a peer group of other UK-based passenger transport companies. As can be seen from the graph, the Company has outperformed the FTSE 250 Index and significantly outperformed the Bespoke Index over this period.

Shareholder returns – 10 year history



7. History of CEO pay

The table below sets out the total remuneration delivered to the Group Chief Executive over the last 10 years, valued using the methodology applied to the single total figure of remuneration:

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Chief Executive Officer</b>	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch
<b>Single figure total remuneration (£'000)</b>	1,356	1,454	1,701	1,553	1,562	3,661	3,887	4,225	4,318	<b>3,730</b>
<b>Annual bonus payment (as % of maximum opportunity)</b>	100%	100%	100%	95%	93%	96%	83.5%	95%	90%	<b>100%</b>
<b>LTIP vesting level achieved (as % of maximum opportunity)</b>	n/a <sup>1</sup>	n/a <sup>1</sup>	32.5%	0%	0%	73.4%	80.8%	86.9%	96%	<b>91.53%</b>

<sup>1</sup> In 2010 and 2011, Mr Finch was not entitled to any LTIP awards subject to performance conditions whose final year of performance ended during those years

8. Context of CEO pay

The following table sets out the percentage change in certain elements of the remuneration paid to the Group Chief Executive from 2018 to 2019, compared with the average percentage change in those same elements of remuneration for the Group's UK employee population.

The elements of the CEO's remuneration included in the table below comprise base salary, taxable benefits and annual bonus (including any amount deferred) and have been calculated in the same way as for the CEO's single total figure of remuneration. The Group's UK employee population is used as an appropriate comparator group as it avoids complicated exchange rate adjustments that would have to be used if employees of the Group's overseas operations were included in the comparator group.

Comparator person or group	Average percentage increase/decrease from 2018 to 2019		
	Base salary	Taxable benefits <sup>1</sup>	Performance related bonus
<b>Chief Executive Officer</b>	2.8%	6.7% <sup>2</sup>	14.2% <sup>3</sup>
<b>Group UK employees</b>	2.5%	9.9% <sup>2</sup>	31.0% <sup>3</sup>

<sup>1</sup> Taxable benefits comprise the gross of tax value of allowances (such as for car and travel), private medical insurance, death-in-service and life assurance cover  
<sup>2</sup> The year-on-year increase in the CEO's taxable benefits is attributable solely to a change in the cost to the Company of his private medical insurance and life assurance cover. The year-on-year increase in UK employees' taxable benefits is due both to the cost to the Company of certain benefits increasing and there being a larger number of UK employees with taxable benefits comprised in the UK workforce in 2019 (vs 2018)  
<sup>3</sup> The year-on-year increase in the CEO's bonus is primarily attributable to better performance achieved against his non-financial bonus targets, including the Group's FWI Index score. The year-on-year increase in UK employees' bonuses is attributable to both a higher proportion of the UK employee population being eligible for performance-related bonuses and the value of performance-related bonuses being higher in 2019 (vs. 2018) as a result of the Group's and UK division's financial and safety performance in the year

## 9. CEO pay ratios

The following table sets out the Group Chief Executive's pay ratios as at 31 December 2019 comparing the CEO single total figure of remuneration to that of the Group's UK employees whose full time equivalent remuneration ranks them at the lower quartile, median and upper quartile of pay for all UK employees.

Year	Methodology	25th percentile pay ratio	50% (median) percentile pay ratio	75th percentile pay ratio
2019	Option A	156:1	136:1	110:1

Option A has been used to calculate the pay ratios as it is the most statistically accurate method and, for the year under review, the Company was able to obtain pay data for all relevant UK employees and calculate the full time equivalent pay data for all such UK employees, including those at the lower, median and upper quartiles. The UK employees at the lower quartile, median and upper quartiles were identified as at 31 December 2019 and their salary and total remuneration were also calculated in respect of the 12 months ended 31 December 2019 on the basis explained further below.

The total remuneration of the UK employees (including those at the lower quartile, median and upper quartiles) has been calculated using the same methodology as for the CEO's single total figure of remuneration, noting that:

- a large number of the Group's UK employees, such as bus and coach drivers and customer service centre staff, work full-time but are paid by the hour (rather than having an annual fixed base salary). Their wages have been calculated as the actual number of hours worked in the year multiplied by the relevant hourly rates of pay applicable during the year;
- a number of the Group's UK employees work part time. Those who are paid on a salaried basis have had their salaries grossed up to the full time equivalent salary for their role. Those who are paid by the hour have had their wages grossed-up to a full time equivalent number of hours using the average number of hours performed by a full time employee performing the same or most similar role;
- some of the Group's UK employees receive taxable benefits, such as car, travel and other allowances and private medical insurance, the value of which has been included. Where the Company grosses-up an allowance for the cost of tax, the grossed-up of cost of tax value has been included. In the case of part time employees, where any such benefits were pro-rated to reflect them working part time, the grossed-up value of such benefits on a full time equivalent basis has been included;
- some of the Group's UK employees are members of a pension scheme and employers' pension contributions have been included;
- some of the Group's UK employees receive performance-related annual bonus awards, and other Group UK employees receive ad hoc bonuses or other one-off rewards, such as loyalty bonuses, Value awards and gratuities. The cash value of such bonus awards and other one-off rewards earned in respect of the 2019 year (whether paid in 2019 or in 2020) has been included. Where the Company grosses up one-off rewards for the cost of tax, the grossed-up of cost of tax value has been included;
- certain of the Group's UK employees who are senior managers receive performance conditioned three-year LTIP awards in the form of nil-cost options over Company shares. The estimated value of such awards which will vest in 2020 in respect of the three year performance period ended on 31 December 2019 (estimated on the same basis as for the CEO in his single total figure of remuneration), together with the cash value of dividend equivalents on vested shares under such awards, have been included; and
- while the Company does not operate a UK employee-wide share scheme, certain long-serving UK employees receive long-service share option awards. The value of these awards has been excluded as it is difficult to attribute the value to a particular year and the value of such awards and number of employees affected is relatively de minimis. No other elements of remuneration have been excluded.

The table below sets out a comparison of the Chief Executive Officer's total remuneration and salary component of that total remuneration and that of each of the UK employees at the lower, median and upper quartiles of the Group's UK employee population:

Pay Data	Group Chief Executive	25th percentile	Median	75th percentile
Salary	£648,000	£22,708	£20,390	£33,175
Total pay	£3,729,778	£23,889	£23,942	£33,804

The median pay ratio is consistent with the Company's pay, reward and progression policies. When setting the CEO's pay, the Committee has regard to the same fundamental considerations as those taken into account by the UK management team when setting pay for all other UK employees, including the Company's policy to pay market rates of pay that reward employees fairly for work done and have due regard to individual performance and Company performance where the individual has the ability to influence wider Company performance. The CEO has ultimate responsibility for, and the greatest ability to influence, the Company's performance, returns to shareholders and, importantly, the safety of the workforce and passengers. To reflect this, the CEO's remuneration package has a higher weighting on performance-related pay (including the annual bonus and LTIP) compared to the majority of the workforce. This means the pay ratios are likely to fluctuate depending on the outcomes of incentive plans in each year.

## 10. Relative importance of the spend on pay

The table below sets out the total spend on pay in 2019 and 2018 compared with distributions made to shareholders:

Measure	2019 £m	2018 £m	Increase from 2018 to 2019 %
Overall Group spend on pay including Directors <sup>1</sup>	1,416.7	1,260.9	12.4%
Profit distributed by way of dividend <sup>2</sup>	78.3	70.8	10.6%

<sup>1</sup> Overall Group spend on pay was calculated by aggregating the Group's costs of salaries and wages, social security costs, pension costs and share based payments for all the Group's employees whether employed in the UK or overseas in the relevant year

<sup>2</sup> Profit distributed by way of dividend has been used as the comparator measure as it permits a comparison between the Group's annual investment in its employed workforce and its annual cost of returning value to shareholders

## 11. Statement of implementation of current Directors' Remuneration Policy in 2020

### (a) Executive Directors' base salaries

In accordance with the Policy, the Committee determined that the base salaries of the Group Chief Executive and Group Finance Director would increase by 8.5%, and that the base salary of the Group Business Development Director would increase by 2.5%, each with effect from 1 January 2020.

In approving the increases in the Executive Directors' base salary, the Committee:

- took into consideration a number of external and internal factors, including:
  - an external review of general economic and employment conditions in each of the Group's labour markets;
  - an internal review of pay and related practices across the Group (including the general pay increase awarded to the UK workforce (of 2.5%), the average pay increase awarded to the top decile of the UK workforce including those highest performers and those assuming more responsibility (of 12.75%), the latest UK gender gap data and CEO pay ratios); and
  - an external benchmarking exercise of CEO and CFO base salaries against those of three comparator groups;
- recognised the increased scope, scale and complexity of Mr Finch's role now relative to when he was appointed 10 years ago, the significant expansion of the Group's international operations as a result of Mr Finch's strategic vision and focus on sustainable growth and market penetration and Mr Finch's outstanding performance in role and the high levels of growth in value demonstrated in recent years;
- recognised that Mr Davies joined the Group in 2017 at a below market rate base salary as it was his first CFO role and that he is now established in role which, in view of the Group's expansion as noted above, has become larger and more complex; and
- recognised that Mr Ashley was new in his role as Group Business Development Director.

Accordingly, the annual base salaries of the Executive Directors in 2020 are:

Executive Director	Base salary (gross)
Dean Finch, Group Chief Executive	£703,000
Chris Davies, Group Finance Director	£400,150
Matt Ashley, Group Business Development Director	£378,000

### (b) Executive Directors' pensions

In accordance with the Policy, and as volunteered by Dean Finch, his pension allowance will be reduced from 35% to 30% of salary in three equal tranches commencing in 2019. Therefore, he will receive a pension allowance of 31.6% of salary in 2020. Each of the other Executive Directors will receive a pension allowance of 25% of salary.

### (c) Executive Directors' annual bonus

The annual bonus for the 2020 financial year will be structured and operate for the Executive Directors on the same basis as the arrangements in place during 2019 (as confirmed on pages 101 and 102), save that (as also explained on pages 101 and 102):

- the weighting of the safety target relating to the Group's FWI score will be reduced from 10% to 5% and the weighting of the other safety-related non-financial bonus targets will be increased from 8% to 13%, such that the total weighting of all safety-related targets remains the same; and
- safety incidents that occur in the performance of the Group's new Casablanca contract will be taken out of account in the Group's FWI score but Casablanca specific safety-related objectives will be included in the non-financial bonus targets for the next two years until the Group has had the opportunity to embed its Global Safety Policies and replace the incumbent fleet.

When setting the bonus targets for 2020, the Committee has taken into account:

- the Group's approved budget and operating plan for 2020;
- the Board's ambitious three-year and longer-term strategy, based on the three core strategic pillars of growth, technology enhancement and operational excellence;
- the ongoing development of the Company's risk management programme and actions being taken to mitigate major risks;
- the ongoing headwinds with the continued uncertainty in the UK around the Brexit 'deal' to be done, the recommencement of the Spanish long haul coach concessions programme which may lead to constrained contract margins and the continued pressure on wages, exacerbated by driver shortages, in North America and price competition on bidding for or renewing contracts which also constrains margin;
- stock market consensus for 2020;
- the non-recurring items included in the 2019 results which will need replacing in 2020; and
- the responsibilities of each of the Executive Directors in driving the strategy forward and managing risk.

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these in next year's Annual Report on Remuneration. As a matter of commercial sensitivity, the Committee has decided not to disclose the bonus performance targets in advance, save that 75% of the maximum opportunity will be based on financial targets and 25% will be based on non-financial targets and, in view of safety remaining the Group's top priority, 18% of the 25% non-financial target driven bonus opportunity will continue to be based on safety objectives: 5% on FWI and 13% on improving safety systems and processes. Targets will be set on a basis consistent with accounting measures (i.e. without reference to exceptional items).



#### (d) Executive Directors' Long-Term Incentive Plan (LTIP) awards

LTIP awards in 2020 are proposed to be granted in line with the normal annual award levels contained in the Policy. Accordingly, awards with attaching performance conditions will be made to the value of 200% of salary to the Group Chief Executive and 150% of salary to the other Executive Directors. The performance conditions attaching to the LTIP awards will include the same conditions as the current year, namely: total shareholder return (TSR) (as measured against both the FTSE 250 Index and a Bespoke Index); diluted normalised earnings per share (EPS); and average return on capital employed (ROCE), plus two new environmental performance measures relating to a reduction in the Group's total carbon emissions per million passenger kilometre (tCO<sub>2</sub>e/m pass km) and an increase in the number of zero emission vehicles (ZEVs) purchased or on order in the UK division to advance its ambition to operate only zero emission vehicles in UK bus by 2030 and in UK coach by 2035. The weightings of the performance measures and vesting levels of the 2020 LTIP awards at each of threshold, on-target and maximum levels are set out in the table below:

Performance condition	Weighting	Threshold (25% vesting EPS and TSR, 0% vesting ROCE)	Target (50% vesting)	Maximum (100% vesting)
TSR <sup>1</sup> vs. FTSE 250 Index	12.5%	Median	–	Upper Quintile
TSR <sup>1</sup> vs. Bespoke Index <sup>3</sup>	12.5%	Equal to Index	–	≥ Index + 10% pa
EPS <sup>2</sup>	25%	37.6	39.8	43.3
ROCE <sup>2</sup>	25%	8%	9%	11%
tCO <sub>2</sub> e / million passenger km	15%	4.6% reduction in tCO <sub>2</sub> e / million passenger km by 2022 relative to 2019 base year	5.4% reduction in tCO <sub>2</sub> e / million passenger km by 2022 relative to 2019 base year	6.2% reduction in tCO <sub>2</sub> e / million passenger km by 2022 relative to 2019 base year
UK zero emission vehicles	10%	200 additional zero emission vehicles in service or on order by 31 December 2022	240 additional zero emission vehicles in service or on order by 31 December 2022	300 additional zero emission vehicles in service or on order by 31 December 2022

<sup>1</sup> For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance

<sup>2</sup> For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and target and maximum levels of performance

<sup>3</sup> Comprising three other UK-based passenger transport groups, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc

The performance conditions will be measured over the three-year financial period ending 31 December 2022, awards will be subject to a compulsory two-year holding period post vesting and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while options remain unexercised.

#### (e) Non-Executive Directors' Fees for 2020

With effect from 1 January 2020, the Committee has determined for the Chairman, and the Board has determined for the other Non-Executive Directors, that:

- the Chairman's (all inclusive) fee will increase by 2.5% or £6,325;
- the Senior Independent Director's fee will increase by £1,000 p.a.;
- the Non-Executive Directors' base fee will increase by 3.1% or £1,700 p.a.;
- the Committee Chairs' fee will increase by £1,000 p.a.

Accordingly, the annual fees of the Chairman and Non-Executive Directors in 2020 are:

Role	Fees (gross)
Chairman (including as Chair of the Nominations Committee)	£259,325
Senior Independent Director (additional fee)	£11,000
Non-Executive Director (base fee)	£56,000
Committee Chair	£12,000

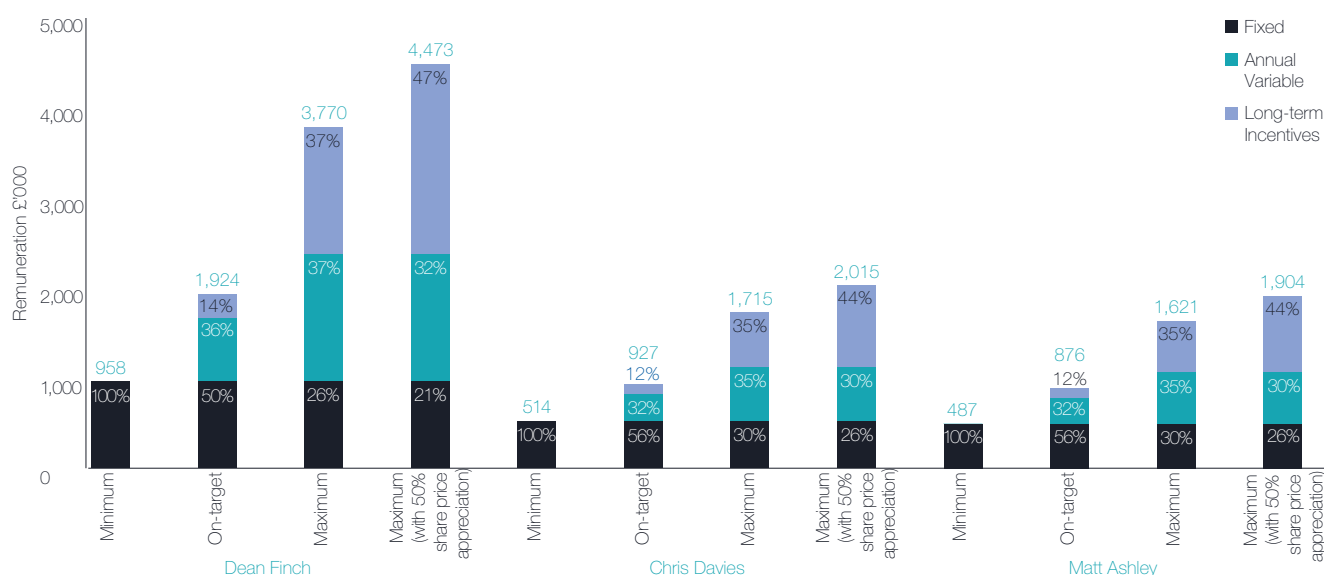
In addition, a travel allowance of £4,000 will continue to be payable to certain overseas-based Directors for each Board meeting or other Board-related matters they attend outside their continent of residence.

#### (f) Total remuneration opportunity at various levels of performance

Our aim is to ensure that superior remuneration outcomes are only given or awarded for exceptional performance, with a substantial proportion of Executive Directors' remuneration payable in the form of variable pay. The chart at the top of the next page illustrates the remuneration opportunity provided to each Executive Director at different levels of performance for 2020.

## Directors' Remuneration Report

### Annual Report on Remuneration continued



The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Long-term incentives, as explained further below:

Element	Descriptions
<b>Fixed</b>	Latest base salary, pension allowance and taxable benefits
<b>Annual variable</b>	Performance-related annual bonus (including deferred element)
<b>Long-term incentives</b>	Long-Term Incentive Plan award

Assumptions used in determining the level of pay-out under the given scenarios are as follows:

- salaries are those set as at 1 January 2020
- taxable benefits are those paid in 2019 (but exclude the relocation assistance costs for Matt Ashley)
- LTIP awards are granted at the normal annual level under the Policy
- minimum performance level assumes fixed pay only and no variable payments
- on-target performance level assumes performance in line with the Company's expectations, resulting in threshold LTIP vesting and 50% of maximum annual bonus payout (while the bonus plan has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above for the on-target level includes the values for on-target bonus and threshold LTIP performance)
- maximum performance level assumes an outstanding level of performance (i.e. maximum annual bonus payout and full LTIP vesting)

While share price appreciation is ignored in each of the minimum, on-target and maximum remuneration outcomes for the Executive Directors, the fourth bar shows the maximum remuneration outcomes assuming 50% share price appreciation.

## 12. Historical results of shareholder voting on remuneration matters

The votes cast on the resolution seeking approval of the Annual Report on Remuneration at the 2019 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld <sup>1</sup>
To approve the Annual Report on Remuneration for the year ended 31 December 2018 (advisory vote only)	95.8	4.2	1,752,171

<sup>1</sup> A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution

The votes cast on the resolution seeking approval of the Directors' Remuneration Policy at the 2018 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld <sup>1</sup>
To approve the Directors' Remuneration Policy (binding vote)	95.7	4.3	86,207

<sup>1</sup> A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution

## 13. Retained advisers to the Committee

During the year, the Committee retained (following a formal and transparent tender process conducted in 2013) and received remuneration and related corporate governance advice from PwC, its external remuneration consultants. Apart from advice received in relation to accounting matters, cyber security and deal delivery, PwC has no other connection with the Company, any member of its Group or any of its individual Directors. PwC has also voluntarily signed up to the Remuneration Consultants Group Code of Conduct. In view of these factors, the Committee is satisfied that the advice it receives from PwC is objective and independent. For the year under review, PwC received fees of £89,525 in connection with its work for the Committee, which were charged on a time cost basis.

## Appendix

The table below sets out the share awards granted to Executive Directors under the rules of the Company's 2005 LTIP, as amended (through to 2014) and the 2015 LTIP (since 2015) which either vested during 2019 or remain outstanding as at 31 December 2019:

LTIP award year/type	Date of grant	Awards held at 01.01.19	During 2019			Awards held at 31.12.19	Vesting/Exercise date	Latest exercise date <sup>1</sup>
			Granted	Exercised/Eligible for exercise	Lapsed			
<b>Dean Finch</b>								
LTIP 5-year	09.04.14	204,520	–	195,827 <sup>2</sup>	8,693	–	12.04.19 <sup>2</sup>	–
LTIP 3-year	06.04.16	342,641	–	329,906 <sup>3</sup>	12,735	329,906 <sup>3</sup>	12.04.19	12.04.21
LTIP 3-year	18.04.17	341,476	–	–	–	341,476	18.04.20	18.04.22
LTIP 3-year	03.04.18	325,775	–	–	–	325,775	03.04.21	03.04.23
LTIP 3-year (Approved CSOP) <sup>6,9</sup>	03.04.18	7,751 <sup>10</sup>	–	–	–	7,751 <sup>10</sup>	03.04.21	03.04.23
LTIP 3-year	15.04.19	–	313,044	–	–	313,044	15.04.22	15.04.24
		<b>1,214,412<sup>9</sup></b>	<b>313,044</b>	<b>195,827<sup>3</sup></b>	<b>21,428</b>	<b>1,310,201<sup>9</sup></b>		
<b>Chris Davies</b>								
LTIP 2-year (RIA)	10.05.17	63,735	–	61,366 <sup>4</sup>	2,369	61,366 <sup>4</sup>	10.05.19	10.05.21
LTIP 3-year	10.05.17	143,403	–	–	–	143,403	10.05.20	10.05.22
LTIP 3-year (Approved CSOP) <sup>7,9</sup>	10.05.17	8,194 <sup>10</sup>	–	–	–	8,194 <sup>10</sup>	18.04.20	18.04.22
LTIP 3-year	03.04.18	139,050	–	–	–	139,050	03.04.21	03.04.23
LTIP 3-year	15.04.19	–	133,624	–	–	133,624	15.04.22	15.04.24
		<b>346,188<sup>9</sup></b>	<b>133,624</b>	<b>61,366<sup>4</sup></b>	<b>2,369</b>	<b>477,443</b>		
<b>Matt Ashley</b>								
LTIP 3-year	06.04.16	141,797	–	136,526 <sup>5</sup>	5,271	–	12.04.19 <sup>5</sup>	06.04.21
LTIP 3-year	18.04.17	145,752	–	–	–	145,752	18.04.20	18.04.22
LTIP 3-year (Approved CSOP) <sup>8,9</sup>	18.04.17	8,328 <sup>10</sup>	–	–	–	8,328 <sup>10</sup>	18.04.20	17.04.22
LTIP 3-year	03.04.18	139,050	–	–	–	139,050	03.04.21	03.04.23
LTIP 3-year	15.04.19	–	133,624	–	–	133,624	15.04.22	15.04.24
		<b>426,599</b>	<b>133,624</b>	<b>136,526</b>	<b>5,271</b>	<b>418,426</b>		

<sup>1</sup> Awards vesting under the 2015 LTIP are subject to a two-year exercise period and holding period which run concurrently

<sup>2</sup> Mr Finch's 2014 5-year LTIP award vested on 12 April 2019 and on 16 April 2019 he exercised the options over, and immediately sold, all of the vested shares (as awards vesting under the 2005 LTIP were not subject to a holding period). The share price on exercise was 413.59p

<sup>3</sup> Mr Finch's 2016 3-year LTIP award vested during 2019, but he has not yet exercised any of the vested options. As such: the total number of shares over which options were exercised by Mr Finch during 2019 does not include such vested, but unexercised, shares; but the total number of awards held at 31 December 2019 does include such vested, but unexercised, shares

<sup>4</sup> Mr Davies' 2017 2-year LTIP (Recruitment Incentive) award vested on 10 May 2019, but he has not yet exercised any of the vested options. As such: the total number of shares over which options were exercised by Mr Davies during 2019 does not include such vested, but unexercised, shares; but the total number of awards held at 31 December 2019 does include such vested, but unexercised, shares

<sup>5</sup> Mr Ashley's 2016 3-year LTIP award vested on 12 April 2019 and on 16 April 2019 he exercised the options over all of the vested shares, sold sufficient shares to cover his tax liabilities arising on such exercise. He retains the balance of shares in accordance with the two-year holding period. The share price on exercise was 413.59p per share

<sup>6</sup> The exercise price is 387.0p per share

<sup>7</sup> The exercise price is 366.1p per share

<sup>8</sup> The exercise price is 360.2p per share

<sup>9</sup> All LTIP awards are granted in the form of nil-cost options, save for LTIP approved CSOP awards which are granted as market value share options with an exercise price per share as set out in notes 6, 7 and 8 above. LTIP approved CSOP awards comply with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of set-off against any shares vesting under the corresponding LTIP award

<sup>10</sup> Due to the set-off arrangements explained in the note above, the number of shares subject to LTIP approved CSOP are not counted in the total number of awards held as this would result in a double-count

By Order of the Board



**Dr Ashley Steel**

Remuneration Committee Chair

27 February 2020

## Directors' Report

The information set out herein, together with the information referred to below which is incorporated by reference, comprises the Directors' Report for the year ended 31 December 2019.

The Company has chosen, in accordance with Section 414(C)(11) of the Companies Act 2006 (as amended), to set out certain information required to be included in this Directors' Report in the Strategic Report. The Company has also set out certain other information required to be included in this Directors' Report in the Corporate Governance Report and the Consolidated Financial Statements. The destinations for such information are shown in the table below:

Information	Annual Report section	Annual Report page no(s)
Business model and future business developments	Strategic Report	8 and 15
Principal risks and uncertainties	Strategic Report	48 to 53
Fostering relationships with suppliers, customers and others <sup>1</sup>	Strategic Report Corporate Governance Report	2 and 41 66 to 68 and 74 to 75
Engagement with and other matters relating to employees <sup>2</sup>	Directors' Report Corporate Governance Report	125 and 126 71 to 73
Viability and going concern	Strategic Report	26
Financial instruments	Consolidated Financial Statements	187
Governance matters, including corporate governance statement <sup>3</sup>	Corporate Governance Report	55 to 121
Greenhouse gas emissions	Strategic Report	47

<sup>1</sup> The Company is not obliged to provide this information in accordance with paragraph 11B of Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations") as it is exempted in accordance with paragraph 11C of Part 4 of the Regulations as the qualifying conditions are met as the Company, which is a holding company, does not have a turnover nor does it have more than 250 employees. However, the Company has voluntarily supplied this information

<sup>2</sup> The Company is obliged to provide certain of this information in accordance with paragraph 11 of Part 4 of the Regulations as the Company is the parent company of the Group and the average number of persons employed by the Group within the United Kingdom during the year ended 31 December 2019 was more than 250. It is not however obliged to provide the information in accordance with paragraph 10 of Part 4 of the Regulations as the average number of persons employed by the Company itself does not exceed 250. The Company has therefore voluntarily provided this information

<sup>3</sup> The Company is obliged to make a corporate governance statement pursuant to DTR 7.2. The Company is therefore exempted from the requirements of Part 8 of the Regulations in accordance with paragraph 22(a) of the Regulations

This Directors' Report and the Strategic Report together form the Management Report for the purposes of Rule 4.1.8 of the Disclosure and Transparency Rules (DTR).

The location of relevant information required to be disclosed under Rule 9.8.4 of the Listing Rules (LR) is as follows:

Listing Rule	Detail	Section and page(s) of Annual Report
LR 9.8.4(4)	Long-term incentive schemes	Annual Report on Remuneration, pages 107 (paragraph 1(a)) and 121
LR 9.8.4(12)	Dividend waiver by EBT	Directors' Report, page 123

### Company status and branches

National Express Group PLC (the Company) is the holding company of the National Express group of companies (the Group).

The Company is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index.

Following the closure of the Group's Spanish branch in 2019, neither the Company nor any member of its Group has any branches.

### Results and dividends

The Company's and the Group's results for the year ended 31 December 2019 are set out in the Consolidated Financial Statements and the Company Financial Statements on pages 136 to 224.

#### Important events since the financial year end

There have been no important events which have affected the Company or the Group since 31 December 2019.

### Dividends

The Board has recommended a final dividend for the year ended 31 December 2019 of 11.19 pence per ordinary share (2018: 10.17p) which, together with the interim dividend of 5.16 pence per ordinary share (2018: 4.69p) paid on 20 September 2019, gives a total dividend for the year of 16.35 pence per share (2018: 14.86p). Subject to shareholder approval, the final dividend will be paid on 12 May 2020 to holders of ordinary shares on the register of members at the close of business on 24 April 2020.

## Share capital

The Company has a single class of shares in issue in its capital comprising ordinary shares of nominal value 5 pence each, all ranking *pari passu*. As at 31 December 2019, there were 511,738,648 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Company's Articles of Association (Articles). Further details about the Company's share capital can be found in note 32 to the Consolidated Financial Statements on page 192.

## Share rights, obligations and restrictions on transfer of shares

Shareholders are entitled to participate in dividends paid or declared by the Company and any return of capital by the Company in proportion to their holdings of ordinary shares in the Company. Shareholders are also entitled to attend and vote at all general meetings of the Company. Every shareholder has one vote on a show of hands and one vote for each ordinary share held on a poll on each resolution put before a general meeting. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's registrar not less than 48 hours before a general meeting. Shareholders are subject to the obligations set out in the Articles, including the principal obligation to pay up any unpaid amount on their ordinary shares.

There are no limitations on the holding of the Company's shares. There are also no restrictions on the transfer of the Company's shares other than typical restrictions under the Articles (for example, in respect of non-fully paid shares), restrictions imposed by law (such as insider trading laws) and restrictions imposed on the Directors and certain other employees of the Company and members of its Group pursuant to the Company's share dealing code.

Full details of the rights, obligations and restrictions attaching to the Company's ordinary shares, including in relation to voting rights and restrictions on transfer, are set out in the Articles, which are available at [www.nationalexpressgroup.com/about-us/corporate-governance](http://www.nationalexpressgroup.com/about-us/corporate-governance)

The Company is not aware of any agreements between existing shareholders that may result in restrictions on the voting rights attaching to, or the transfer of, the Company's ordinary shares.

## Special control rights over shares

There are no special control rights attaching to the Company's shares, save that the Company can direct the

Company's Employee Benefit Trust to release the shares that it holds in the Company to satisfy the vesting of outstanding awards under the Company's various share incentive plans. Further details of the Employee Benefit Trust and number of Company shares it holds are set out below.

## Authority to issue shares

The Directors were granted the authority at the Company's 2019 Annual General Meeting (AGM) to allot new shares in the Company up to a nominal value of £8,528,977 representing one third of its issued share capital or, in the case of a rights issue only, new shares up to a nominal value of £17,057,954 representing two thirds of its issued share capital. The Directors were further authorised to disapply pre-emption rights on the issue of shares of up to a nominal value £1,279,346, representing 5% of its issued share capital. No new shares were issued under these authorities during the year ended 31 December 2019 or up to 27 February 2020, being the date this Directors' Report was approved. Such authorities remain valid until the Company's 2020 AGM or 30 June 2020, whichever is earlier. The Directors propose to renew these authorities at the Company's 2020 AGM to give the Company flexibility to respond to circumstances and opportunities as they arise.

## Authority to purchase own shares

The Company was granted authority at its 2019 AGM to make market purchases of up to 51,173,864 of its own shares, representing 10% of its issued share capital. No shares were purchased under this authority during the year ended 31 December 2019 or up to 27 February 2020, being the date this Directors' Report

was approved. Such authority remains valid until the Company's 2020 AGM or 30 June 2020, whichever is earlier. The Directors propose to renew this authority at the 2020 AGM to give the Company ability to return value to shareholders in this way in appropriate circumstances.

## Employee Benefit Trust

IQ EQ (Jersey) Limited (formerly known as First Names (Jersey) Limited) is a shareholder in the Company which acts as the trustee (Trustee) of the National Express Group Employee Benefit Trust (EBT). It is used to purchase Company shares in the market from time to time and hold them for the benefit of employees, including for satisfying awards that vest under the Company's various share incentive plans. The EBT purchased a total of 1,471,214 shares in the market during the year ended 31 December 2019 for an aggregate consideration of £6.4 million (including dealing costs) and released 1,825,123 shares to satisfy vested share plan awards.

As at 31 December 2019, the EBT held 1,404,751 Company shares in trust (representing 0.27% of the Company's issued share capital). The Trustee may vote the shares it holds in the Company at its discretion. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on certain of the shares in the Company held in the EBT.

## Major shareholdings

As at 31 December 2019, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

Shareholder	Number of ordinary shares	Percentage of total voting rights <sup>1</sup>
European Express Enterprises Limited <sup>2</sup>	66,481,891	12.99%
Newton Investment Management Limited	51,043,618	9.97%
M&G plc	42,091,624	8.22%
Standard Life Aberdeen PLC	41,017,767	8.02%
J O Hambro Capital Management Limited	25,165,433	4.92%

<sup>1</sup> The total number of voting rights attaching to the issued share capital of the Company on 31 December 2019 was 511,738,648

<sup>2</sup> The holding of European Express Enterprises Ltd forms part of the holding in which Jorge Cosmen (Deputy Chairman) is interested as shown in the Annual Report on Remuneration on page 115

It should be noted that these holdings may have changed since the Company was notified however, as notification of any change is not required until the next notifiable threshold is crossed.

The Company received no further notifications in accordance with DTR 5, by way of change to the above information or otherwise, between 31 December 2019 and 27 February 2020, being the period from the end of the Company's last financial year to the date on which this Directors' Report was approved.

## Directors

The names and certain additional information about the persons who were at any time during the year ended 31 December 2019 Directors of the Company are set out on pages 60 to 64.

## Directors' interests

Save as disclosed:

- (a) in the Directors' Remuneration Report, none of the Directors, nor any person closely associated with them, has any interest in the Company's shares, debt instruments, derivatives or other linked financial instruments and there has been no change in the information in the Directors' Remuneration Report regarding such interests between 31 December 2019 and 27 February 2020, being the date this Directors' Report was approved (and also being a date which is not more than one month before the date of the Notice of the Company's 2020 AGM); and
- (b) in note 37 to the Consolidated Financial Statements, none of the Directors has or had at any time during the year ended 31 December 2019 a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiary undertakings (other than the Executive Directors in relation to their Service Agreements).

## Directors' Service Agreements and letters of appointment

The Executive Directors are party to Service Agreements with the Company which contain rolling terms subject to the giving by the Company or Executive Director of the relevant notice to terminate. All the Non-Executive Directors are party to a Letter of Appointment with the Company which contain a term of between three, six and nine years, extendable by agreement, but subject to Non-Executive Directors' annual election or re-election by the shareholders, the powers of shareholders to remove Directors and the giving by the Company or the Non-Executive Director of the relevant notice to terminate.

These Directors' Service Agreements and Letters of Appointment are available for inspection at the Company's registered office. Further details of these agreements and letters are included in the Directors' Remuneration Policy, a copy of which is available on the Company's website at [www.nationalexpressgroup.com/about-us/corporate-governance/remuneration](http://www.nationalexpressgroup.com/about-us/corporate-governance/remuneration).

## Directors' powers

Subject to the Companies Act 2006 (Act), the Articles and any directions given by special resolution of the shareholders, the

business of the Company is managed by the Board who may exercise all the powers of the Company. The Articles may be amended by a special resolution of the shareholders.

The Directors may pay interim dividends where, in their opinion, the financial position of the Company justifies such payment and the Directors may recommend that shareholders declare dividends and, if so declared by ordinary resolution of shareholders, arrange for payment of such dividends. Where authorised to do so by ordinary resolution of the shareholders, the Directors may also issue shares or rights to subscribe for shares or securities convertible into shares in the Company. Where the Company is authorised to do so by special resolution of the shareholders, the Directors may also arrange for the Company to purchase its own shares, up to any limits specified in such resolution. The Directors may also appoint other Directors in the circumstances described below.

## Appointment and replacement of Directors

The rules for the appointment and replacement of Directors are set out in the Act and related legislation and the Articles.

The Board may appoint a Director either to fill a casual vacancy or as an additional Director provided that the total number of Directors does not exceed any maximum number of Directors prescribed in the Articles. A Director so appointed by the Board must retire and seek election to office at the next AGM of the Company.

In addition to the powers of removal conferred by the Act, the Company may by ordinary resolution of which special notice is given remove any Director before the expiry of their period of office and may by ordinary resolution appoint another person who is willing to act in their place. The Company may also by ordinary resolution appoint a Director either to fill a casual vacancy or as an additional Director.

The Articles include provision for the retirement of Directors by rotation at each AGM but, in accordance with the Board's policy and the provisions of the 2018 Code, all the current Directors will retire at the forthcoming AGM and have offered themselves for election or re-election. The Board is satisfied that each of the Directors standing for election or re-election at the 2020 AGM is qualified for election or re-election to office by their contribution and commitment to the Board and their strengths in supporting the Company's strategy (as explained in the Notice of the Company's 2020 AGM).

## Directors' indemnities and insurance

The Company has granted qualifying third party indemnities to each Director and the Company Secretary to the extent permitted by law. Qualifying third party indemnities (as defined by Section 234 of the Companies Act 2006) in relation to losses or liabilities incurred by the Company's Directors and Company Secretary to third parties in the actual or purported execution or discharge of their duties as officers of the Company and of its associated companies were in force during the year ended 31 December 2019 and remain in force as at 27 February 2020, being the date this Directors' Report was approved. The Company also maintains Directors' and Officers' liability insurance which provides appropriate cover in respect of legal action brought against its Directors and Company Secretary.

## Significant agreements affected by a change of control

The Company is party to the following significant agreements that could be altered or terminate on a change of control of the Company following a takeover bid.

Under the terms of the Company's revolving credit facilities, the Company would upon a change of control have five days to notify the lenders of such change of control and if, following ten days of negotiations to either confirm or alter the terms of such facilities no agreement has been reached, outstanding balances may become repayable.

Under the terms of the Company's £1.5 billion Euro Medium Term Note (EMTN) programme (as updated on 11 October 2019), there is a change of control put option such that, upon a change of control put event, any holder of EMTNs issued under the programme may require the Company to redeem or purchase such EMTNs.

Under the terms of a Note Purchase Agreement (entered into on 30 July 2012) relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021 and a Note Purchase Agreement (entered into on 29 October 2019) relating to the issue by the Company of £134,000,000 2.38% Series A Senior Notes due 10 June 2027, €43,000,000 1.11% Series B Senior Notes due 7 May 2027, €137,000,000 1.33% Series C Senior Notes due 7 May 2030, €60,000,000 1.46% Series D Senior Notes due 7 May 2032 and \$81,000,000 3.11% Series E Senior Notes due 10 June 2027, the Company is required to offer to repay the holders of all such Notes the entire unpaid principal and interest on such Notes on a change of control of the Company.

Under the terms of some of the Group's vehicle leasing facilities, where the Company is a guarantor of such facilities, a change of control of the Company may amount to an event of default which could result in outstanding balances under such leasing facilities becoming repayable.

Under the rules of each of the Group's three active share schemes, following a change of control of the Company, the vesting of awards made under such schemes will be accelerated and, where performance targets are attached to the awards, the number of awards to vest will be determined according to the extent to which performance targets have been met. Each of the share schemes also allows, under certain circumstances and where the acquiring company has agreed, new awards to be granted in the acquiring company in place of the original awards, which will be granted to give substantially equivalent value to the awardees.

Due to the size of certain of these credit facilities, note purchase agreements and leasing facilities, absent consent from the relevant lenders, noteholders and lessors to a change of control following a takeover bid or the bidder being able to refinance such facilities and borrowings upon its takeover bid being accepted and taking effect, their repayment, termination or default upon such change of control could create significant liquidity issues for the Company and could also trigger cross-defaults into other of the Company's and the Group's credit and leasing facilities.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, save that the provisions of the Group's three active share incentive schemes may cause awards made under them to Directors and employees in the form of share options to vest on a takeover bid being accepted and taking effect, or, under certain circumstances and where the acquiring company agrees, new awards to be made in the acquiring company in place of the original awards to give substantially equivalent value to the awardees.

### Employee matters Engaging with our workforce and taking their views into account

The Group places considerable value on engagement with its workforce and various mechanisms are used to communicate and engage, from the top down to local level.

The Group Chief Executive personally issues a number of communications to the workforce during the year giving updates on the Group's safety, operational and financial performance. Following

the publication of the Company's annual financial results, the CEO and CFO also host a global conference call to discuss those results as well as the Group's annual safety and operational performance and to answer questions members of the workforce may have about such performance. The Company's Non-Executive Directors also engage directly with the Group's workforce in the ways described in the Corporate Governance Report on pages 71 to 73.

This personal Board-level engagement is supplemented by regular corporate communications (which are circulated either in hard copy on noticeboards for those workers who do not work at a computer or have a work email address, or on the Group's intranet sites and by email for those workers who do) which give updates about the Group's key successes and challenges, such as new business acquisitions, contract wins, major accidents or incidents, changes in management, new policies and procedures, the nominations and winners of the Group's Values Awards and other newsworthy events.

Recognising that the Company is the parent of an international group of companies which employs fewer than 250 employees itself but whose Group employs and engages many thousands of workers, further communication and engagement with the wider Group workforce occurs via the Company's subsidiaries which make up its divisions and which are the direct employers or hirers of such workers. The divisions communicate and engage with their respective workforces through a variety of means, including:

- the regular issue of newsletters, providing information about the division's performance and other matters of interest to workers, including operational successes and challenges, patronage trends, new ticketing prices or arrangements, new business partnerships, recent accidents or incidents, and top tips for staying safe;
- one-to-team communications between team leaders and their teams and one-to-one communications between line managers and their direct reports raising awareness of matters covered by corporate communications and newsletters, dealing with team priorities and objectives or dealing with matters relevant to individual employees;
- consultation with trade unions where appropriate on matters that affect our employees who are their members, including regarding pay and changes in working practices, such as when we introduced DriveCam or when we launch new ticketing applications;

- formal consultation with employees where required in accordance with applicable law, for example where there is a transfer of an undertaking or where redundancies are proposed;
- in the case of some divisions, a monthly 'ask the manager' conference call which employees of that division may join to hear an update about the division's performance in the month and to ask, anonymously if they wish, any questions they have for management; and
- in the case of all divisions, participation in employee engagement surveys, the results of which are shared with the workforce and, in the case of any areas identified for improvement, action plans are developed, supported in some divisions by local engagement champions.

The views of employees and other workers, obtained via these engagement mechanisms, are often taken into account by the Company's and its subsidiaries' boards of directors when taking decisions. Examples of the ways in which the Company's Board took employee interests into account in some of its principal decisions during 2019 are set out in the Corporate Governance Report on pages 66 to 68.

Some of the Group's most successful initiatives have also been born from workforce engagement. For example, the Master Driver programme was developed after drivers gave feedback that there was no clear programme for recognition and career progression. The UK division's award-winning Health Bus was also developed in response to a suggestion made in the UK division's employee engagement survey.

Across the Group we also run a variety of programmes which actively seek employees' ideas about how performance can be improved. For example, in the UK we have 'Idea Street', which is a programme through which employees can submit their ideas and win prizes if those ideas are implemented. It has been used to reduce fraudulent use of OAP cards, reduce lost mileage due to spillages, reduce the cost of tyre damage and secure more prosecutions of members of the public who spit at drivers.

### Involving employees in Company performance

As explained on page 69 of the Corporate Governance Report, the Company's Values underpin its strategy and are key to the fulfilment of its Purpose. As such, promotion of the Values and encouragement of every member of the Group's workforce to live by such Values is the most effective way of involving them in the Company's and its Group's performance.

Every year, divisional employees can nominate their colleagues for demonstrating behaviours which exemplify the Company's Values. The divisional winners in each Value category are given a cash prize and nominated for the Group awards. The overall winners of the Group Values Awards are chosen at an annual event in London which brings employees from across the Group's global businesses together to honour and congratulate their achievements.

The Company does not operate an all employees' share scheme due to the size, nature and geography of the Group's workforce, for many of whose members shares in a UK company would not act as an appropriate reward or incentive. Rather, the Company and its Group place emphasis on fair pay structures across the Group and local bonus schemes to recognise and reward good performance.

#### Promoting common awareness among employees of financial and economic factors affecting Company performance

Various mechanisms ensure that the management teams across the Group are aware of the Company's strategy and of the financial, economic and other factors which affect the Company's performance and ability to deliver its strategy. These include:

- annual divisional conferences at which the Company's Executive Directors, divisional senior management and other managers attend to discuss the Group's strategy and agree the division's priorities to deliver strategy; and
- monthly Group Executive Committee meetings and divisional executive committee meetings, all of which are attended by the Company's Executive Directors, as well as monthly divisional subsidiary board and committee meetings at which strategic priorities are relayed and performance against them is tracked.

Various of the Company and divisional workforce mechanisms described above are also used to relay Company strategy and explain the key factors that affect the Company's performance to other members of the workforce, including those working 'on the front line'. For example, newsletters discuss patronage levels and ticket prices which are the key financial and economic factors affecting open network services, and one-to-team and one-to-one communications will cover costs and performance levels of services which are the key financial and economic factors affecting services performed under contract.

#### Equal opportunities

The Company and all members of its Group are equal opportunities employers and our Group Equal Opportunities Policy is to treat all employees equally, irrespective of race, gender, disability, age, sexual preference, marital status, employment status, religious or political beliefs and social background. The Company gives full and fair consideration to disabled applicants for employment having regard to their skills and capabilities, as confirmed in its Recruitment and Selection Policy, as well as recognising its obligations in connection with the continuing employment and training of members of the workforce who have become disabled whilst in the Company's employment. Where an employee becomes disabled, the objective is to retain their services wherever possible. The Company also works to ensure the continued career development of disabled persons including through training and promotion wherever their skills and capabilities permit.

The Company and all members of its Group also promote an environment free from discrimination, harassment or victimisation and a culture in which members of the workforce are able to raise concerns without suffering detrimental treatment. Our whistleblowing policy and procedures are described on page 92.

#### Political donations

The Company did not make any political donations, but did incur a small amount of political expenditure (£7,000) in sponsoring receptions at the regional Conservative and Labour conferences during the year ended 31 December 2019 (2018: nil). The Company's policy is that neither it nor its subsidiaries make what are commonly regarded as donations to any political party. However, the Act's definition of political donations includes expenditure on the sponsorship of the events noted above. It could also include other business activities which would not normally be thought of as political donations, such as subscriptions, payment of expenses and support for bodies representing either the transport industry specifically or the business community in general in policy review or reform. The resolution being proposed at the 2020 AGM to authorise political donations and expenditure is to ensure that these normal business activities are permitted and that neither the Company nor its UK subsidiaries commit any technical breach of the Act.

#### Audit information

Each of the persons who are Directors as at 27 February 2020, being the date this Directors' Report was approved, confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and that he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### Annual General Meeting

This year's AGM will be held at 2.30pm on Thursday, 7 May 2020 in the Banqueting Hall at Glaziers Hall, 9 Montague Cl, London SE1 9DD. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Copies of both documents can also be found on the Company's website at [www.nationalexpressgroup.com/investors/aggm/2020](http://www.nationalexpressgroup.com/investors/aggm/2020).

#### Approval

The Directors' Report was approved by the Board on 27 February 2020.

By Order of the Board



#### Jennifer Myram

Group Company Secretary  
National Express Group PLC  
Company number 2590560



### Legal and regulatory framework

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and Article 4 of the International Accounting Standards Regulation and have elected to prepare the parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (combining United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with applicable law and regulations.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.


Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

**Dean Finch**  
Group Chief  
Executive

**Chris Davies**  
Group Finance  
Director

27 February 2020

## Report on the audit of the Financial Statements

### 1. Opinion

In our opinion:

- the Financial Statements of National Express Group plc (the parent Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and parent Company Balance Sheets;
- the Consolidated and parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the related notes 1 to 40 for the Consolidated Financial Statements; and
- the related notes 1 to 18 for the parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework. (United Kingdom Generally Accepted Accounting Practice).





### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>– Impairment of goodwill and other intangible and property, plant and equipment;</li> <li>– North American insurance and other claims provisions; and</li> <li>– Valuation of customer intangibles and put option liability arising from the WeDriveU acquisition.</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li> Newly identified</li> <li> Increased level of risk</li> <li> Similar level of risk</li> <li> Decreased level of risk</li> </ul>
<b>Materiality</b>	The materiality that we used for the Group Financial Statements was £12 million, which was determined on the basis of normalised profit before tax.
<b>Scoping</b>	<p>The Group is organised into four operating divisions, each of which has its own sub-consolidation, plus the head office function. Audit work for these components was completed to levels of materiality between £4.4 million and £8.0 million. The components account for 100% of Group revenue, operating profit and Group net assets.</p> <p>Full scope audit work was completed on a divisional sub-consolidation basis for UK, North America, Germany and Spain (including Morocco).</p> <p>Full scope audit procedures have been performed on the parent Company Financial Statements.</p> <p>All other parts of the Group have been subject to analytical review procedures.</p>
<b>Significant changes in our approach</b>	We included an additional key audit matter related to the acquisition of WeDriveU (see section 5.3), which was acquired on 11 April 2019. There have been no other significant changes to our approach as compared to prior year.

## 4. Conclusions relating to going concern, principal risks and viability statement

### 4.1. Going concern

We have reviewed the Directors' statement in note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**Going concern is the basis of preparation of the Financial Statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the Financial Statements.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### 4.2. Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 48 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 26 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.

**Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Impairment of goodwill and other intangible and fixed assets

#### Key audit matter description

Total goodwill, intangible assets and property, plant and equipment at 31 December 2019 were £3,250 million (2018: £2,852 million). The most significant balances relate to the Spanish and the North America divisions which are £1,341 million (2018: £1,275 million) and £1,502 million (2018: £1,326 million), respectively.

There is a risk surrounding the recoverability of these balances, as assessed annually by management as part of their impairment review, using discounted cash flows on a value in use basis.

Potential fraud risks are identified in relation to the key judgements in assessing goodwill and other fixed assets for impairment due to the potential risk of inappropriate management bias. These key judgements include the post-tax discount rate and the perpetual growth rate applied in the model.

The value in use models are sensitive to changes in these rates, both of which must reflect a long-term view of underlying growth in each respective economy. Estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate and perpetual growth rate to use.

As a result of market changes, discount rates have generally fallen since the prior year which has provided more headroom in management's impairment assessments. This has reduced the risk of impairment in the current year.

The Audit Committee Report on page 87 refers to goodwill and fixed asset impairment as a key judgement considered by the Audit Committee. Note 2 to the financial statements sets out the Group's accounting policy for testing goodwill and other fixed assets for impairment. The basis for the impairment reviews is outlined in note 14 to the Financial Statements, including details of the pre-tax discount rate and terminal growth rate used. Note 14 to the Financial Statements also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs.

<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures for challenging management's methodology and assumptions focussed on the Group's interests in Spain and North America and included:</p> <ul style="list-style-type: none"> <li>– obtained an understanding of relevant controls;</li> <li>– validating the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions;</li> <li>– understanding the underlying process used to determine the risk-adjusted discount rates;</li> <li>– assessing the appropriateness of any changes to assumptions since the prior period;</li> <li>– challenging the cash flow forecasts with reference to historical forecasts, actual performance and independent evidence to support any significant expected future changes to the business;</li> <li>– working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetuity growth rates versus the risk adjustments made to the underlying cash flows; and</li> <li>– assessing the appropriateness of the disclosure included in the financial statements including the sensitivity analysis provided.</li> </ul>
<b>Key observations</b>	<p>We determined that there is currently sufficient headroom for both the Spanish division and the North America division such that we concur with management that no impairment is required.</p> <p>In the interests of transparency and consistency, management has again provided detailed sensitivity disclosures, despite concluding no reasonably possible movement in a key assumption would lead to impairment.</p> <p>We concluded that the assumptions applied in the impairment models, when taken individually and in aggregate, are within our acceptable range.</p>

## 5.2. North American insurance and other claims provisions

<b>Key audit matter description</b>	<p>The Group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £93.7 million at 31 December 2019 (2018: £95.6 million), £76.2 million (2018: £77.2 million) relates to the self-insured provision in the North American division. This reflects historical claims being managed by the Group, as well as provision for new claims identified in the year, including amounts arising through acquisitions in the year that have required separate fair value consideration.</p> <p>There are a number of key judgements in relation to the insurance and other claims provision: appropriateness of the Income Statement charge; actuarial assessment of the high volume lower value claims, in conjunction with Willis Towers Watson (WTW); assessment of the provision for historical acquisition provisions and larger individual claims; and determination of the provisional fair value of provisions recorded in respect of new acquisitions.</p> <p>Estimation of insurance and other claims provisions, including those arising on acquisition, is highly judgemental and is based on assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the balance sheet date.</p> <p>The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided for.</p> <p>Given the level of complexity and judgement involved in making these estimations, management utilises an independent actuarial expert to calculate a range of potential outcomes for the liability relating to their large portfolio of low value claims. There is a risk of material misstatement, whether due to error or inappropriate management bias, and therefore the eventual outcome could be materially different from that estimated and provided for.</p> <p>There have been no significant changes to the nature or basis of the provision in the current year so we have assessed the level of risk as remaining stable.</p> <p>The Audit Committee Report on page 87 refers to North American insurance and other claims provisions as a key judgement considered by the Audit Committee. This area has also been highlighted as a key accounting estimate and judgement in note 2 to the Financial Statements. Details of the Group claims provision are given in note 26 to the Financial Statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures performed for challenging management's methodology and assumptions included:</p> <ul style="list-style-type: none"> <li>– obtained an understanding of relevant controls.</li> <li>– working with our actuarial specialists, we challenged the assumptions inherent in the valuation produced by the Group's actuary in North America for the high-volume lower value claims, such as the loss development factors and ultimate expected losses, and to re-perform the actuarial calculation to develop a valuation range. Additionally we have assessed the management's expert's competence and considered their independence and objectivity.</li> <li>– for the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to independent third party reports to assess the expected range of possible outcomes. This included testing the fair value of provisions recognised on acquisitions during the year.</li> <li>– we compared the overall level of provision recorded to the range determined by management and the Group's actuary, to assess whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as working with our actuarial specialists to perform the independent assessment of the range for higher-volume lower value claims.</li> </ul>
<b>Key observations</b>	<p>As part of our detailed audit work testing the various aspects of the provision, including new amounts recognised at fair value on acquisition and the Income Statement charge for the year, we did not identify any material exceptions.</p> <p>As a result we concluded the overall Balance Sheet position is in line with our expectations, albeit towards the optimistic side.</p>

### 5.3. Valuation of customer intangibles and put option liability arising from the WeDriveU acquisition

<b>Key audit matter description</b>	<p>National Express LLC acquired 60% of the share capital of WeDriveU Inc. (WeDriveU) on 11 April 2019 for a cash consideration of £66.2 million. WDU operated a significant number of contracts at acquisition and the fair value of these needed to be considered under IFRS 3 '<i>Business Combinations</i>'. At the time of the acquisition the largest customer contract contributed approximately 38% of total revenue. Using an independent third party valuation expert, management valued total customer contract intangibles at £37.6m, of which the majority related to this customer. A number of judgements were required about future revenues and margins for this contract, as well as expected retention levels beyond the current contractual period.</p> <p>As part of the transaction, National Express and the WeDriveU management team retain call and put options, respectively, over the remaining shares, exercisable annually over the next three years. The option price is determined by reference to WeDriveU's profitability during that timeframe.</p> <p>Management has concluded that the fair value purchase mechanism for the remaining shares and the pre-determined exercise timings means they do not have rights to returns associated with ownership until the options are exercised. As such, the accounting for the put option has been treated separately from the acquisition accounting.</p> <p>Due to the nature of the transaction, size and nature of management's judgement around valuations, we have determined the acquisition as a key audit matter. More specifically, we have pinpointed this to the risk associated with the valuation of the largest customer intangible and the valuation of the put option liability (£97 million).</p> <p>The Audit Committee Report on page 87 refers to the WeDriveU acquisition as a significant judgement and estimate considered by the Audit Committee. This area has also been highlighted as a key accounting estimate in note 2 to the Financial Statements. Details of the put liability are given in note 25 to the Financial Statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures performed for challenging management's methodology and assumptions included:</p> <p><b>Contract related customer intangible asset</b></p> <ul style="list-style-type: none"> <li>– obtained an understanding of relevant controls;</li> <li>– in conjunction with valuation specialists, tested the key assumptions used by management's expert in its valuation. This included challenging the appropriateness of a discount rate by deriving a weighted average cost of capital (WACC) for the entity reflecting the weighted average return on debt and equity as required by a market participant and assessing the competence, independence and objectivity of management's experts;</li> <li>– challenged management's contract-specific margin assumptions by auditing historical revenues and costs, and tracing a sample of items to supporting evidence;</li> <li>– held discussions with operational contract managers and reviewed supporting information (such as customer KPI reporting) to assessed the appropriateness of contract renewal assumptions; and</li> <li>– considered the reasonableness of the forecast revenues for each contract with reference to actual performance and contractual terms.</li> </ul> <p><b>Put option liability</b></p> <ul style="list-style-type: none"> <li>– assessed future revenue growth assumptions with reference to historical revenue and order capture performance, as well as testing a sample of prospective contract estimates in the forward order book;</li> <li>– held discussions with operational management and members of the salesforce to challenge contract renewal and future order capture assumptions;</li> <li>– assessed future EBITDA margin assumptions with reference to historical performance, challenging where future improvements were expected from current levels as a result of acquisition synergies; and</li> <li>– modelled alternative potential scenarios to assess the impact on the put option liability valuation, including challenging the nature and basis for management's disclosure of this as a key source of estimation uncertainty.</li> </ul>
<b>Key observations</b>	<p>Based on the work performed as outlined above, we are satisfied that the fair valuation of the acquired customer intangibles are reasonable and materially accurate in accordance with IFRS 3 '<i>Business Combinations</i>'.</p> <p>As a result of the work performed the cash flow forecasts used to value the put option liability we are satisfied that, when taken together, management's assumptions lie within a reasonable range, albeit at the prudent end of that range.</p>

## 6. Our application of materiality

### 6.1. Materiality

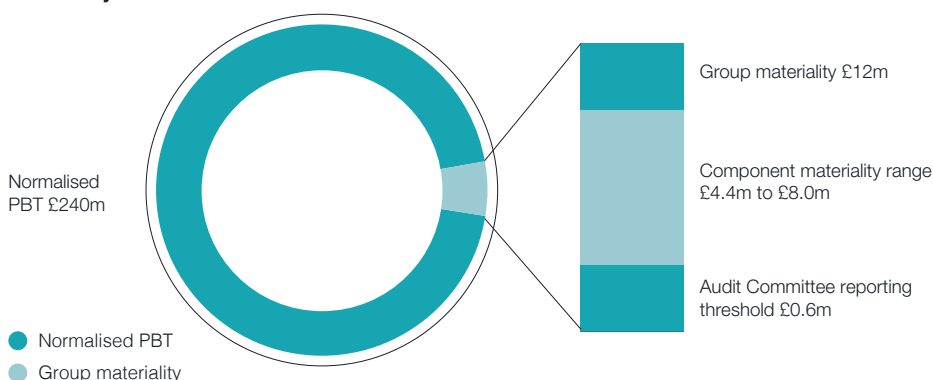
We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
<b>Materiality</b>	£12m (2018: £11m)	£8m (2018: £7m)
<b>Basis for determining materiality</b>	<p>5% (2018: 5%) of normalised profit before tax. This materiality level equates to 1.1% (2018: 1.4%) of equity.</p> <p>Normalised profit before tax is disclosed on the face of the Group Income Statement where it is reconciled to statutory profit before tax.</p>	<p>Parent Company materiality is set at approximately 67% (2018: 64%) of Group materiality, which equates to 0.6% (2018: 0.9%) of parent Company's net assets.</p>

<b>Rationale for the benchmark applied</b>	<p>Normalised profit is a key performance measure for management, investors and the analyst community, which facilitates the users' understanding of the underlying trading performance.</p> <p>Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses, net gain in relation to the disposal and Ecolane subsidiaries, US restructuring costs, and in the prior year, result from discontinued operations.</p>	<p>Net assets is considered as an appropriate benchmark for the parent Company given that it is mainly a holding company.</p>
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**Materiality**



**6.2. Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and the history of uncorrected misstatements in previous years.

**6.3. Error reporting threshold**

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £600,000 (2018: £385,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

**7. An overview of the scope of our audit**

**7.1. Identification and scoping of components**

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focussed our Group audit scope primarily on the audit work at the four operating divisions (UK, German Rail, Spain and North America) and the Group head office function. Each operating division produces its own sub-consolidation and was subject to an audit that was scoped relevant to its component materiality level, which was between £4.4 million and £8.0 million (2018: between £4.4 million and £7.0 million). This audit work was performed by Deloitte Touche Tohmatsu Limited member firms. The Group head office work was performed to a component materiality level of £8.0 million, (2018: £6.4m).

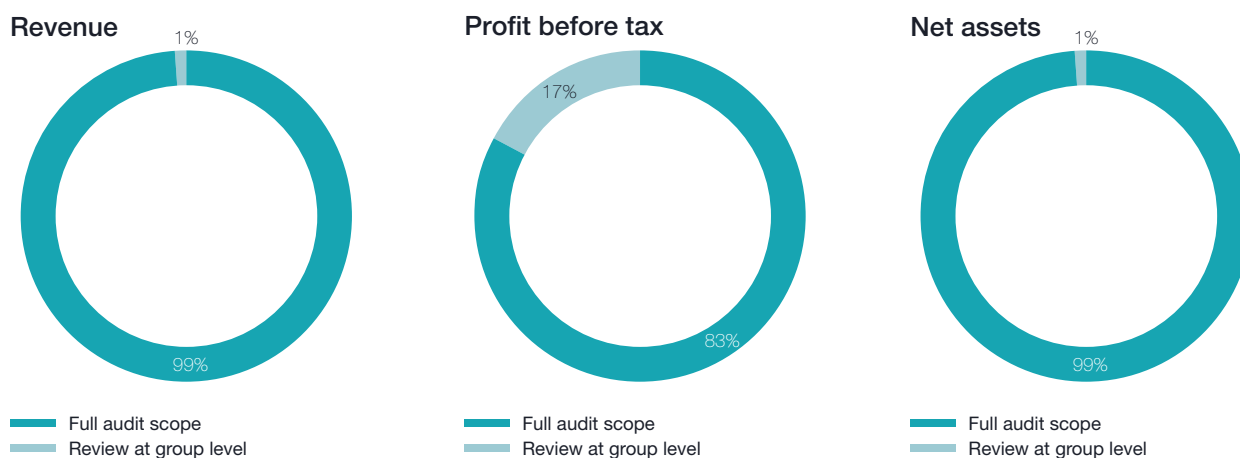
The four operating divisions and the Group head office function contributed 100% (2018: 100%) of Group revenue and 100% (2018: 100%) of Group operating profit and 100% (2018: 100%) of Group net assets.

**7.2. Working with other auditors**

The Group audit team continued to follow a programme of planned visits designed so that the Senior Statutory Auditor and/or a senior member of the audit team visits each of the three non-UK divisions where the Group audit scope was focussed at least once a year in addition to the work performed at the Group head office. In relation to the current year audit the Senior Statutory Auditor and/or a senior member of the audit team visited Spain, North America and Germany at least once this year. Likewise, the Group audit team has maintained appropriate oversight over both UK divisions for component reporting and reviewing purposes.

An audit of specified account balances was performed by KPMG over the underlying Financial Statements of the Bahrain joint venture.

At the parent entity level we also tested the consolidation process.



## 8. Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' Statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

## 9. Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions, actuary and IT regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- the estimation of North American insurance and other claims given the level of judgement involved;
  - management assumptions on the perpetual growth rate and discount rate applied to the goodwill impairment model;
  - management assumptions on the valuation in relation to the WeDriveU acquisition, more specifically the aforementioned put option liabilities and intangible asset identified is customer relationships; and
  - the completeness and accuracy of deferred revenue in relation to pre-booked tickets and pre-paid travelcards in the UK components and the cut off of contractual revenue in Spain division.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation and Regulations from the Traffic Commissioners.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence, regulatory solvency requirements and environmental regulations.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of Goodwill and other fixed assets, valuation of WeDriveU and North America insurance liability as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;



- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and overseas tax authorities in the jurisdictions in which the Group operates;
- completed focussed testing on the deferred revenue balance at 31 December 2019 in UK Bus and UK Coach by recalculating the deferred income held by each of the divisions based on journeys paid for vs. travelled by the year end and formed an expectation of revenues in Spain through examining a sample of key contracts; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 14. Other matters

#### 14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 14 June 2011 to audit the Financial Statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2011 to 31 December 2019.

#### 14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



#### Stephen Griggs, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

26 February 2020

**Financial Statements**  
**Group Income Statement**  
For the year ended 31 December 2019

	Note	Normalised result 2019 £m	Separately disclosed items 2019 £m	Total 2019 £m	Normalised result 2018 £m	Separately disclosed items 2018 £m	Total 2018 £m
<b>Continuing operations</b>							
Revenue	4	2,744.4	–	2,744.4	2,450.7	–	2,450.7
Operating costs	5	(2,449.1)	(53.0)	(2,502.1)	(2,193.0)	(42.3)	(2,235.3)
<b>Group operating profit</b>		<b>295.3</b>	<b>(53.0)</b>	<b>242.3</b>	257.7	(42.3)	215.4
Share of results from associates and joint ventures	18	0.4	–	0.4	0.9	–	0.9
Finance income	9	8.6	–	8.6	9.8	–	9.8
Finance costs	9	(64.3)	–	(64.3)	(48.4)	–	(48.4)
<b>Profit before tax</b>		<b>240.0</b>	<b>(53.0)</b>	<b>187.0</b>	220.0	(42.3)	177.7
Tax charge	10	(55.2)	16.5	(38.7)	(49.0)	10.0	(39.0)
<b>Profit after tax for the year from continuing operations</b>		<b>184.8</b>	<b>(36.5)</b>	<b>148.3</b>	171.0	(32.3)	138.7
Profit for the year from discontinued operations	11	–	–	–	–	–	–
<b>Profit for the year</b>		<b>184.8</b>	<b>(36.5)</b>	<b>148.3</b>	171.0	(32.3)	138.7
Profit attributable to equity shareholders		176.2	(35.1)	141.1	168.0	(32.3)	135.7
Profit attributable to non-controlling interests		8.6	(1.4)	7.2	3.0	–	3.0
		<b>184.8</b>	<b>(36.5)</b>	<b>148.3</b>	171.0	(32.3)	138.7
<b>Earnings per share:</b>	13						
– basic earnings per share				27.6p			26.6p
– diluted earnings per share				27.5p			26.5p
Normalised earnings per share:							
– basic earnings per share		34.5p			32.9p		
– diluted earnings per share		34.4p			32.8p		
Earnings per share from continuing operations:							
– basic earnings per share				27.6p			26.6p
– diluted earnings per share				27.5p			26.5p

Separately disclosed items includes intangible amortisation for acquired businesses, net gain in relation to the disposal of Ecolane subsidiaries, US restructuring costs and, in the prior year, result from discontinued operations. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 4.

**Financial Statements**  
**Group Statement of Comprehensive Income**  
**For the year ended 31 December 2019**

	Note	2019 £m	2018 £m
<b>Profit for the year</b>		<b>148.3</b>	138.7
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gains/(losses) on defined benefit pension plans	34	23.8	(24.9)
Deferred tax on actuarial gains/(losses)	10	(4.3)	4.0
		<b>19.5</b>	(20.9)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on retranslation of foreign operations (net of hedging)		(71.0)	30.1
Exchange gains reclassified to Income Statement on disposal of subsidiaries	19	(1.0)	–
Cost of hedging		1.0	1.4
Exchange differences on retranslation of non-controlling interests		(1.9)	0.4
Gains/(losses) on cash flow hedges		10.8	(6.3)
Hedging gains reclassified to Income Statement		(3.2)	(11.5)
Tax on exchange differences	10	(1.7)	(2.2)
Deferred tax on cash flow hedges	10	(2.5)	3.1
		<b>(69.5)</b>	15.0
<b>Comprehensive expenditure for the year</b>		<b>(50.0)</b>	(5.9)
<b>Total comprehensive income for the year</b>		<b>98.3</b>	132.8
<b>Total comprehensive income attributable to:</b>			
Equity shareholders		93.0	129.4
Non-controlling interests		5.3	3.4
		<b>98.3</b>	132.8

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Additional Information

**Financial Statements**  
**Group Balance Sheet**  
**At 31 December 2019**

	Note	2019 £m	2018 £m
<b>Non-current assets</b>			
Intangible assets	14	1,901.8	1,797.5
Property, plant and equipment	15	1,348.2	1,054.8
Non-current financial assets	17	24.9	14.9
Investments accounted for using the equity method	18	17.9	12.9
Trade and other receivables	20	9.6	3.0
Finance lease receivable	35	3.6	–
Deferred tax assets	27	31.8	42.7
Defined benefit pension assets	34	14.2	14.9
<b>Total non-current assets</b>		<b>3,352.0</b>	<b>2,940.7</b>
<b>Current assets</b>			
Inventories	21	29.4	27.4
Trade and other receivables	22	496.8	408.6
Finance lease receivable	35	1.4	–
Derivative financial instruments	17	44.5	7.9
Current tax assets		1.6	0.8
Cash and cash equivalents	23	478.3	117.5
<b>Total current assets</b>		<b>1,052.0</b>	<b>562.2</b>
Assets classified as held for sale	19	4.3	22.8
<b>Total assets</b>		<b>4,408.3</b>	<b>3,525.7</b>
<b>Non-current liabilities</b>			
Borrowings	28	(1,104.9)	(1,029.3)
Derivative financial instruments	28	(9.6)	(12.6)
Deferred tax liability	27	(56.4)	(63.0)
Other non-current liabilities	25	(164.3)	(25.2)
Defined benefit pension liabilities	34	(104.2)	(131.7)
Provisions	26	(43.1)	(49.2)
<b>Total non-current liabilities</b>		<b>(1,482.5)</b>	<b>(1,311.0)</b>
<b>Current liabilities</b>			
Trade and other payables	24	(1,052.9)	(870.5)
Borrowings	28	(652.8)	(59.3)
Derivative financial instruments	28	(37.8)	(16.9)
Current tax liabilities		(8.8)	(8.4)
Provisions	26	(61.0)	(58.7)
<b>Total current liabilities</b>		<b>(1,813.3)</b>	<b>(1,013.8)</b>
Liabilities classified as held for sale	19	–	(3.7)
<b>Total liabilities</b>		<b>(3,295.8)</b>	<b>(2,328.5)</b>
<b>Net assets</b>		<b>1,112.5</b>	<b>1,197.2</b>
<b>Shareholders' equity</b>			
Called-up share capital	32	25.6	25.6
Share premium account		532.7	532.7
Capital redemption reserve		0.2	0.2
Own shares		(6.0)	(7.0)
Other reserves	33	130.5	196.2
Retained earnings		391.4	426.6
<b>Total shareholders' equity</b>		<b>1,074.4</b>	<b>1,174.3</b>
Non-controlling interests in equity		38.1	22.9
<b>Total equity</b>		<b>1,112.5</b>	<b>1,197.2</b>

**D Finch**

Group Chief Executive  
27 February 2020

**C Davies**

Group Finance Director

**Financial Statements**  
**Group Statement of Changes in Equity**  
**For the year ended 31 December 2019**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2019	25.6	532.7	0.2	(7.0)	196.2	426.6	1,174.3	22.9	1,197.2
Change in accounting policies <sup>1</sup>	-	-	-	-	-	(9.5)	(9.5)	-	(9.5)
At 1 January 2019 (restated)	25.6	532.7	0.2	(7.0)	196.2	417.1	1,164.8	22.9	1,187.7
Profit for the year	-	-	-	-	-	141.1	141.1	7.2	148.3
Comprehensive expense for the year	-	-	-	-	(67.6)	19.5	(48.1)	(1.9)	(50.0)
Total comprehensive income	-	-	-	-	(67.6)	160.6	93.0	5.3	98.3
Shares purchased	-	-	-	(6.2)	-	-	(6.2)	-	(6.2)
Own shares released to satisfy employee share schemes	-	-	-	7.2	-	(7.2)	-	-	-
Share-based payments	-	-	-	-	-	5.6	5.6	-	5.6
Tax on share-based payments	-	-	-	-	-	0.5	0.5	-	0.5
Reclassification in reserves	-	-	-	-	1.9	(1.9)	-	-	-
Dividends	-	-	-	-	-	(78.3)	(78.3)	-	(78.3)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(1.5)	(1.5)
Recognition of liabilities with non-controlling interests	-	-	-	-	-	(100.0)	(100.0)	-	(100.0)
Acquisitions and disposals of non-controlling interests	-	-	-	-	-	-	-	9.6	9.6
Other movements with non-controlling interests	-	-	-	-	-	(5.0)	(5.0)	1.8	(3.2)
<b>At 31 December 2019</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(6.0)</b>	<b>130.5</b>	<b>391.4</b>	<b>1,074.4</b>	<b>38.1</b>	<b>1,112.5</b>

<sup>1</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 2)

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2018	25.6	532.7	0.2	(6.0)	181.6	410.9	1,145.0	21.4	1,166.4
Change in accounting policies <sup>1</sup>	-	-	-	-	-	(27.8)	(27.8)	(3.4)	(31.2)
At 1 January 2018 (restated)	25.6	532.7	0.2	(6.0)	181.6	383.1	1,117.2	18.0	1,135.2
Profit for the year	-	-	-	-	-	135.7	135.7	3.0	138.7
Comprehensive expense for the year	-	-	-	-	14.6	(20.9)	(6.3)	0.4	(5.9)
Total comprehensive income	-	-	-	-	14.6	114.8	129.4	3.4	132.8
Shares purchased	-	-	-	(9.7)	-	-	(9.7)	-	(9.7)
Own shares released to satisfy employee share schemes	-	-	-	8.7	-	(8.7)	-	-	-
Share-based payments	-	-	-	-	-	7.0	7.0	-	7.0
Tax on share-based payments	-	-	-	-	-	1.2	1.2	-	1.2
Dividends	-	-	-	-	-	(70.8)	(70.8)	-	(70.8)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(0.6)	(0.6)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	2.1	2.1
At 31 December 2018	25.6	532.7	0.2	(7.0)	196.2	426.6	1,174.3	22.9	1,197.2

<sup>1</sup> Opening balances in the prior year were restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'

**Financial Statements**  
**Group Statement of Cash Flows**  
**For the year ended 31 December 2019**

	Note	2019 £m	2018 £m
<b>Cash generated from operations</b>	39	<b>438.2</b>	361.2
Tax paid		(25.0)	(21.1)
Interest paid		(65.7)	(43.0)
Interest received		8.7	9.7
<b>Net cash flow from operating activities</b>		<b>356.2</b>	306.8
<b>Cash flows from investing activities</b>			
Payments to acquire businesses, net of cash acquired	19	(108.3)	(107.4)
Deferred consideration for businesses acquired	19	(14.8)	(38.5)
Proceeds from the disposal of business, net of cash disposed	19	21.7	–
Purchase of property, plant and equipment		(116.5)	(160.6)
Proceeds from disposal of property, plant and equipment		9.7	48.9
Payments to acquire intangible assets		(28.0)	(5.8)
Proceeds from disposal of intangible assets		1.5	10.0
Settlement of net investment hedge derivative contracts		(11.0)	–
(Payments)/receipts relating to associates and investments		(5.3)	1.1
<b>Net cash flow from investing activities</b>		<b>(251.0)</b>	(252.3)
<b>Cash flows from financing activities</b>			
Lease principal payments		(91.1)	(49.9)
Increase in borrowings		414.1	–
Repayment of borrowings		–	(94.4)
Settlement of foreign exchange forward contracts		20.8	(27.6)
Purchase of own shares		(6.2)	(9.7)
Contribution from non-controlling interests		3.1	–
Acquisition of non-controlling interests		(1.8)	–
Dividends paid to non-controlling interests		(0.7)	(0.6)
Dividends paid to shareholders of the Company	12	(78.3)	(70.8)
<b>Net cash flow from financing activities</b>		<b>259.9</b>	(253.0)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>365.1</b>	(198.5)
Opening cash and cash equivalents		117.7	314.3
Increase/(decrease) in cash and cash equivalents		365.1	(198.5)
Foreign exchange		(4.5)	1.9
<b>Closing cash and cash equivalents</b>		<b>478.3</b>	117.7
Cash and cash equivalents in continuing operations	23	478.3	117.5
Cash and cash equivalents classified in assets held for sale	23	–	0.2
<b>Closing cash and cash equivalents</b>		<b>478.3</b>	117.7

## 1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 27 February 2020. 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

### Accounting convention and basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These Financial Statements have been prepared on the going concern basis (see Group Finance Director's Review on page 26) under the historical cost convention, except for the recognition of derivative financial instruments, financial assets at fair value through other comprehensive income and contingent consideration.

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.

### 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.

IFRS 16 came into effect on 1 January 2019 and has been applied by the Group for the first time. The nature and effect of the changes from adopting this new accounting standard are described below.

The following other amendments and interpretations have been applied for the first time with effect from 1 January 2019:

- IFRIC 23 uncertainty over tax treatments
- Prepayment features with negative compensation (amendments to IFRS 9)
- Long-term interests in associates and joint ventures (amendments to IAS 28)
- Plan amendment, curtailment or settlement (amendments to IAS 19)
- Annual improvements to IFRS standards 2015–2017 cycle – various standards

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.

### IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. IFRS 16 introduces a single, on-balance sheet accounting model for leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17.

The Group has applied IFRS 16 using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to opening retained earnings.

The Group has lease contracts for various items of property, vehicles, plant and other equipment. Before the adoption of IFRS 16, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

### Leases previously classified as finance leases

The Group did not change the initial carrying amounts of assets and liabilities at the date of initial application for leases previously classified as finance leases.

## 2 Accounting policies continued

### Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied. For practical reasons, in some cases the right-of-use asset value was set equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group applied the available practical expedients wherein it:

- used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- applied the short-term lease exemption to leases with a lease term that ends within 12 months at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The weighted average incremental borrowing rate used to measure lease liabilities at the date of initial application was 3.4%.

The effect of IFRS 16 adoption as at 1 January 2019 is as follows:

	31 December 2018	Re- measurements £m	1 January 2019
Property, plant and equipment	1,054.8	201.1	1,255.9
Trade and other receivables (current)	408.6	(1.6)	407.0
<b>Total assets</b>	<b>3,525.7</b>	<b>199.5</b>	<b>3,725.2</b>
Borrowings	(1,088.6)	(213.7)	(1,302.3)
Trade and other payables (current)	(870.5)	1.8	(868.7)
Deferred tax liability (non-current)	(63.0)	2.9	(60.1)
<b>Total liabilities</b>	<b>(2,328.5)</b>	<b>(209.0)</b>	<b>(2,537.5)</b>
<b>Net assets</b>	<b>1,197.2</b>	<b>(9.5)</b>	<b>1,187.7</b>
<b>Shareholders' equity</b>			
Retained earnings	426.6	(9.5)	417.1
<b>Total equity</b>	<b>1,197.2</b>	<b>(9.5)</b>	<b>1,187.7</b>

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments at 31 December 2018	690.2
Discounted using incremental borrowing rates	(35.4)
Recognition exemption for:	
Short-term leases	(0.1)
Leases of low value items	(14.7)
Rolling stock leases <sup>1</sup>	(436.0)
Other <sup>2</sup>	9.7
	213.7
Existing finance lease obligations at 31 December 2018	142.6
<b>Lease liabilities recognised at 1 January 2019</b>	<b>356.3</b>

<sup>1</sup> Exempt from IFRS 16 due to the lessor directing how and for what purpose the assets are used, and in the case of one contract, the lessor has the right to substitute the assets, consistent with the application of IFRIC 12

<sup>2</sup> Other includes extension and termination options reasonably certain to be exercised

For additional information about the Group's accounting policies relating to leases, see page 151.

### Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.



## 2 Accounting policies continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. No areas of critical accounting judgements or key sources of estimation uncertainty have been identified in relation to Brexit.

### (i) Critical accounting judgements

#### Pensions – defined benefit assets

Judgement is required regarding the application of IFRIC 14 and the extent to which the Group can recognise defined benefit assets. Changes in this judgement could significantly impact the value of defined benefit pension balances recognised.

National Express Group PLC operates a defined benefit scheme, which at year end was in a net surplus position as disclosed in note 34. Based on the terms and conditions of the scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. The surplus has therefore been recognised in full.

### (ii) Key sources of estimation uncertainty

#### Insurance and other claims

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

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

#### Valuation of put liability

During the year, the Group acquired a controlling stake in WeDriveU, Inc. and issued put options to the seller to sell the remaining shares. The put option is exercisable in three tranches from 2020 to 2022. The put liability valuation is sensitive to EBITDA forecasts, discount rates and the expected timing of exercise. Changes in these estimates could significantly impact the liability and details of the assumptions are set out in note 25, to these Financial Statements, along with their sensitivities.

### 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 normalised results of the Group. Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses, net gain in relation to the disposal of Ecolane subsidiaries, US restructuring costs and, in the prior year, result from discontinued operations. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 4.

#### Revenue recognition

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

#### Contract revenues

For the purposes of disclosures, the Group has applied the term 'contract revenues' to describe documented contracts that typically cover periods of at least one year, excluding concessions and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and coach contracts in the UK.

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

## 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, German Rail, intercity coach services in Spain and urban bus services in Morocco.

Revenue is recognised by reference to the date of customer travel. Revenue from tickets that cover more than one day, for example monthly travel cards and season tickets, is initially deferred as a liability and released to the Income Statement over the period of the ticket.

Deferred income liability is reduced when an eligible cancellation arises. Also, where applicable, deferred income is reduced for ticket breakage, being the portion of future travel that is not expected to be exercised.

Booking fees are non-refundable and recognised at the point of sale, reflecting fulfilment of the performance obligation. Other ancillary revenues relating to ticket sales are recognised at point of sale or, if material and related to a future performance period, recognised by reference to that period.

Loyalty points issued to customers are recorded and valued by management. Where material, the cumulative redeemable value of the points is deducted from the related revenue and deferred as a liability until the points are redeemed.

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

### Grants and subsidies

Grants and subsidies relating to the provision of transport services are recognised as the services are provided and in accordance with the terms of the contract.

### Private hire

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

### Other revenues

Other revenues primarily comprise non-passenger services in Spain, transit software income in North America and advertising revenues.

Revenues for non-passenger services are recognised when the performance of the service has been fulfilled and in accordance with the terms of the contract. Transit software income is recognised when the benefit of the software or service has been passed to the customer. Advertising revenue is recognised over the period of the advertising contract.

### Contract costs

#### Costs to obtain a contract

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

#### Costs to fulfil a contract

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

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

## 2 Accounting policies continued

### Service concession arrangements

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

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

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

#### Financial asset model

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

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

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

#### Intangible asset model

The Group applies the intangible asset model when income is directly received from the passengers and there is no contractual guarantee from the concession grantor. The intangible asset corresponds to the right granted by the public authority to the Group to charge passengers of the public service.

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

Income received from passengers is recognised in line with the requirements of IFRS 15. Passenger revenue is recognised in line with the policy on page 145.

## 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.

## 2 Accounting policies continued

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

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

### Business combinations

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

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

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

### Non-current assets held for sale and discontinued operations

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

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

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

### Intangible assets

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary, associate or joint arrangement at the date of acquisition.

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

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

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

#### Other intangible assets

##### Customer contracts

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

##### Service concessions

Service concession intangible assets represent a right to charge passengers for the use of the public service. See page 146 for further details.

##### Contract costs

Contract costs include costs to obtain and costs to fulfil a contract. See page 145 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.

## 2 Accounting policies continued

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

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

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

### Property, plant and equipment

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

Repairs and maintenance costs are expensed as incurred.

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

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

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset, with any gain or loss arising included in the Income Statement in the period of derecognition.

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the Income Statement over the expected useful economic life of the assets concerned.

### 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.

## 2 Accounting policies continued

### 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 'EIR' method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

### Financial liabilities

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

#### Financial liabilities at fair value through profit and loss

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

#### Loans and borrowings

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

### 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.

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.

## 2 Accounting policies continued

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 finance costs.

Hedge accounting is discontinued when the hedging instrument or hedged item expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

### Inventories

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

### Trade and other receivables

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

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

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

### Cash and cash equivalents

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

### Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The Group classifies the cash flows from factoring of divisional revenues within cash from operating activities in the Statement of Cash Flows.

### 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.



## 2 Accounting policies continued

### Insurance

The Group's policy is to not insure low value, high frequency claims within the businesses. To provide protection against these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. Liabilities in respect of claims risk include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data and are discounted to take account of the expected timing of future cash settlements. To the extent insurance liabilities are insured and awaiting settlement, a separate asset is recognised in other receivables.

### Leases

#### Group as a lessee

##### Lease identification

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration.

##### 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. 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 on which the event or condition that triggers the payment occurs.

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

##### 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.

## 2 Accounting policies continued

### Defined benefit schemes

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

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

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

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

### Share-based payments

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

### 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 2019 reporting periods and have not been early adopted by the Group:

- IFRS 17 'Insurance Contracts'
- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. The Group does not expect the Interest Rate Benchmark Reform to significantly impact our hedge accounting programme as all derivative financial instruments referencing to LIBOR and EURIBOR expire prior to the expected date of discontinuation of these interest rate benchmarks.

### 3 Exchange rates

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

	2019 Closing rate	2019 Average rate	2018 Closing rate	2018 Average rate
US Dollar	1.33	1.28	1.28	1.34
Canadian Dollar	1.72	1.69	1.74	1.73
Euro	1.18	1.14	1.11	1.13

If the results for the year to 31 December 2018 had been retranslated at the average exchange rates for the year to 31 December 2019, North America would have achieved normalised operating profit of £101.3m on revenue of £1,107.2m, compared with normalised operating profit of £96.9m on revenue of £1,060.8m as reported, and ALSA would have achieved a normalised operating profit of £104.4m on revenue of £738.5m, compared with normalised operating profit of £105.3m on revenue of £745.1m as reported.

### 4 Revenue and segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide.

Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

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

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

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

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

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

#### (a) Revenue

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

	2019					Total £m
	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	
Analysis by class and reportable segment:						
UK	41.4	464.2	54.8	14.2	25.1	599.7
German Rail	–	49.8	35.7	–	4.4	89.9
ALSA	207.8	492.7	18.3	56.7	49.2	824.7
North America	1,126.9	–	–	83.3	19.9	1,230.1
Central functions	–	–	–	–	–	–
<b>Total revenue from continuing operations</b>	<b>1,376.1</b>	<b>1,006.7</b>	<b>108.8</b>	<b>154.2</b>	<b>98.6</b>	<b>2,744.4</b>
Analysis by major service type:						
Passenger transport	1,376.1	1,006.7	108.8	154.2	52.5	2,698.3
Other products and services	–	–	–	–	46.1	46.1
<b>Total revenue from continuing operations</b>	<b>1,376.1</b>	<b>1,006.7</b>	<b>108.8</b>	<b>154.2</b>	<b>98.6</b>	<b>2,744.4</b>

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

## 4 Revenue and segmental analysis continued

	2018					Total £m
	Contract revenues £m	Passenger Revenues <sup>1</sup> £m	Grants and subsidiaries £m	Private hire <sup>1</sup> £m	Other revenues £m	
Analysis by class and reportable segment:						
UK	29.2	456.8	56.0	14.6	20.4	577.0
German Rail	–	47.2	16.3	–	4.3	67.8
ALSA	189.3	466.8	10.2	26.3	52.5	745.1
North America	967.9	–	–	78.2	14.7	1,060.8
Central functions	–	–	–	–	–	–
<b>Total revenue from continuing operations</b>	<b>1,186.4</b>	<b>970.8</b>	<b>82.5</b>	<b>119.1</b>	<b>91.9</b>	<b>2,450.7</b>
Analysis by major service type:						
Passenger transport	1,186.4	970.8	82.5	119.1	13.7	2,372.5
Other products and services	–	–	–	–	78.2	78.2
<b>Total revenue from continuing operations</b>	<b>1,186.4</b>	<b>970.8</b>	<b>82.5</b>	<b>119.1</b>	<b>91.9</b>	<b>2,450.7</b>

<sup>1</sup> Prior year balances were re-presented in ALSA, with revenue reclassified between private hire and passenger revenues to better reflect the nature of the services

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

### (b) Operating profit

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2019 £m	Separately disclosed items 2019 £m	Segment result 2019 £m	Normalised operating profit 2018 £m	Separately disclosed items 2018 £m	Segment result 2018 £m
	UK	85.0	(0.9)	84.1	79.9	(1.0)
German Rail	5.0	(1.4)	3.6	3.0	(0.9)	2.1
ALSA	109.5	(15.7)	93.8	105.3	(11.1)	94.2
North America	123.0	(35.0)	88.0	96.9	(29.3)	67.6
Central functions	(27.2)	–	(27.2)	(27.4)	–	(27.4)
<b>Operating profit from continuing operations</b>	<b>295.3</b>	<b>(53.0)</b>	<b>242.3</b>	<b>257.7</b>	<b>(42.3)</b>	<b>215.4</b>
Share of results from associates and joint ventures	0.4	–	0.4	0.9	–	0.9
Net finance costs	(55.7)	–	(55.7)	(38.6)	–	(38.6)
Profit before tax	240.0	(53.0)	187.0	220.0	(42.3)	177.7
Tax charge	–	–	(38.7)	–	–	(39.0)
Profit after tax for the year from continuing operations	–	–	148.3	–	–	138.7
Profit for the year from discontinued operations	–	–	–	–	–	–
<b>Profit for the year</b>	<b>–</b>	<b>–</b>	<b>148.3</b>	<b>–</b>	<b>–</b>	<b>138.7</b>

## 4 Revenue and segmental analysis continued

### (c) Separately disclosed items

Separately disclosed items includes:

	2019 £m	2018 £m
Intangible amortisation for acquired businesses	(53.0)	(42.3)
Net gain on disposal of Ecolane subsidiaries (note 19)	8.8	–
Restructuring costs <sup>1</sup>	(8.8)	–
	<b>(53.0)</b>	<b>(42.3)</b>

<sup>1</sup> Relates to the costs of restructuring and redundancy incurred in North America following changes in the management of school bus and transit businesses and other operational and corporate projects

The Board believes that treating the above items as separately disclosable gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures.

### (d) Depreciation

Depreciation is analysed by reportable segment as follows:

	2019 £m	2018 £m
UK	36.6	19.7
German Rail	2.0	0.6
ALSA	62.3	44.0
North America	100.9	68.8
Central functions	1.3	0.7
	<b>203.1</b>	<b>133.8</b>

### (e) Non-current assets

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

	Intangible assets 2019 £m	Property, plant and equipment 2019 £m	Total non-current assets 2019 £m	Non-current asset additions 2019 £m	Intangible assets 2018 £m	Property, plant and equipment 2018 £m	Total non-current assets 2018 £m	Non-current asset additions 2018 £m
UK	34.3	329.5	363.8	77.2	30.6	190.2	220.8	38.2
Central functions	9.3	2.5	11.8	2.6	8.0	2.4	10.4	1.4
<b>Total UK</b>	<b>43.6</b>	<b>332.0</b>	<b>375.6</b>	<b>79.8</b>	<b>38.6</b>	<b>192.6</b>	<b>231.2</b>	<b>39.6</b>
German Rail	23.6	8.4	32.0	15.3	18.0	2.0	20.0	5.3
ALSA	946.0	394.8	1,340.8	164.5	921.7	353.2	1,274.9	64.9
North America	888.6	613.0	1,501.6	162.2	819.2	507.0	1,326.2	116.5
<b>Total overseas</b>	<b>1,858.2</b>	<b>1,016.2</b>	<b>2,874.4</b>	<b>342.0</b>	<b>1,758.9</b>	<b>862.2</b>	<b>2,621.1</b>	<b>186.7</b>
<b>Total</b>	<b>1,901.8</b>	<b>1,348.2</b>	<b>3,250.0</b>	<b>421.8</b>	<b>1,797.5</b>	<b>1,054.8</b>	<b>2,852.3</b>	<b>226.3</b>

## 4 Revenue and segmental analysis continued

### (f) Geographical information

	Revenue from external customers		Non-current assets	
	2019 £m	2018 £m	2019 £m	2018 £m
UK	599.7	577.0	375.6	231.2
Germany	89.9	67.8	32.0	20.0
Spain	746.2	683.9	1,203.4	1,245.4
Morocco	64.5	48.9	124.1	19.8
Switzerland	14.0	12.3	13.3	9.7
USA	1,152.7	982.3	1,362.1	1,195.2
Canada	77.4	78.5	139.5	131.0
	<b>2,744.4</b>	<b>2,450.7</b>	<b>3,250.0</b>	<b>2,852.3</b>

Due to the nature of the Group's businesses, the origin and destination of revenue is the same.

No single external customer amounts to 10% or more of the total revenue.

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

## 5 Operating costs

	2019 £m	2018 £m
Cost of inventories recognised in expense	82.8	86.1
Staff costs	1,416.7	1,260.9
Depreciation		
– owned assets	132.4	112.5
– leased assets	70.7	21.3
Intangible asset amortisation	59.7	47.0
Gain on disposal of property, plant and equipment	(10.3)	(8.4)
Gain on disposal of intangible assets	(3.6)	(8.3)
Amortisation of fixed asset grants	(1.3)	(0.5)
Leases (note 35)		
– variable lease payments	–	–
– expenses relating to short-term leases	10.3	–
– expenses relating to leases of low-value assets	7.6	–
Other charges	737.1	724.7
<b>Total operating costs</b>	<b>2,502.1</b>	<b>2,235.3</b>

## 6 Auditor's remuneration

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

	2019 £m	2018 £m
Audit of the Financial Statements	0.5	0.4
Audit of subsidiaries	0.9	0.9
Audit-related assurance services	0.1	0.1
	<b>1.5</b>	<b>1.4</b>

## 7 Employee benefit costs

### (a) Staff costs

	2019 £m	2018 £m
Wages and salaries	1,234.5	1,093.2
Social security costs	165.5	151.0
Pension costs (note 34)	10.3	10.3
Share-based payment (note 8)	6.4	6.4
	<b>1,416.7</b>	<b>1,260.9</b>

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

	2019	2018
Managerial and administrative	4,934	4,415
Operational	44,644	42,288
	<b>49,578</b>	<b>46,703</b>

Included in the above are the following costs related to the Group's key management personnel who comprise the Executive Directors of the parent Company. Further details are disclosed in the Directors' Remuneration Report:

	2019 £m	2018 £m
Basic salaries	1.4	1.3
Benefits	0.7	0.9
Performance-related bonuses	2.2	1.9
Share-based payment	2.6	2.8
	<b>6.9</b>	<b>6.9</b>

### (b) Share schemes

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

	Number of share options 2019	Number of share options 2018	Exercise price	Future exercise periods
Long-Term Incentive Plan	6,391,119	5,909,026	nil	2020-2024
West Midland Travel Long Service Option Scheme	134,956	155,521	225p-412p	2020-2029
Executive Deferred Bonus Plan	145,238	181,668	nil	2020
	<b>6,671,313</b>	<b>6,246,215</b>		

## 7 Employee benefit costs continued

### (i) Long-Term Incentive Plan (LTIP)

The LTIP is open to Executive Directors and senior management with awards made at the discretion of the Remuneration Committee, normally on an annual basis and in the form of a nil cost option over a certain number of shares in the Company. The vesting of shares on the third anniversary of grant is subject to the Company's achievement against specific performance conditions and growth targets set at the date of grant which: (i) relate to earnings per share (EPS), return on capital employed (ROCE) and the relative total shareholder return (TSR) of the Company against a comparator group of companies and the FTSE 250 Index; and (ii) 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, dividends are payable on unexercised vested shares held by Executive Directors during their compulsory two-year holding period which runs from the date of vesting (in parallel with the two-year exercise period).

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

In each of the years 2012 to 2014 inclusive, a supplementary nil cost option LTIP award was granted to the Group Chief Executive. The vesting of these shares on the fifth anniversary of grant is subject to the Company's achievement against specific performance conditions and growth targets set at each date of grant which: (i) relate to EPS and the relative TSR of the Company against a comparator group of companies and/or the FTSE 250 Index; and (ii) are measured over the five-year financial period commencing with the year of grant. No dividend accrual entitlement existed on these schemes. The 2014 scheme vested during the year, and there are no shares outstanding at the year end in relation to the any of these schemes.

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

### (ii) Executive Deferred Bonus Plan (EDBP)

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

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

The WMT LSOS is used to reward WMT employees who attain 25 years' service. The market-value option award over a certain number of shares in the Company is exercisable between the third and tenth anniversary of grant. There are no performance conditions and shares are delivered on exercise through the Trust. No cash settlement alternative is available.

### (iv) Travel West Midland Share Incentive Plan (TWM SIP)

The TWM SIP exists for the benefit of WMT employees. However, the plan is closed to new entrants and no awards have been granted under it since May 2008. At 31 December 2019, 1,079 (2018: 1,079) shares in the Company were held by the Trustee for the benefit of existing participants. No cash settlement alternative is available.



## 8 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:

	2019 £m	2018 £m
Expense arising from share and share option plans – continuing operations	6.4	6.4

During the year ended 31 December 2019, the Group had four share-based payment arrangements, which are described in note 7(b).

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

	2019		2018	
	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	155,521	298	183,883	295
Granted during the year	15,000	412	27,000	392
Forfeited during the year	(8,773)	325	(16,649)	283
Exercised during the year	(19,802)	283	(27,811)	272
Expired during the year	(6,990)	129	(10,902)	594
<b>Outstanding at 31 December</b>	<b>134,956</b>	<b>320</b>	<b>155,521</b>	<b>298</b>
<b>Exercisable at 31 December</b>	<b>87,156</b>	<b>282</b>	<b>97,077</b>	<b>260</b>
Options with a nil exercise price:				
At 1 January	6,090,694	nil	6,285,981	nil
Granted during the year	2,327,084	nil	2,159,093	nil
Forfeited during the year	-	nil	-	nil
Exercised during the year	(1,805,321)	nil	(2,220,498)	nil
Expired during the year	(76,100)	nil	(133,882)	nil
<b>Outstanding at 31 December</b>	<b>6,536,357</b>	<b>nil</b>	<b>6,090,694</b>	<b>nil</b>
<b>Exercisable at 31 December</b>	<b>391,272</b>	<b>nil</b>	<b>51,955</b>	<b>nil</b>
<b>Total outstanding at 31 December</b>	<b>6,671,313</b>		<b>6,246,215</b>	
<b>Total exercisable at 31 December</b>	<b>478,428</b>		<b>149,032</b>	

The options outstanding at 31 December 2019 had exercise prices that were between 225p and 412p (2018: between 129p and 392p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2019 Number	2018 Number
	100-300	52,818
301-350	34,338	44,625
351-450	47,800	36,700
	<b>134,956</b>	<b>155,521</b>

The options have a weighted average contractual life of one year (2018: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 417p (2018: 387p).

## 8 Share-based payments continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2019	2018	2019	2018
Risk-free interest rate	0.72%	1.04%	0.78%	0.85%
Expected volatility	20%	21%	16%	20%
Peer group volatility	–	–	25-31%	27%-29%
Expected option life in years	5 years	5 years	3 years	3 years
Expected dividend yield	3.65%	3.50%	0.00%	0.00%
Weighted average share price at grant date	412p	386p	414p	387p
Weighted average exercise price at grant date	412p	392p	nil	nil
Weighted average fair value of options at grant date	42p	43p	337p	342p

Experience to date has shown that approximately 24% (2018: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant, divided by the average share price in the month preceding the date of the grant.

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

## 9 Net finance costs

	2019 £m	2018 £m
Bond and bank interest payable	(40.9)	(36.8)
Lease interest payable	(12.8)	(4.4)
Other interest payable	(4.7)	(3.8)
Unwind of provision discounting	(1.2)	(1.2)
Unwind of put liability discounting	(1.5)	–
Net interest cost on defined benefit pension obligations	(3.2)	(2.2)
<b>Finance costs</b>	<b>(64.3)</b>	<b>(48.4)</b>
Lease interest income	0.2	–
Other financial income	8.4	9.8
<b>Net finance costs</b>	<b>(55.7)</b>	<b>(38.6)</b>
Of which, from financial instruments:		
Financial assets measured at amortised cost	0.8	0.5
Financial liabilities measured at amortised cost	(57.1)	(40.6)
Derivatives	7.6	9.3
Loan fee amortisation	(1.3)	(1.5)

## 10 Taxation

### (a) Analysis of taxation charge in the year

	2019 £m	2018 £m
<b>Current taxation:</b>		
UK corporation tax	7.7	2.9
Overseas taxation	20.4	16.0
Current income tax charge	28.1	18.9
Adjustments with respect to prior years – UK and overseas	(7.0)	(0.1)
<b>Total current income tax charge</b>	<b>21.1</b>	<b>18.8</b>
<b>Deferred taxation (note 27):</b>		
Origination and reversal of temporary differences – continuing operations	20.9	17.7
Adjustments with respect to prior years – UK and overseas	(3.3)	0.8
<b>Deferred tax charge</b>	<b>17.6</b>	<b>18.5</b>
<b>Total tax charge for the Group</b>	<b>38.7</b>	<b>37.3</b>
Amounts relating to discontinued items	-	1.7
<b>Total tax charge for the continuing Group</b>	<b>38.7</b>	<b>39.0</b>
The tax charge for the continuing Group is disclosed as follows:		
Tax charge on profit before separately disclosed items	55.2	49.0
Tax credit on separately disclosed items	(16.5)	(10.0)
	<b>38.7</b>	<b>39.0</b>

In the current year, the tax credit on separately disclosed items of £16.5m (2018: £10.0m) relates to tax relief on intangible amortisation, the gain on the disposal of Ecolane and restructuring costs in North America and is determined by reference to the tax rates in the jurisdiction to which the item relates. The disposal of Ecolane is treated as tax-free under UK legislation and a credit of £4.0m arises on the disposal and restructuring costs. 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

	2019 £m	2018 £m
<b>Current taxation:</b>		
(Charge)/Credit on exchange movements offset in reserves	(1.7)	0.5
	<b>(1.7)</b>	<b>0.5</b>
<b>Deferred taxation:</b>		
Deferred tax (charge)/credit on actuarial (gains)/losses	(4.3)	4.0
Deferred tax (charge)/credit on cash flow hedges	(2.5)	3.1
Deferred tax credit on foreign exchange differences	-	(2.7)
Deferred tax credit on share-based payments	0.5	1.2
	<b>(6.3)</b>	<b>5.6</b>

## 10 Taxation continued

## (c) Reconciliation of the total tax charge

	2019 £m	2018 £m
Profit before income tax – continuing Group	187.0	177.7
Notional charge at UK corporation tax rate of 19% (2018: 19%)	35.5	33.8
<b>Recurring items:</b>		
Non-deductible goodwill impairment	1.2	1.6
Non-deductible intangible amortisation	–	0.6
Effect of overseas tax rates	7.7	9.1
Tax incentives	(1.2)	(4.2)
State taxes	–	0.6
<b>Non-recurring items:</b>		
Adjustments to prior years within current and deferred tax (excluding movements in tax provisions)	(10.3)	0.7
Increase/(release) of tax provisions	2.9	(0.7)
Effect of reduction in tax rates	–	(0.4)
Non-deductible expenditure	2.9	1.0
Indexation in relation to property disposals	–	(2.2)
Utilisation of a deferred tax asset for previously unrecognised tax losses	–	(0.9)
<b>Total tax charge reported in the Income Statement (note 10(a))</b>	<b>38.7</b>	<b>39.0</b>

The main item included within the tax reconciliation is the prior year adjustment to uplift the tax position in line with a revision of UK and US tax returns.

## (d) Tax provisions

At 31 December 2019, the Group held tax provisions of £10.8m (2018: £7.9m), representing a number of tax uncertainties such as the deductibility of interest expense in the UK and Spain and the Moroccan and US tax audits. All UK corporation tax returns up to 2018 have been submitted and agreed by HMRC. There has been a net increase of £2.9m in tax provisions, which is 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 and is included in current tax liabilities.

## (e) Temporary differences associated with Group investments

No deferred tax (2018: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2018: £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 relate to gross losses of £17.7m (2018: £17.6m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. The majority of the unrecognised losses relates to UK entities where it is uncertain when, or if, the losses will be utilised.

## (g) Deferred tax included in the Income Statement

	2019 £m	2018 £m
Accelerated capital allowances	29.8	10.5
Other short-term temporary differences	6.6	10.3
Recognition of losses	(18.8)	(2.3)
<b>Deferred tax charge (note 10(a))</b>	<b>17.6</b>	<b>18.5</b>

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

## (h) Factors that may affect future tax charges

There are no known significant factors that may affect future tax charges.

## 11 Discontinued operations

On 24 June 2018, the Group handed back the Midland Metro tram operations to the West Midlands Combined Authority. This operation was recognised as discontinued in the 2018 Annual Report, along with the disposal of the Thameside 'c2c' franchise which was sold to Trenitalia.

Details of the discontinued operations are as follows:

	2019 £m	2018 £m
Revenue	-	5.1
Operating costs	-	(6.8)
<b>Net loss from discontinued operations before tax</b>	<b>-</b>	<b>(1.7)</b>
Attributable income tax credit	-	1.7
<b>Net result from discontinued operations attributable to equity shareholders</b>	<b>-</b>	<b>-</b>

The net cash flows incurred by the discontinued operations during the year are as follows. These cash flows are included within the Group Statement of Cash Flows:

	2019 £m	2018 £m
Cash (outflow)/inflow from operating activities	<b>(1.2)</b>	0.4
<b>Net cash (outflow)/inflow</b>	<b>(1.2)</b>	0.4

## 12 Dividends paid and proposed

	2019 £m	2018 £m
<b>Declared and paid during the year</b>		
Ordinary final dividend for 2018 paid of 10.17p per share (2017: 9.25p)	<b>51.9</b>	47.3
Ordinary interim dividend for 2019 of 5.16p per share (2018: 4.69p)	<b>26.4</b>	23.5
	<b>78.3</b>	70.8
<b>Proposed for approval (not recognised as a liability at 31 December)</b>		
Ordinary final dividend for 2019 of 11.19p per share (2018: 10.17p per share)	<b>57.1</b>	51.9

## 13 Earnings per share

	2019	2018
Basic earnings per share	27.6p	26.6p
Normalised basic earnings per share	34.5p	32.9p
Basic earnings per share from continuing operations	27.6p	26.6p
Diluted earnings per share	27.5p	26.5p
Normalised diluted earnings per share	34.4p	32.8p
Diluted earnings per share from continuing operations	27.5p	26.5p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £141.1m (2018: £135.7m) 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.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £141.1m (2018: £135.7m). Basic and diluted EPS in the year for discontinued operations was nil (2018: nil) and nil (2018: nil) respectively.

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:

	2019	2018
Basic weighted average shares	510,435,913	510,682,902
Adjustment for dilutive potential ordinary shares	2,433,486	2,197,926
<b>Diluted weighted average shares</b>	<b>512,869,399</b>	<b>512,880,828</b>

The normalised basic and normalised 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 more appropriately.

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

	2019			2018		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	141.1	27.6	27.5	135.7	26.6	26.5
Separately disclosed items	53.0	10.4	10.3	42.3	8.3	8.2
Separately disclosed tax	(16.5)	(3.2)	(3.2)	(10.0)	(2.0)	(1.9)
Separately disclosed non-controlling interests	(1.4)	(0.3)	(0.2)	–	–	–
Profit for the year from discontinued operations	–	–	–	–	–	–
<b>Normalised profit attributable to equity shareholders</b>	<b>176.2</b>	<b>34.5</b>	<b>34.4</b>	<b>168.0</b>	<b>32.9</b>	<b>32.8</b>

## 14 Intangible assets

	Customer contracts £m	Infrastructure investment intangible £m	Software £m	Contract costs £m	Total finite life assets £m	Goodwill £m	Total £m
<b>Cost:</b>							
At 1 January 2019	836.4	-	96.8	21.5	954.7	1,502.7	2,457.4
Acquisitions	49.8	-	-	-	49.8	101.7	151.5
Additions	6.6	77.3	18.5	7.9	110.3	-	110.3
Disposals	-	-	(3.5)	-	(3.5)	(6.4)	(9.9)
Reclassifications	(2.3)	-	0.3	-	(2.0)	2.3	0.3
Foreign exchange	(43.3)	(2.8)	(3.0)	(2.0)	(51.1)	(74.2)	(125.3)
<b>At 31 December 2019</b>	<b>847.2</b>	<b>74.5</b>	<b>109.1</b>	<b>27.4</b>	<b>1,058.2</b>	<b>1,526.1</b>	<b>2,584.3</b>
<b>Amortisation and impairment:</b>							
At 1 January 2019	547.6	-	67.2	3.0	617.8	42.1	659.9
Charge for year	47.8	0.9	9.5	1.5	59.7	-	59.7
Disposals	-	-	(2.0)	-	(2.0)	-	(2.0)
Reclassifications	-	-	0.2	-	0.2	-	0.2
Foreign exchange	(30.0)	-	(2.6)	(0.2)	(32.8)	(2.5)	(35.3)
<b>At 31 December 2019</b>	<b>565.4</b>	<b>0.9</b>	<b>72.3</b>	<b>4.3</b>	<b>642.9</b>	<b>39.6</b>	<b>682.5</b>
<b>Net book value:</b>							
<b>At 31 December 2019</b>	<b>281.8</b>	<b>73.6</b>	<b>36.8</b>	<b>23.1</b>	<b>415.3</b>	<b>1,486.5</b>	<b>1,901.8</b>
At 1 January 2019	288.8	-	29.6	18.5	336.9	1,460.6	1,797.5

During the year, the Group recognised infrastructure investment intangibles of £77.3m for public service vehicles where the Group has the right to charge passengers of the public service in accordance with IFRIC 12 'Service Concession Arrangements'. Note 38 includes further details of the Group's service concession arrangements.

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

Segment	Nature of contract	Remaining useful economic life	Net book value at 31 December 2019 £m
North America	School bus and paratransit service contract in North America	12 years	25.1
North America	Employee shuttle contract in North America	9 years	22.0
North America	Paratransit bus service contract in North America	13 years	17.0
North America	School bus and paratransit service contract in North America	13 years	13.5
ALSA	Urban and charter bus service contract in Spain	6 years	14.0
ALSA	Fuel transportation service contract in Spain	10 years	13.5

## 14 Intangible assets continued

	Customer contracts £m	Software £m	Contract costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2018	767.1	98.3	17.8	883.2	1,358.0	2,241.2
Acquisitions	55.8	–	–	55.8	105.5	161.3
Additions	0.9	11.9	3.4	16.2	–	16.2
Disposals	(1.7)	(4.4)	–	(6.1)	–	(6.1)
Reclassifications	0.2	(5.0)	–	(4.8)	–	(4.8)
Assets reclassified as held for sale (note 19)	(7.9)	(7.8)	–	(15.7)	–	(15.7)
Foreign exchange	22.0	3.8	0.3	26.1	39.2	65.3
At 31 December 2018	836.4	96.8	21.5	954.7	1,502.7	2,457.4
Amortisation and impairment:						
At 1 January 2018	501.1	64.4	1.9	567.4	40.4	607.8
Charge for year	37.5	8.5	1.0	47.0	–	47.0
Disposals	–	(4.4)	–	(4.4)	–	(4.4)
Reclassifications	–	(2.8)	–	(2.8)	–	(2.8)
Assets reclassified as held for sale (note 19)	(2.0)	(0.9)	–	(2.9)	–	(2.9)
Foreign exchange	11.0	2.4	0.1	13.5	1.7	15.2
At 31 December 2018	547.6	67.2	3.0	617.8	42.1	659.9
Net book value:						
At 31 December 2018	288.8	29.6	18.5	336.9	1,460.6	1,797.5
At 1 January 2018	266.0	33.9	15.9	315.8	1,317.6	1,633.4

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:

	2019 £m	2018 £m
UK	29.0	27.6
North America	679.4	620.7
ALSA	778.1	812.3
	<b>1,486.5</b>	1,460.6

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 beyond the three-year period of the management plan.

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

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three-year period of management plan	
	2019	2018	2019	2018
UK	6.4%	7.7%	2.5%	2.6%
North America	6.3%	7.6%	2.9%	2.8%
ALSA	7.3%	8.6%	2.5%	2.8%

The forecast cash flows include management's latest estimates on sales volumes and pricing. 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. A perpetual growth rate for each division has been consistently applied in the impairment review for all cash-generating units based on current forecasts and long-term country-specific GDP growth rates. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital (WACC), principally derived from external sources.

The value in use of the North America division exceeds its carrying amount by £1,371.6m (2018: £419.3m).

The value in use of the ALSA division exceeds its carrying amount by £424.9m (2018: £139.5m).



## 14 Intangible assets continued

### Sensitivities to key and other assumptions

The sensitivity analysis below has been presented in the interests of transparency and consistency only. It is not believed that any reasonably possible movement in key and other assumptions will lead to an impairment.

Sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 3.0% (2018: 1.5%) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 3.2% (2018: 1.6%).

In addition, for North America, a reduction in operating profit margin of 3.9% (2018: 1.6%) will result in the value in use of the division being equal to its carrying amount. North America's operating profit margin for 2019 was 10.0% (2018: 9.1%).

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 1.5% (2018: 1.1%) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 1.5% (2018: 0.6%).

A reduction in ALSA's operating profit margin of 1.9% (2018: 1.0%) will result in the value in use of the division being equal to its carrying amount. ALSA's operating profit margin for 2019 was 13.3% (2018: 14.1%).

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts, and therefore that goodwill is not impaired.

## 15 Property, plant and equipment

	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
<b>Cost:</b>				
At 1 January 2019	118.8	1,835.4	163.1	2,117.3
Change in accounting policies <sup>1</sup>	181.4	172.1	3.8	357.3
At 1 January 2019 restated	300.2	2,007.5	166.9	2,474.6
Acquisitions	5.1	35.2	0.7	41.0
Additions	39.8	240.5	31.2	311.5
Disposals	(10.3)	(126.2)	(5.7)	(142.2)
Reclassifications	-	-	(0.3)	(0.3)
Foreign exchange	(11.2)	(71.5)	(5.8)	(88.5)
<b>At 31 December 2019</b>	<b>323.6</b>	<b>2,085.5</b>	<b>187.0</b>	<b>2,596.1</b>
<b>Depreciation:</b>				
At 1 January 2019	31.6	912.2	118.7	1,062.5
Change in accounting policies <sup>1</sup>	66.3	87.7	2.2	156.2
At 1 January 2019 restated	97.9	999.9	120.9	1,218.7
Charge for the year	32.3	156.1	14.7	203.1
Disposals	(9.3)	(117.0)	(5.0)	(131.3)
Reclassifications	-	-	(0.2)	(0.2)
Foreign exchange	(4.1)	(34.2)	(4.1)	(42.4)
<b>At 31 December 2019</b>	<b>116.8</b>	<b>1,004.8</b>	<b>126.3</b>	<b>1,247.9</b>
<b>Net book value:</b>				
<b>At 31 December 2019</b>	<b>206.8</b>	<b>1,080.7</b>	<b>60.7</b>	<b>1,348.2</b>
At 1 January 2019 <sup>1</sup>	202.3	1,007.6	46.0	1,255.9

<sup>1</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 2)

During the year, the Group entered into an asset exchange transaction, in which it swapped an existing property for a new piece of land and a funding arrangement to construct a new property. As the funding of the new property is contingent on planning permission being granted, about which there is no certainty, consideration for the transaction has been restricted to the fair value of the new land exchanged in accordance with IFRS 15. When it becomes highly probable that planning permission will be granted a reassessment of the total consideration will be performed. The movement analysis above includes the disposal of the property and the fair value of the new land acquired as a result of the exchange.

## 15 Property, plant and equipment continued

	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:				
At 1 January 2018	128.3	1,667.8	204.5	2,000.6
Acquisitions	5.3	21.2	0.6	27.1
Additions	6.9	188.7	14.5	210.1
Disposals	(18.8)	(99.5)	(64.0)	(182.3)
Reclassifications	(0.2)	–	5.0	4.8
Assets reclassified as held for sale (note 19)	(4.5)	–	(0.2)	(4.7)
Foreign exchange	1.8	57.2	2.7	61.7
At 31 December 2018	118.8	1,835.4	163.1	2,117.3
Depreciation:				
At 1 January 2018	39.7	833.8	158.9	1,032.4
Charge for the year	3.1	119.9	10.8	133.8
Disposals	(11.7)	(71.6)	(55.8)	(139.1)
Reclassifications	–	–	2.8	2.8
Assets reclassified as held for sale (note 19)	–	–	(0.1)	(0.1)
Foreign exchange	0.5	30.1	2.1	32.7
At 31 December 2018	31.6	912.2	118.7	1,062.5
Net book value:				
At 31 December 2018	87.2	923.2	44.4	1,054.8
At 1 January 2018	88.6	834.0	45.6	968.2

Details of leased assets included within property, plant and equipment are provided in note 35.

## 16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 40, along with the addresses of their registered offices. The principal country of operation in respect of the companies below is the country in which they are incorporated.

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

### Incorporated in England and Wales

National Express Limited	Operation of coach services
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services

### Incorporated in Scotland

Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services
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### Incorporated in the United States

Durham School Services LP	Operation of school bus services
Petermann Ltd	Operation of school bus services
National Express Transit Corporation	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services
WeDriveU Inc.	Operation of shuttle services

### Incorporated in Canada

Stock Transportation Limited	Operation of school bus services
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### Incorporated in Spain

Tury Express S.A. <sup>1</sup>	Holding company for operating companies
General Tecnica Industrial S.L.U. <sup>1</sup>	Holding company for operating companies
NEX Continental Holdings S.L.	Holding company for operating companies

### Incorporated in Morocco

Groupe Alsa Transport S.A.	Operation of bus services
Transport de Voyageurs en Autocar Maroc S.A.	Operation of bus services
Alsa Tanger S.A.	Operation of bus services
Alsa City Agadir S.A.	Operation of bus services
Alsa Citybus Rabat-Salé-Temara	Operation of bus services

### Incorporated in Germany

National Express Rail GmbH	Operation of train passenger services
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<sup>1</sup> The main holding companies of the ALSA Group

## 17 Non-current financial assets

	2019 £m	2018 £m
<b>Financial assets at fair value through other comprehensive income – unlisted ordinary shares</b>	<b>14.2</b>	6.7
Derivative financial instruments – fuel derivatives	0.6	1.5
Derivative financial instruments – interest rate derivatives	2.1	6.7
Derivative financial instruments – cross currency swaps	8.0	–
<b>Derivative financial instruments included in non-current assets</b>	<b>10.7</b>	8.2
<b>Total non-current financial instruments</b>	<b>24.9</b>	14.9
Derivative financial instruments – fuel derivatives	6.1	0.4
Derivative financial instruments – interest rate derivatives	7.9	3.9
Derivative financial instruments – cross currency swaps	3.5	–
Derivative financial instruments – foreign exchange derivatives	27.0	3.6
<b>Derivative financial instruments included in current assets</b>	<b>44.5</b>	7.9

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

### Financial assets at fair value through other comprehensive income

	2019 £m	2018 £m
<b>Fair value:</b>		
At 1 January	6.7	8.1
Change in accounting policies <sup>1</sup>	–	(0.7)
At 1 January (restated)	6.7	7.4
Additions in the year	8.2	–
Disposals in the year	–	(0.8)
Foreign exchange	(0.7)	0.1
<b>At 31 December</b>	<b>14.2</b>	6.7

<sup>1</sup> Opening balances in 2018 were restated for the adoption of IFRS 9 'Financial Instruments'

The principal financial assets at fair value through other comprehensive income are as follows:

Name	Segment	2019 Proportion held %	2018 Proportion held %
Metros Ligeros de Madrid, S.A.	ALSA	15	15
Transit Technologies Holdco	North America	8.8	–
Other small investments within ALSA	ALSA	1-16	1-16

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

The fair value measurement of non-listed equity investments are categorised within Level 3 (i.e. the fair values are determined by reference to significant unobservable inputs), with the fair value of the two most significant investments totalling £13.5m at 31 December 2019. For the first of these, the fair value was determined from the pricing of recent investment transactions. A 10% increase/(decrease) in the price per share would result in a £0.7m increase/(decrease) respectively in the fair value of the investment. For the second investment, the fair value was determined using an estimate of the discounted future cash flows. Future cash flows are estimated based on inputs including passenger growth, cost inflation and operating margin. The fair value is most sensitive to changes in passenger growth and cost inflation assumptions. A 1% increase/(decrease) in passenger growth would result in a £0.4m increase/(decrease) respectively in the fair value of the investment. Whereas, a 0.5% increase/(decrease) in inflation would result in a £1.1m (decrease)/increase respectively in the fair value of the investment.

No strategic investments were disposed of during 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments. No dividends were received from the investments during 2019 (2018: nil).

## 18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2019 £m	2018 £m
Joint ventures	10.7	10.2
Associates	7.2	2.7
<b>Total investments accounted for under the equity method</b>	<b>17.9</b>	<b>12.9</b>

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

	2019 £m	2018 £m
Share of joint ventures' profit	0.6	1.1
Share of associates' loss	(0.2)	(0.2)
<b>Total share of results from associates and joint ventures</b>	<b>0.4</b>	<b>0.9</b>

### (a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %	
			2019	2018
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	50	50
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	-	20

During the year, Ibero-Eurosur S.L. was liquidated.

The summarised financial information for individually immaterial joint ventures is set out below:

	Bahrain Public Transport Company W.L.L.		Ibero-Eurosur S.L.	
	2019 £m	2018 £m	2019 £m	2018 £m
Share of the joint ventures' balance sheets and results				
Non-current assets	13.7	16.4	-	0.2
Current assets	6.2	7.0	-	-
Share of gross assets	19.9	23.4	-	0.2
Non-current liabilities	(3.8)	(6.8)	-	(0.2)
Current liabilities	(5.8)	(6.4)	-	-
Share of gross liabilities	(9.6)	(13.2)	-	(0.2)
<b>Net assets</b>	<b>10.3</b>	<b>10.2</b>	<b>-</b>	<b>-</b>
Revenue	9.4	6.0	-	-
Operating profit	1.6	0.7	-	-
Profit after tax	0.5	1.1	-	-
<b>Profit for the year and total comprehensive income</b>	<b>0.5</b>	<b>1.7</b>	<b>-</b>	<b>-</b>
<b>Dividends received from the joint ventures during the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	Bahrain Public Transport Company W.L.L.		Ibero-Eurosur S.L.	
	2019 £m	2018 £m	2019 £m	2018 £m
Group share of net assets of the joint venture	10.3	10.2	-	-
Adjustments to joint venture retained earnings*	0.4	-	-	-
<b>Carrying amount</b>	<b>10.7</b>	<b>10.2</b>	<b>-</b>	<b>-</b>

\*Including effect of adoption of IFRS 16 'Leases'

**18 Investments accounted for using the equity method** continued**(b) Investments in associates**

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
ALSA associates	Spain	17-80
North America associates	North America	20

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

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

	2019 £m	2018 £m
Share of operating loss	(0.2)	(0.2)
Share of loss for the year and total comprehensive income and expenditure	(0.2)	(0.2)

**19 Business combinations, disposals and assets held for sale****(a) Acquisitions – North America**

On 11 April 2019, the Group acquired 60% of the voting shares of WeDriveU Holdings, Inc. (WeDriveU), an employee shuttle company operating in the Silicon Valley and San Francisco area. The Group has acquired WeDriveU to drive expansion in the employee, university and hospital shuttle markets.

The fair values of the identifiable assets and liabilities of WeDriveU at the date of acquisition were:

	£m
Intangible assets	37.6
Property, plant and equipment	23.1
Trade and other receivables	21.4
Cash and cash equivalents	2.1
Deferred tax asset	7.8
Borrowings	(40.7)
Trade and other payables	(27.2)
Provisions	(8.0)
Minority interest	(6.3)
<b>Net assets acquired</b>	<b>9.8</b>
Goodwill	58.5
<b>Total consideration</b>	<b>68.3</b>
<b>Represented by:</b>	
Cash consideration	66.2
Payments for cash acquired in the business	2.1
	<b>68.3</b>

Trade and other receivables had a gross contracted value of £24.2m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £2.8m.

Goodwill of £58.5m 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, the increased scale in our North American operations and the future growth opportunities. None of the goodwill recognised is expected to be deductible for income tax purposes.

## 19 Business combinations, disposals and assets held for sale continued

As part of the arrangements with non-controlling shareholders of WeDriveU, the Group issued put options to the seller to sell the remaining shares and simultaneously the seller issued call options to the Group to purchase the remaining shares. The terms of the put and call options are symmetrical and exercisable in three tranches from 2020 to 2022. The exercise prices are based on a multiple of future earnings. The Group has recognised non-controlling interests for the remaining shares because the interests subject to the put and call options are not deemed to have been acquired upon acquisition. Accordingly, the financial liability arising from the put options has not been included in the consideration transferred and is accounted for separately, with a corresponding entry recorded in equity.

At the acquisition date, the Group recognised a put liability of £100.0m, recorded at the present value of the estimated redemption value, using forecast earnings of WeDriveU, discounted at a rate of 2.1%. Further details are provided in note 25.

The fair value of the call options is nil.

WeDriveU contributed £114.7m of revenue and £14.8m to the Group's profit for the period between acquisition and the balance sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue would have been £2,778.4m and the Group's continuing operating profit would have been £242.9m.

In addition, the North America division acquired 100% control of four further businesses during the period, none of which are material individually:

- Free Enterprises System, LLC – university and employee shuttle business in Chicago, IL
- Total Transit Enterprises, LLC – non-emergency medical transportation and shuttle services in Phoenix and Tucson, AZ
- Fox Bus Lines Inc. – charter coach services in Boston, MA
- Gary L. Aisquith, Inc – school bus services in Baltimore, MD

In aggregate, the provisional fair values of the assets and liabilities acquired, along with adjustments to the fair values of prior year acquisitions, were as follows:

	£m
Intangible assets	7.0
Property, plant and equipment	7.2
Inventory	0.2
Trade and other receivables	0.7
Deferred tax asset	5.1
Borrowings (including overdraft)	(2.7)
Trade and other payables	(5.1)
Provisions	(10.2)
<b>Net assets acquired</b>	<b>2.2</b>
Goodwill	29.6
<b>Total consideration</b>	<b>31.8</b>
<b>Represented by:</b>	
Cash consideration	27.1
Overdraft acquired in the businesses	(1.4)
Deferred consideration	6.1
	<b>31.8</b>

Given the proximity of the acquisitions to the period end, and as permitted by IFRS 3 'Business Combinations', the fair values 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 gross contracted value of £0.9m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £0.2m.

Goodwill of £29.6m arising from the acquisitions consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and the increased scale in our North American operations, along with synergy benefits expected to be achieved. The amount of goodwill that is expected to be deductible for income tax purposes is £12.0m.

**19 Business combinations, disposals and assets held for sale** continued

Included in the consideration shown above is contingent consideration of £4.0m relating to two of the acquisitions. For the first agreement the Group is required to pay consideration upon pre-determined EBIT thresholds being met over a period of up to two years. For the second agreement, the Group is required to pay consideration on renewal of a significant contract and the contingent consideration is dependent on the renewed service levels. The payments are dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £4.0m. 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 £17.7m of revenue and £4.8m to the Group's profit for the period between acquisition and the balance sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue would have been £2,754.0m and the Group's continuing operating profit would have been £243.2m.

**(b) Acquisitions – ALSA**

During the year, the ALSA division acquired control of three businesses in Spain, none of which are material individually:

- Semacar (60%) – a chauffeur transport business in Galicia, Spain
- Gumidafe (100%) – tourist charter and other transportation services in the Canary Islands, Spain
- AgredaBus Eocar (70%) – urban bus and other transportation services in Aragon, Spain

In aggregate, the provisional fair values of the assets and liabilities acquired were as follows:

	£m
Goodwill	2.3
Intangible assets	5.2
Property, plant and equipment	9.4
Inventory	0.3
Trade and other receivables	0.6
Cash and cash equivalents	3.6
Borrowings	(1.3)
Trade and other payables	(5.0)
Deferred tax liabilities	(0.4)
Minority interests	(3.3)
<b>Net assets acquired</b>	<b>11.4</b>
Goodwill	9.9
<b>Total consideration</b>	<b>21.3</b>
<b>Represented by:</b>	
Cash consideration	13.2
Payments for cash acquired in the businesses	3.6
Deferred consideration	4.5
	<b>21.3</b>

Given the proximity of the acquisitions to the period end, and as permitted by IFRS 3 'Business Combinations', the fair values 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 gross contracted value of £1.5m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £0.9m.

Goodwill of £9.9m 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 the increased scale in our operations in Spain, along with synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £2.9m relating to one of the acquisitions. The Group is required to pay contingent consideration on renewal of contracts, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £2.9m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.



## 19 Business combinations, disposals and assets held for sale continued

The acquired business contributed £6.5m of revenue and £1.3m to the Group's profit for the period between acquisition and the balance sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue would have been £2,757.4m and the Group's continuing operating profit would have been £242.6m.

### (c) Acquisitions – UK

During the year, the UK division acquired 100% control of Accessible Transport Group.

The fair values of the assets and liabilities acquired were as follows:

	£m
Property, plant and equipment	1.3
Trade and other payables	(0.9)
<b>Net assets acquired</b>	<b>0.4</b>
Goodwill	1.4
<b>Total consideration</b>	<b>1.8</b>
<b>Represented by:</b>	
Cash consideration	1.8
	1.8

Goodwill of £1.4m arising from the acquisition consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

The acquired business contributed £6.4m of revenue and £0.2m to the Group's profit for the period between the dates of acquisition and the balance sheet date. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,750.4m and the Group's continuing operating profit would have been £242.3m.

### (d) Acquisitions – further information

Deferred consideration of £14.8m was paid in the year relating to acquisitions in North America in earlier years. Total cash outflow in the year from acquisitions in the North America division was therefore £108.1m, comprising consideration for current year acquisitions of £94.0m and deferred consideration of £14.8m, less cash acquired in the businesses of £0.7m.

In addition, for North America, during the year there was a reduction in the provisional fair values of businesses acquired in the prior year of £4.8m, with a resultant increase in goodwill.

No deferred consideration was paid in the year relating to acquisitions in the ALSA division in earlier years. Total cash outflow in the year from acquisitions in the ALSA division was therefore £13.2m, comprising consideration of £16.8m, less cash acquired in the businesses of £3.6m.

In addition, for ALSA, during the year there was an increase in the provisional fair values of businesses acquired in the prior year of £0.8m, with a resultant decrease in goodwill.

Total cash outflow in the year from acquisitions in the UK division was £1.8m, comprising consideration of £1.8m.

Total acquisition transaction costs of £5.7m were incurred in the year to 31 December 2019.

**19 Business combinations, disposals and assets held for sale** continued**(e) Disposals**

On 24 July 2019, the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. The retained investment is accounted for as a financial asset at fair value through other comprehensive income (see note 17). A gain of £8.8m was recognised within separately disclosed items and comprises the following:

	2019 £m
<b>Consideration:</b>	
Cash consideration, net of transaction expenses <sup>1</sup>	17.9
Fair value of retained investment	7.8
Software intangible <sup>2</sup>	4.6
	<b>30.3</b>
Carrying value of net assets (including goodwill)	<b>(22.5)</b>
Exchange gains recycled from currency translation reserve	1.0
<b>Gain on disposal from continuing operations</b>	<b>8.8</b>

<sup>1</sup> Inclusive of contingent bonus payments

<sup>2</sup> Represents discounted software services receivable over the next five years, considered to be part of the consideration received as it constitutes an asset for asset exchange

Gross cash consideration from the disposal was £32.7m, of which £27.1m had been received at the 31 December 2019. This was offset by transaction expenses totalling £14.8m, of which £5.4m had been settled at the 31 December 2019. Total cash inflow in the year from the disposal was therefore £21.7m.

**(f) Assets held for sale**

Two buildings, in North America, met the held for sale criteria of IFRS 5 at 31 December 2019. The carrying value of the buildings at the 31 December 2019 is £4.3m. In the prior year, Ecolane Finland OY and Ecolane USA, Inc. were held for sale. Details of their disposal are included in section (e) to this note.

**20 Non-current assets – trade and other receivables**

	2019 £m	2018 £m
Prepayments	1.9	0.3
Other receivables	7.7	2.7
	<b>9.6</b>	<b>3.0</b>

**21 Inventories**

	2019 £m	2018 £m
Raw materials and consumables	29.4	27.4

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

## 22 Current assets – trade and other receivables

	2019 £m	2018 <sup>1</sup> £m
Trade receivables	221.4	189.5
Grant receivable	23.5	38.9
Contract assets	102.3	86.5
Amounts due from associates and joint ventures (note 37)	3.4	3.0
Amounts due from other related parties (note 37)	0.4	0.5
Trade and grant receivables and contract assets	351.0	318.4
Less: provision for impairment of receivables	(36.4)	(29.4)
Trade and grant receivables and contract assets – net (note 30)	314.6	289.0
Other receivables	118.5	70.7
Prepayments	53.4	36.7
Accrued income	10.3	12.2
	<b>496.8</b>	<b>408.6</b>

<sup>1</sup> Prior year comparatives were re-presented to separately present contract assets under IFRS 15

The timing of revenue recognition, billings and cash collection results in trade receivables (billed amounts), contract assets (unbilled amounts) and customer advances and deposits (contract liabilities – note 24) on the Group's Balance Sheet. Contract assets have increased primarily in Germany, due to timing differences between revenue recognised on a percentage completion basis and cash collected, and in ALSA, due to the commencement of new contracts in the year.

Trade receivables excludes £49.0m (2018: £45.0m) that was subject to factoring arrangements without recourse and for which no customer payment had been received at year end.

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

	2019 £m	2018 £m
Cash at bank and in hand	111.2	74.6
Overnight deposits	2.1	1.9
Other short-term deposits	365.0	41.2
	<b>478.3</b>	<b>117.7</b>
Less: amounts included within assets classified as held for sale	-	(0.2)
<b>Cash and cash equivalents</b>	<b>478.3</b>	<b>117.5</b>

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

**24 Current liabilities – trade and other payables**

	2019 £m	2018 <sup>1</sup> £m
Trade payables	329.7	325.3
Contract liabilities	12.9	18.4
Amounts owed to associates and joint ventures (note 37)	1.3	1.0
Amounts owed to other related parties (note 37)	0.6	1.6
Other tax and social security payable	32.2	25.8
Accruals and deferred income	304.4	239.6
Other payables	371.8	258.8
	<b>1,052.9</b>	<b>870.5</b>

<sup>1</sup> Prior year comparatives were re-presented to separately present contract liabilities under IFRS 15

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

Contract liabilities represents amounts advanced by customers where the Group has not yet met the performance obligation to allow the recognition of the balance as revenue. These mainly relate to season ticket and advance ticket sales which cross over the year end date and are expected to be recognised as revenue in the year to 31 December 2020.

Other payables includes £263.3m (2018: £160.3m) for the purchase of property, plant and equipment. The Group settles these amounts in accordance with the supplier standard payment terms, typically one year.

Other payables also includes deferred fixed asset grants from government or other public bodies of £1.1m (2018: £0.5m), advance payments for factoring of divisional revenues of £58.1m (2018: £43.7m) and £36.1m (2018: £45.9m) of deferred consideration for businesses acquired, of which £0.9m (2018: £8.5m) relates to businesses acquired in the year (note 19).

**25 Other non-current liabilities**

	2019 £m	2018 £m
Deferred fixed asset grants	33.9	3.2
Other payables	33.6	22.0
Put liability	96.8	–
	<b>164.3</b>	<b>25.2</b>

The put liability has been derived from an internal valuation, using forecast earnings over the exercise period, discounted at a rate of 2.1% and assuming that the option is exercised in full in the third year following the date of acquisition (Y1 – 0%; Y2 – 0%; Y3 – 40%). The table below shows on an indicative basis the Income Statement and Balance Sheet sensitivity of the put liability to reasonably possible changes in key assumptions. The sensitivity analysis below is based on a change in assumption while holding all other assumptions constant.

<b>Increase/(decrease) in put liability and loss/(gain) in Income Statement</b>	<b>2019 £m</b>
10% increase in EBITDA	12.8
10% decrease in EBITDA	(12.4)
0.5% increase in discount rate	(0.9)
0.5% decrease in discount rate	1.1
Timing of exercise (Y1 – 10%; Y2 – 0%; Y3 – 30%)	(6.3)
Timing of exercise (Y1 – 0%; Y2 – 20%; Y3 – 20%)	(8.2)

Details of the acquisition of WeDriveU are provided in note 19.

Other payables includes £12.9m (2018: £21.2m) of deferred consideration for businesses acquired, of which £9.7m (2018: £18.3m) relates to businesses acquired in the year (note 19).

## 26 Provisions

	Claims provision £m	Other £m	Total £m
At 1 January 2019	95.6	12.3	107.9
Charged to the Income Statement	33.7	(1.4)	32.3
Utilised in the year	(51.5)	(0.1)	(51.6)
Unwinding of discount	1.2	-	1.2
Acquired in business combinations	18.2	-	18.2
Exchange difference	(3.5)	(0.4)	(3.9)
<b>At 31 December 2019</b>	<b>93.7</b>	<b>10.4</b>	<b>104.1</b>
<b>Current 31 December 2019</b>	<b>52.9</b>	<b>8.1</b>	<b>61.0</b>
<b>Non-current 31 December 2019</b>	<b>40.8</b>	<b>2.3</b>	<b>43.1</b>
	<b>93.7</b>	<b>10.4</b>	<b>104.1</b>
Current 31 December 2018	49.2	9.5	58.7
Non-current 31 December 2018	46.4	2.8	49.2
	95.6	12.3	107.9

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.

Other primarily relates to a potential reclaim of subsidies in ALSA, all of which is expected to be utilised within the next 12 months.

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

## 27 Deferred tax

	2019 £m	2018 £m
At 1 January	(20.3)	(18.6)
Change in accounting policies <sup>1&amp;2</sup>	2.9	9.8
At 1 January (restated)	(17.4)	(8.8)
Charge to the Income Statement	(17.6)	(18.5)
(Charge)/credit to Other Comprehensive Income or Equity	(6.3)	5.6
Exchange differences	4.2	(0.9)
Acquired in business combinations	12.5	(0.3)
	(24.6)	(22.9)
Less: amounts reclassified as held for sale	-	2.6
<b>Net deferred tax liability at 31 December</b>	<b>(24.6)</b>	<b>(20.3)</b>

<sup>1</sup> Opening balances in 2019 have been restated for the adoption of IFRS 16 'Leases' (see note 2)

<sup>2</sup> Opening balances in 2018 were restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'

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.

	2019 £m	2018 <sup>1</sup> £m
Deferred tax assets		
Accelerated tax depreciation	(89.4)	(1.3)
Losses carried forward	126.4	33.5
Pensions	14.6	19.5
Other short-term temporary differences	(19.8)	(9.0)
	31.8	42.7

<sup>1</sup> Prior year balances were re-presented to correctly reflect the nature of the deferred tax asset

## 27 Deferred tax continued

	2019 £m	2018 <sup>1</sup> £m
Deferred tax liabilities		
Accelerated tax depreciation	(143.5)	(212.4)
Losses carried forward	3.9	60.0
Intangibles and deductible goodwill	46.3	47.1
Taxation credits	1.6	1.8
Other short-term temporary differences	35.3	37.9
	(56.4)	(65.6)
Less: amounts included within liabilities classified as held for sale	-	2.6
	(56.4)	(63.0)

<sup>1</sup> Prior year balances were re-presented to correctly reflect the nature of the deferred tax liability

Deferred tax assets and liabilities within the same jurisdiction have been offset, with deferred tax assets of £31.8m arising in our UK, US and German businesses and deferred tax liabilities of £56.4m arising in our Spanish and Canadian businesses.

The deferred tax assets relating to losses carried forward are £130.3m (2018: £93.5m). This comprises £126.4m (2018: £33.5m) within deferred tax assets and £3.9m (2018: £60.0m) within deferred tax liabilities. At the 31 December 2019, the analysis of deferred tax assets includes the US business, however in the prior year, the US business had a net deferred tax liability which was included within the analysis of deferred tax liabilities.

The Group has recognised deferred tax assets across the UK, US, Spanish and German businesses amounting to £228.1m (2018: £202.4m) that are considered to be able to be offset against the Group's future taxable profits. Management has based its assessment on the latest forecast budget approved by the Board which reflects improved trading performance across all divisions largely due to the expansion of the business.

## 28 Borrowings and derivative financial liabilities

	2019 £m	2018 £m
<b>Non-current</b>		
Bank loans	82.1	8.6
Bonds	644.8	852.4
Lease obligations	309.7	94.6
Other debt payable	68.3	73.7
<b>Non-current borrowings</b>	<b>1,104.9</b>	<b>1,029.3</b>
Fuel derivatives	3.1	8.2
Cross currency swaps	6.5	4.4
<b>Non-current derivative financial instruments</b>	<b>9.6</b>	<b>12.6</b>
<b>Non-current borrowings and derivative financial liabilities</b>	<b>1,114.5</b>	<b>1,041.9</b>
<b>Current</b>		
Bank loans	105.1	0.4
Bonds	437.1	-
Lease obligations	97.8	48.0
Accrued interest on borrowings	12.8	10.9
<b>Current borrowings</b>	<b>652.8</b>	<b>59.3</b>
Fuel derivatives	2.3	6.4
Interest rate derivatives	3.7	-
<b>Foreign exchange derivatives</b>	<b>31.8</b>	<b>10.5</b>
<b>Current derivative financial instruments</b>	<b>37.8</b>	<b>16.9</b>
<b>Current borrowings and derivative financial liabilities</b>	<b>690.6</b>	<b>76.2</b>

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

## 29 Interest-bearing borrowings

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

	2019 £m	Maturity	Effective interest rate	2018 £m	Maturity	Effective interest rate
10-year Sterling bond	225.8	June 2020	6.85%	227.9	June 2020	6.85%
7-year Sterling bond	400.2	November 2023	2.54%	400.3	November 2023	2.54%
9-year Sterling bond	244.6	November 2028	2.38%	-	-	-
2.5-year Euro floating rate note	211.3	May 2020	EURIBOR + 0.4%	224.2	May 2020	EURIBOR + 0.40%
<b>Bonds</b>	<b>1,081.9</b>			<b>852.4</b>		
Short-term bank loans	175.4	2020-2021	Various	-	-	-
European bank loans	2.5	2022	EURIBOR + 0.90%	2.8	2019-2024	EURIBOR + 0.90%
Moroccan bank loans	9.3	2020-2022	1.40%-4.66%	6.2	2019-2023	4.66%-4.85%
<b>Bank loans</b>	<b>187.2</b>			<b>9.0</b>		
US Dollar leases at fixed rate	232.7	2020-2035	3.94%	119.9	2019-2024	3.23%
European leases at fixed rate	30.9	2020-2025	1.52%	9.1	2019-2023	3.02%
European leases at floating rate	33.7	2020-2025	EURIBOR + 1.00%	9.0	2019-2022	EURIBOR + 1.10%
Sterling leases at fixed rate	110.2	2020-2037	3.12%	4.6	2019-2024	2.71%
<b>Leases</b>	<b>407.5</b>			<b>142.6</b>		
Euro Private Placement	68.3	August 2021	4.55%	73.7	August 2021	4.55%
<b>Other debt payable</b>	<b>68.3</b>			<b>73.7</b>		
Accrued interest – Bonds	11.4			9.7		
Accrued interest – Private Placement	1.2			1.2		
Accrued interest – Bank loans	0.2			-		
<b>Accrued interest on borrowings</b>	<b>12.8</b>			<b>10.9</b>		
<b>Total</b>	<b>1,757.7</b>			<b>1,088.6</b>		

The Group currently has £557.0m of unsecured committed revolving credit facilities, which mature between 2020 and 2023. At 31 December 2019, there was £nil (2018: £nil) drawn down on the facilities, with £2.7m of capitalised deal fees remaining, which are classified within other receivables.

In October 2019, the Group issued a series of private placements totalling £414m denominated in USD, Sterling and Euros with maturities ranging from 2027 to 2032 with an effective interest rate of 1.92%, to be drawn from May 2020.

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

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under those facilities becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits:

As at 31 December 2019	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
<b>Fixed rate</b>							
Bank loans	(5.1)	(2.2)	(0.1)	(1.8)	(0.1)	-	(9.3)
Bonds	(225.8)	-	-	(400.2)	-	(244.6)	(870.6)
Finance leases	(86.2)	(64.0)	(52.3)	(41.6)	(37.8)	(91.9)	(373.8)
Other debt payable	-	(68.3)	-	-	-	-	(68.3)
<b>Floating rate</b>							
Cash assets	478.3	-	-	-	-	-	478.3
Other debt receivables	2.4	-	-	-	-	-	2.4
Bank loans	(100.0)	(75.4)	(2.5)	-	-	-	(177.9)
Bonds	(211.3)	-	-	-	-	-	(211.3)
Finance leases	(11.6)	(9.7)	(5.4)	(3.5)	(1.7)	(1.8)	(33.7)

## 29 Interest-bearing borrowings continued

As at 31 December 2018	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
<b>Fixed rate</b>							
Bank loans	(0.1)	(2.1)	-	(1.8)	(2.2)	-	(6.2)
Bonds	-	(227.9)	-	-	(400.3)	-	(628.2)
Finance leases	(45.2)	(30.3)	(20.0)	(19.1)	(12.2)	(6.8)	(133.6)
Other debt payable	-	-	(73.7)	-	-	-	(73.7)
<b>Floating rate</b>							
Cash assets	117.7	-	-	-	-	-	117.7
Other debt receivables	2.1	-	-	-	-	-	2.1
Bank loans	(0.3)	-	(2.4)	-	-	(0.1)	(2.8)
Bonds	-	(224.2)	-	-	-	-	(224.2)
Finance leases	(2.8)	(2.2)	(1.6)	(1.2)	(0.8)	(0.4)	(9.0)

## 30 Financial risk management objectives and policies

### Financial risk factors and management

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

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

### Foreign currency

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

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

At the year end, the Group had outstanding foreign exchange derivatives for net investment purposes of USD 492.2m and CAD 46.2m, and cross currency interest rate swaps of €222.7m. These foreign exchange forward contracts and cross currency interest rate swaps are derivative financial instruments designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

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

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

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



### 30 Financial risk management objectives and policies continued

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 £41.2m.

As at 31 December	Strengthening/ (weakening) in currency	2019		2018	
		Effect on profit before tax £m	Effect on translation reserve £m	Effect on profit before tax £m	Effect on translation reserve £m
US Dollar	10%	–	(33.7)	–	(14.1)
Euro	10%	–	(5.1)	–	(39.4)
Canadian Dollar	10%	–	(2.4)	–	(3.0)
US Dollar	(10)%	–	33.7	–	14.1
Euro	(10)%	–	5.1	–	39.4
Canadian Dollar	(10)%	–	2.4	–	3.0

#### 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 2019, the proportion of the Group's gross debt at floating rates was 24% (2018: 37%).

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

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

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

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments were increased by 100 basis points it is estimated that the Group's profit before taxation would decrease by approximately £0.7m relating to Sterling, £2.2m relating to the US Dollar and £1.4m relating to the Euro. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2019.

As at 31 December	Increase/ (decrease) in basis points	2019		2018	
		Effect on profit before tax £m	Effect on reserves £m	Effect on profit before tax £m	Effect on reserves £m
Sterling	100	(0.7)	–	(0.5)	–
US Dollar	100	(2.2)	–	0.3	–
Euro	100	(1.4)	–	(2.8)	–
Sterling	(100)	0.7	–	0.5	–
US Dollar	(100)	2.2	–	(0.3)	–
Euro	(100)	1.4	–	2.8	–

## 30 Financial risk management objectives and policies continued

### 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 2019, the Group had hedged approximately 100% of its 2020 expected usage, 60% of its expected usage in 2021 and 7% of its expected usage in 2022.

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.

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 £13.5m at 31 December 2019. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

As at 31 December	Increase/ (decrease) in price	2019		2018	
		Effect on profit before tax £m	Effect on hedging reserve £m	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling denominated diesel	10%	-	4.4	-	5.2
US Dollar denominated diesel	10%	-	2.4	-	2.8
US Dollar denominated gasoline	10%	-	1.5	-	1.6
Euro denominated diesel	10%	-	5.2	-	5.3
Sterling denominated diesel	(10)%	-	(4.4)	-	(5.2)
US Dollar denominated diesel	(10)%	-	(2.4)	-	(2.8)
US Dollar denominated gasoline	(10)%	-	(1.5)	-	(1.6)
Euro denominated diesel	(10)%	-	(5.2)	-	(5.3)

### Credit risk

#### (i) Risk management

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 £421.6m (2018: £345.6m), cash and cash equivalents of £478.3m (2018: £117.5m), finance lease receivables of £5.0m (2018: £nil), investments of £14.2m (2018: £6.7m) and derivative financial instruments of £55.2m (2018: £16.1m).

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

Cash and cash equivalents and derivative financial instruments are held with counterparties with a minimum of BBB- credit rating assigned by international credit rating agencies. The Group Treasury Committee continually assesses the credit risk of each counterparty, including monitoring credit ratings and tier 1 capital of each counterparty. Additionally, Group policy allows a maximum exposure of £75.0m per counterparty.

## 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 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 table below shows the credit risk exposure on the Group's trade receivables as at 31 December 2019:

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
<b>31 December 2019</b>						
Expected loss rate	10.4%	0.7%	3.5%	4.2%	14.5%	47.5%
Gross carrying amount – trade and grant receivables and contract assets	351.0	226.5	39.6	9.6	8.3	67.0
<b>Loss allowance</b>	<b>36.4</b>	<b>1.6</b>	<b>1.4</b>	<b>0.4</b>	<b>1.2</b>	<b>31.8</b>

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
<b>31 December 2018<sup>1</sup></b>						
Expected loss rate	9.2%	0.8%	3.6%	3.7%	9.6%	27.4%
Gross carrying amount – trade and grant receivables and contract assets	318.4	175.2	25.2	13.6	11.5	92.9
<b>Loss allowance</b>	<b>29.4</b>	<b>1.4</b>	<b>0.9</b>	<b>0.5</b>	<b>1.1</b>	<b>25.5</b>

<sup>1</sup> Prior year comparatives were re-presented to include IFRS 15 contract assets, consistent with the presentation in note 22

Trade receivables over 90 days primarily comprises amounts due from public authorities in ALSA, along with receivables for school bus services in North America where amounts are settled on approval from the local governing bodies at the end of the school period. A loss provision of £31.8m (2018: £25.5m) is in place against these receivables. Given that these are predominantly ongoing contractual relationships and with public bodies, the Directors believe that the remaining amounts will be collected.

The closing loss allowance for trade receivables as at 31 December 2019 reconciles to the opening loss allowance as follows:

	2019 £m	2018 £m
At 31 December	(29.4)	(13.5)
Amounts restated through opening retained earnings for IFRS 9 <sup>1</sup>	-	(16.7)
<b>Opening loss allowance as at 1 January</b>	<b>(29.4)</b>	<b>(30.2)</b>
Increase in loss allowance recognised in Income Statement during the year	(8.1)	(3.0)
Utilised in the year	3.4	4.8
Arising on acquisitions	(3.9)	(0.6)
Exchange difference	1.6	(0.4)
<b>At 31 December</b>	<b>(36.4)</b>	<b>(29.4)</b>

<sup>1</sup> Opening balances in 2018 were restated for the adoption of IFRS 9 'Financial Instruments'

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. Subsequent recoveries of amounts previously written off are credited against the same item.

### 30 Financial risk management objectives and policies continued

Impairment provisions in respect of cash and cash equivalents 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.

#### 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 comprises committed bilateral facilities with a syndicate of banks, and a series of medium-term notes. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12-month view, with minimum headroom maintained, taking into account market conditions and corporate activity, including acquisitions and organic growth plans. The minimum funding headroom assumes that factoring facilities are not available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 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 2019	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	108.4	83.2	–	191.6
Bonds	466.7	451.6	271.6	1,189.9
Lease liabilities	107.7	263.5	86.7	457.9
Other debt payable	3.1	69.4	–	72.5
Trade and other payables	1,051.8	130.4	–	1,182.2
	<b>1,737.7</b>	<b>998.1</b>	<b>358.3</b>	<b>3,094.1</b>
Foreign exchange derivatives	31.8	–	–	31.8
Cross currency interest rate swaps	(6.4)	12.4	–	6.0
Interest rate derivatives	1.0	–	–	1.0
Fuel derivatives	2.4	3.2	–	5.6
	<b>28.8</b>	<b>15.6</b>	<b>–</b>	<b>44.4</b>

Year ended 31 December 2018	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	3.0	8.5	0.1	11.6
Bonds	25.1	904.7	–	929.8
Lease liabilities	49.1	94.9	8.4	152.4
Other debt payable	3.2	77.0	–	80.2
Trade and other payables	870.0	22.0	–	892.0
	<b>950.4</b>	<b>1,107.1</b>	<b>8.5</b>	<b>2,066.0</b>
Foreign exchange derivatives	10.5	–	–	10.5
Cross currency interest rate swaps	2.0	7.6	–	9.6
Fuel derivatives	5.7	7.3	–	13.0
	<b>18.2</b>	<b>14.9</b>	<b>–</b>	<b>33.1</b>

#### Capital risk management

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

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

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

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

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

### 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. 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.

Certain Group bonds are held at a hybrid amortised cost with a fair value hedging adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds is designated as the hedged item in an effective fair value hedging relationship. As such, the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees. At 31 December 2019 the carrying value of the Group's bonds was £1,083.6m (2018: £849.7m) and compares to the fair value as presented in the table below.

All other liabilities, including finance leases, bank loans, trade and other payables and other debt payable, are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

The following table overleaf illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2019:

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

Classification of financial instruments As at 31 December 2019	Assets and liabilities at amortised cost £m	At fair value through other comprehensive income £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
<b>Assets</b>					
Investments	-	14.2	-	-	14.2
Fuel derivatives	-	-	-	6.7	6.7
Interest rate derivatives	-	-	10.0	-	10.0
Cross currency swaps	-	-	-	11.5	11.5
Foreign exchange derivatives	-	-	11.2	15.8	27.0
Cash and cash equivalents	478.3	-	-	-	478.3
Finance lease receivables	5.0	-	-	-	5.0
Trade and other receivables	421.6	-	-	-	421.6
	<b>904.9</b>	<b>14.2</b>	<b>21.2</b>	<b>34.0</b>	<b>974.3</b>
<b>Liabilities</b>					
Bank loans	(187.2)	-	-	-	(187.2)
Bonds	(1,081.9)	-	-	-	(1,081.9)
Finance lease obligations	(407.5)	-	-	-	(407.5)
Other debt payable	(68.3)	-	-	-	(68.3)
Interest rate derivatives	-	-	(3.7)	-	(3.7)
Fuel derivatives	-	-	-	(5.4)	(5.4)
Cross currency swaps	-	-	-	(6.5)	(6.5)
Foreign exchange derivatives	-	-	-	(31.8)	(31.8)
Trade and other payables	(1,137.1)	-	-	-	(1,137.1)
	<b>(2,882.0)</b>	<b>-</b>	<b>(3.7)</b>	<b>(43.7)</b>	<b>(2,929.4)</b>

Classification of financial instruments As at 31 December 2018	Assets and liabilities at amortised cost <sup>1</sup> £m	At fair value through other comprehensive income £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total <sup>1</sup> £m
<b>Assets</b>					
Investments	-	6.7	-	-	6.7
Fuel derivatives	-	-	-	1.9	1.9
Interest rate derivatives	-	-	10.6	-	10.6
Foreign exchange derivatives	-	-	-	3.6	3.6
Cash and cash equivalents	117.5	-	-	-	117.5
Trade and other receivables	345.6	-	-	-	345.6
	<b>463.1</b>	<b>6.7</b>	<b>10.6</b>	<b>5.5</b>	<b>485.9</b>
<b>Liabilities</b>					
Bank loans	(9.0)	-	-	-	(9.0)
Bonds	(862.1)	-	-	-	(862.1)
Finance lease obligations	(142.6)	-	-	-	(142.6)
Other debt payable	(74.9)	-	-	-	(74.9)
Fuel derivatives	-	-	-	(14.6)	(14.6)
Cross currency swaps	-	-	-	(4.4)	(4.4)
Foreign exchange derivatives	-	-	-	(10.5)	(10.5)
Trade and other payables <sup>1</sup>	(847.8)	-	-	-	(847.8)
	<b>(1,936.4)</b>	<b>-</b>	<b>-</b>	<b>(29.5)</b>	<b>(1,965.9)</b>

<sup>1</sup> Trade & other payables has been re-presented to remove contract liabilities, which have been separately presented under IFRS 15

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

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

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2019, there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 30).

### Embedded derivatives

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

### Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value at the end of each reporting period. In line with IFRS 9 the Group classifies hedges as (i) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (ii) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (iii) hedges of a net investment in a foreign operation.

In 2019, the Group applied cash flow hedge accounting to hedge fuel price risk, to hedge net investments in its North American and European foreign operations, and to hedge interest rate risk on certain bank loans. The Group also applied fair value hedge accounting on £100.0m of the Group's fixed rate bonds and €78.5m Private Placement to hedge changes in fair value due to interest rate fluctuations.

The movement on derivative financial instruments is detailed below:

	At fair value through profit and loss			Derivatives used for hedging			Total £m
	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £	Interest rate swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	
Net asset/(liability) at 1 January 2019	10.6	(5.8)	(12.7)	–	(4.4)	(1.1)	(13.4)
Movements through Income Statement	(3.3)	6.2	(4.5)	(0.9)	(0.7)	–	(3.2)
Movements through Other Comprehensive Income	–	–	18.5	(0.1)	12.6	5.7	36.7
Cash settlements	–	(20.8)	–	–	(2.5)	11.0	(12.3)
<b>Net asset/(liability) at 31 December 2019</b>	<b>7.3</b>	<b>(20.4)</b>	<b>1.3</b>	<b>(1.0)</b>	<b>5.0</b>	<b>15.6</b>	<b>7.8</b>

	At fair value through profit and loss		Derivatives used for hedging		Total £m
	Interest rate swaps £m	Fuel swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	
Net asset/(liability) at 1 January 2018	14.2	5.2	(3.2)	1.5	17.7
Transfers to the Income Statement on cash flow hedges	–	(11.5)	–	–	(11.5)
Cash settlements	–	–	7.6	20.0	27.6
Revaluation through Income Statement	(3.6)	–	–	–	(3.6)
Revaluation through Other Comprehensive Income	–	(6.4)	–	–	(6.4)
Costs of hedging	–	–	1.4	–	1.4
Exchange differences	–	–	(10.2)	(28.4)	(38.6)
<b>Net asset/(liability) at 31 December 2018</b>	<b>10.6</b>	<b>(12.7)</b>	<b>(4.4)</b>	<b>(6.9)</b>	<b>(13.4)</b>

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

The movement on the hedging reserve is detailed below:

	2019 £m	2018 £m
At 1 January	(10.2)	4.5
Transferred to Income Statement	(2.6)	(11.5)
Revaluation through Other Comprehensive Income	10.8	(6.4)
Exchange differences	-	0.1
Tax on revaluation	(2.5)	3.1
<b>At 31 December</b>	<b>(4.5)</b>	<b>(10.2)</b>

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

Hedge type	Net investment hedge	Fair value hedge	Fair value hedge	Cash flow hedge	Cash flow hedge
Risk	Foreign currency risk	Interest rate risk (Euro private placement)	Interest rate risk (2020 bond)	Foreign currency & Interest rate risk	Commodity price risk
Nominal amount of hedging	CAD \$46.2m USD \$492.2m €551.2m	€78.5m	£100.0m	£178.7m	396.4m litres
Ageing of nominal amount:					
< 1 year	CAD \$46.2m USD \$492.2m €250.0m	-	£100.0m	£99.0m	226.1m litres
1-2 years	€78.5m	€78.5m	-	£79.7m	152.8m litres
2-5 years	€222.7m	-	-	-	17.5m litres
> 5 years	-	-	-	-	-
Average hedged rate	-	6m EURIBOR + 2.827%	6m LIBOR + 3.2%	1.627%	£0.36/litre
Maturity	2020-2023	2021	2020	2020-2021	2020-2022
Carrying amount of hedging instruments (£m)					
Assets – derivatives	14.2	3.7	6.3	1.4	6.7
Liabilities – derivatives	(0.2)	(0.9)	(1.8)	(7.5)	(5.4)
Liabilities - borrowings	(279.6) <sup>1</sup>	-	-	-	-
Carrying amount of hedged item – borrowings (£m)	-	(68.3)	(225.8)	(174.4)	-
Changes in fair value of hedged item for calculating hedge effectiveness <sup>2</sup>	(38.1)	1.0	2.1	8.1	(21.8)
Changes in fair value of hedged instrument used for calculating hedge effectiveness <sup>2</sup>	38.1	(1.0)	(2.1)	(7.6)	21.5
Amounts accumulated in reserves at 31 December 2019, net of tax	36.3	-	-	(5.7)	1.2
Accumulated fair value hedge adjustment on borrowings	-	(2.0)	(0.8)	-	-

<sup>1</sup> Represents the carrying value of the €78.5m Euro Private Placement and the €250m Euro floating rate note, as shown in note 29.

<sup>2</sup> 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 2019, the Group had designated €222.7m of cross currency interest rate swaps, a €250.0m floating rate note and a €78.5m Private Placement as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD 492.2m and CAD 46.2m of foreign exchange forward contracts were designated as a hedge of the net assets of the Group's North America subsidiaries. No material ineffectiveness was recognised in relation to these hedges.



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

### 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 2019 through to 2022.

During the year, £18.5m of fair value losses (2018: £6.4m losses) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value gain of £4.5m (2018: £11.5m gain) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which a £14.4m gain was in the hedging reserve at 1 January 2019 and the remainder was generated during the year due to movements in market fuel prices. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives can be analysed as follows:

	31 December 2019 Fair value £m	31 December 2018 Fair value £m	31 December 2019 Volume million litres	31 December 2018 Volume million litres
<b>Hedge fuel derivatives</b>				
Sterling denominated – UK	2.4	(1.0)	68.4	74.5
Euro denominated – ALSA	0.9	(2.8)	83.9	80.1
US Dollar and Canadian Dollar denominated – North America	0.5	(2.3)	73.8	62.1
<b>Fuel derivatives included in current assets/(liabilities)</b>	<b>3.8</b>	<b>(6.1)</b>	<b>226.1</b>	<b>216.7</b>
Sterling denominated – UK	(0.7)	(0.7)	47.3	79.1
Euro denominated – ALSA	(0.7)	(2.3)	66.7	81.4
US Dollar and Canadian Dollar denominated – North America	(1.1)	(3.6)	56.3	73.6
<b>Fuel derivatives included in non-current assets/(liabilities)</b>	<b>(2.5)</b>	<b>(6.6)</b>	<b>170.3</b>	<b>234.1</b>
<b>Total hedge fuel derivatives</b>	<b>1.3</b>	<b>(12.7)</b>	<b>396.4</b>	<b>450.8</b>

### Interest rate swaps at fair value through profit or loss

In July 2010, the Group entered into two £50m interest rate swaps that pay floating interest (LIBOR + margin) semi-annually and receive fixed interest annually. These are designated as fair value hedges of interest rate risk with maturities matching the Group's £225m Sterling bonds maturing in June 2020. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free interest rate on the swapped portion of the bonds. A fair value loss of £2.2m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £2.2m on the underlying hedged item, being the change in fair value on £100m of the Group's £225m bonds due to changes in the risk-free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR + margin) semi-annually, receive fixed interest semi-annually with maturities matching the Euro Private Placement maturing in August 2021 and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the Euro Private Placement. A fair value loss of £1.0m was recognised in the Income Statement during the year in relation to these swaps. This was offset by a fair value gain of £1.0m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk-free interest rate.

### Cash flow hedges

In January 2019, the Group entered into a \$100m cross currency interest rate swap that pays fixed interest annually and receives floating interest (USD LIBOR + margin) semi-annually. This is designated as a cash flow hedge of foreign currency and interest rate risk with maturities matching a \$100m short-term bank loan maturing in June 2021.

In May 2019, the Group entered into a £99m interest rate swap that pays fixed interest semi-annually and receives floating interest (LIBOR + margin) monthly. This is designated as a cash flow hedge of interest rate risk with maturities matching a £99m short-term bank loan maturing in November 2020.

No material ineffectiveness was recognised in relation to either of these hedges during the year.

## 32 Called-up share capital

	2019 £m	2018 £m
<b>At 31 December:</b>		
<b>Authorised:</b>		
800,000,000 (2018: 800,000,000) ordinary shares of 5p each	40.0	40.0
<b>Issued called-up and fully paid:</b>		
511,738,648 (2018: 511,738,648) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 1,825,123 (2018: 2,248,309) of which all (2018: 1,910,086) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises in 2018 were settled via a direct purchase of shares from the open market.

### Own shares

Own shares comprises 1,404,751 (2018: 1,758,660) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 1,471,214 (2018: 2,025,000) shares and 1,825,123 (2018: 1,910,086) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2018: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2019 was £6.6m (2018: £6.6m). The dividends payable on 972,605 of these shares (2018: 3,551,284) have been waived.

## 33 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2019	15.4	(10.2)	191.0	196.2
Exchange differences, net of tax <sup>1</sup>	-	-	(72.7)	(72.7)
Exchange gains reclassified to Income Statement on disposal of a subsidiary	-	-	(1.0)	(1.0)
Hedge movements, net of tax	-	8.3	-	8.3
Hedging gains reclassified to Income Statement	-	(2.6)	(0.6)	(3.2)
Cost of hedging	-	-	1.0	1.0
Reclassified to retained earnings	-	-	1.9	1.9
<b>At 31 December 2019</b>	<b>15.4</b>	<b>(4.5)</b>	<b>119.6</b>	<b>130.5</b>

<sup>1</sup> Represents the retranslation of foreign currency denominated subsidiaries, joint ventures and associates of the Group, net of tax of £110.8m, offset by a hedging gain on the net investment in foreign subsidiaries of £38.1m

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2018	15.4	4.5	161.7	181.6
Exchange differences, net of tax	-	-	27.9	27.9
Hedge movements, net of tax	-	(14.7)	-	(14.7)
Cost of hedging	-	-	1.4	1.4
At 31 December 2018	15.4	(10.2)	191.0	196.2

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.
- The hedging reserve records the movements on designated hedging instruments, offset by any movements recognised in equity on underlying hedged items.
- 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.

## 34 Pensions and other post-employment benefits

### (a) Summary of pension benefits and assumptions

The UK division (UK) and National Express Group PLC (the Company) both operate defined benefit pension schemes.

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

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

On 11 October 2018, the trustees of the Company defined benefit scheme completed a buy-in transaction whereby the assets of the scheme were invested in a bulk annuity policy with the insurer Rothersey Life, under which the benefits payable to defined benefit members became fully insured. The insurance policy was purchased using the existing assets of the plan. As the buy-in transaction has resulted in the defined benefit obligations being fully insured, the Company has no obligation to make any further payments into the scheme.

For the UK defined benefit scheme, in 2017 a three-year annual deficit repayment plan was agreed with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2020 with an average contribution of £7.7m per annum. The plan remains open to accrual for existing members only.

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

The Group expects to contribute £7.8m into its defined benefit pension plans in 2020.

The total pension cost charged to operating profit in the year for the Group was £10.3m (2018: £10.3m), of which £6.4m (2018: £4.9m) relates to the defined contribution schemes.

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

	2019 £m	2018 £m
Company	14.2	14.9
<b>Pension assets</b>	<b>14.2</b>	<b>14.9</b>
UK	(99.1)	(127.3)
Other	(5.1)	(4.4)
<b>Pension liabilities</b>	<b>(104.2)</b>	<b>(131.7)</b>
<b>Total</b>	<b>(90.0)</b>	<b>(116.8)</b>

Through its defined benefit plans, the Group is exposed to a number of risks, the most significant of which relate to the UK and are detailed below. The Company scheme has a low level of risk due to the buy-in policy, whereby the present value of the scheme liabilities is fully matched by the fair value of the insurance asset.

#### Investment risk

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

#### Interest risk

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

#### Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The Group has some inflation linking in its revenue streams, which helps to offset this risk. In addition, the UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk.

## 34 Pensions and other post-employment benefits continued

### Longevity risk

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

### Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations, for example, reduced investment return through the ability to reclaim Advance Corporation Tax, and decreases in obligations, for example, through the ability to use CPI inflation instead of RPI to set pension increase rates. For the UK scheme the Group receives professional advice on the impact of legislative changes.

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

	UK	Company
	31 March 2016	5 April 2016
Date of actuarial valuation		
Rate of investment returns per annum	4.5%	0%-2.1%
Increase in earnings per annum	2.3%	–
Scheme assets taken at market value	£449.1m	£114.8m
Funding level	81%	97%

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations as follows:

	2019		2018	
	UK	Company	UK	Company
Rate of increase in salaries	2.5%	–	2.5%	–
Rate of increase of pensions in payment	2.1%	2.9%	2.2%	3.2%
Discount rate	2.0%	2.1%	2.8%	2.9%
Inflation assumption (RPI)	3.0%	2.9%	3.2%	3.2%
Inflation assumption (CPI)	2.1%	2.0%	2.2%	2.2%
Post-retirement mortality in years:				
Current pensioners at 65 – male	19.8	22.3	21.2	22.7
Future pensioners at 65 – male	21.2	23.6	22.6	24.1
Current pensioners at 65 – female	23.0	24.9	23.1	25.4
Future pensioners at 65 – female	24.5	26.4	24.7	26.9

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation.

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

	UK 2019 £m	Company 2019 £m	UK 2018 £m	Company 2018 £m
(Increase)/decrease in the defined benefit obligation				
Effect of a 0.1% increase in pensions in payment	(5.1)	–	(6.0)	–
Effect of a 0.1% increase in the discount rate	6.3	–	6.4	–
Effect of a 0.1% increase in inflation	(5.7)	–	(6.7)	–
Effect of a 0.1 year increase in mortality rates	(1.4)	–	(1.3)	–

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

## 34 Pensions and other post-employment benefits continued

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 2019 and 2018 are set out in the following tables:

	UK 2019 £m	Company 2019 £m	Other 2019 £m	Total 2019 £m
Group Income Statement				
<b>Amounts (charged)/credited:</b>				
Current service cost	(3.3)	-	-	(3.3)
Past service cost	-	-	-	-
Net interest (expense)/income	(3.4)	0.4	(0.2)	(3.2)
<b>Total (charge)/credit to Income Statement</b>	<b>(6.7)</b>	<b>0.4</b>	<b>(0.2)</b>	<b>(6.5)</b>

In addition, during the year £0.6m (2018: £0.5m) of administrative expenses were incurred.

The net interest expense has been included within finance costs (see note 9).

	UK 2019 £m	Company 2019 £m	Other 2019 £m	Total 2019 £m
Group Statement of Comprehensive Income				
Actuarial gain/(loss) during the period from obligations	16.3	(11.5)	(0.6)	4.2
Expected return on plan assets greater than discount rate	8.9	10.8	0.2	19.9
<b>Net actuarial gain/(loss)</b>	<b>25.2</b>	<b>(0.7)</b>	<b>(0.4)</b>	<b>24.1</b>

In addition to the above actuarial movements, the Statement of Comprehensive includes a £0.3m loss for investment advice that was incurred directly by the Company.

	UK 2018 £m	Company 2018 £m	Other 2018 £m	Total 2018 £m
Group Income Statement				
<b>Amounts (charged)/credited:</b>				
Current service cost	(4.0)	-	-	(4.0)
Past service cost	-	(0.9)	-	(0.9)
Net interest (expense)/income	(3.2)	1.1	(0.1)	(2.2)
<b>Total (charge)/credit to Income Statement</b>	<b>(7.2)</b>	<b>0.2</b>	<b>(0.1)</b>	<b>(7.1)</b>

The past service cost in the Company relates to Guaranteed Minimum Pension equalisation recognised in 2018.

	UK 2018 £m	Company 2018 £m	Other 2018 £m	Total 2018 £m
Group Statement of Comprehensive Income				
Actuarial gain during the period from obligations	33.8	7.3	0.2	41.3
Expected return on plan assets less than discount rate	(30.0)	(35.6)	-	(65.6)
<b>Net actuarial loss</b>	<b>3.8</b>	<b>(28.3)</b>	<b>0.2</b>	<b>(24.3)</b>

The Company actuarial loss of £35.6m includes £26.5m representing the difference between the costs of the insurance policy and the accounting value of the liabilities secured through the buy-in transaction.

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

**34 Pensions and other post-employment benefits** continued

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

	UK 2019 £m	Company 2019 £m	Other 2019 £m	Total 2019 £m
<b>As at 31 December 2019</b>				
Equities	75.1	–	2.1	77.2
Bonds and multi-asset credit	83.8	–	0.8	84.6
Insurance policy	196.0	95.1	–	291.1
Diversified growth fund	101.7	–	–	101.7
Other	1.4	14.2	0.1	15.7
Fair value of scheme assets	458.0	109.3	3.0	570.3
Present value of liabilities and defined benefit obligation	(557.1)	(95.1)	(8.1)	(660.3)
<b>Defined benefit pension (deficit)/surplus</b>	<b>(99.1)</b>	<b>14.2</b>	<b>(5.1)</b>	<b>(90.0)</b>

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

	UK 2018 £m	Company 2018 £m	Other 2018 £m	Total 2018 £m
<b>As at 31 December 2018</b>				
Equities	63.0	–	1.8	64.8
Bonds and multi-asset credit	78.4	–	0.8	79.2
Insurance policy	220.2	83.7	–	303.9
Diversified growth fund	90.6	–	–	90.6
Other	0.8	14.9	0.1	15.8
Fair value of scheme assets	453.0	98.6	2.7	554.3
Present value of liabilities and defined benefit obligation	(580.3)	(83.7)	(7.1)	(671.1)
<b>Defined benefit pension (deficit)/surplus</b>	<b>(127.3)</b>	<b>14.9</b>	<b>(4.4)</b>	<b>(116.8)</b>

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

The Group's defined benefit obligation comprises £656.5m (2018: £668.4m) arising from plans that are wholly or partly funded and £3.8m (2018: £2.7m) from unfunded plans.

Based on the terms and conditions of the Company scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. Therefore, in accordance with IFRIC 14, the closing defined benefit surplus of this scheme has been recognised.

### 34 Pensions and other post-employment benefits continued

The movement in the defined benefit obligations is as follows:

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2019	(580.3)	(83.7)	(7.1)	(671.1)
Current service cost	(3.3)	-	-	(3.3)
Past service cost	-	-	-	-
Benefits paid	26.4	2.5	0.1	29.0
Contributions by employees	(0.6)	-	-	(0.6)
Finance charge	(15.6)	(2.4)	(0.3)	(18.3)
Actuarial loss from changes in financial assumptions	(54.4)	(13.8)	(0.6)	(68.8)
Actuarial gain arising from changes in demographics	18.5	2.0	-	20.5
Actuarial gain arising from experience adjustments	52.2	0.3	-	52.5
Foreign exchange	-	-	(0.2)	(0.2)
<b>Defined benefit obligation at 31 December 2019</b>	<b>(557.1)</b>	<b>(95.1)</b>	<b>(8.1)</b>	<b>(660.3)</b>

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2018	(620.0)	(90.8)	(6.7)	(717.5)
Current service cost	(4.0)	-	-	(4.0)
Past service cost	-	(0.9)	-	(0.9)
Benefits paid	25.5	2.9	0.1	28.5
Contributions by employees	(0.7)	-	-	(0.7)
Finance charge	(14.9)	(2.2)	(0.1)	(17.2)
Actuarial gain from changes in financial assumptions	26.4	7.4	0.2	34.0
Actuarial gain arising from changes in demographics	8.5	2.2	-	10.7
Actuarial loss arising from experience adjustments	(1.1)	(2.3)	-	(3.4)
Foreign exchange	-	-	(0.6)	(0.6)
Defined benefit obligation at 31 December 2018	(580.3)	(83.7)	(7.1)	(671.1)

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 2019	453.0	98.6	2.7	554.3
Expected return on plan assets	12.2	2.8	0.1	15.1
Expected return on plan assets greater/less than discount rate	8.9	10.8	0.2	19.9
Cash contributions – employer	9.9	-	0.1	10.0
Administrative expenses	(0.2)	(0.4)	-	(0.6)
Cash contributions – employee	0.6	-	-	0.6
Benefits paid	(26.4)	(2.5)	(0.1)	(29.0)
<b>Fair value of scheme assets at 31 December 2019</b>	<b>458.0</b>	<b>109.3</b>	<b>3.0</b>	<b>570.3</b>

### 34 Pensions and other post-employment benefits continued

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2018	486.2	134.0	2.8	623.0
Expected return on plan assets	11.7	3.3	–	15.0
Expected return on plan assets greater/less than discount rate	(30.0)	(35.6)	–	(65.6)
Cash contributions – employer	10.1	–	0.1	10.2
Administrative expenses	(0.2)	(0.2)	(0.1)	(0.5)
Cash contributions – employee	0.7	–	–	0.7
Benefits paid	(25.5)	(2.9)	(0.1)	(28.5)
Fair value of scheme assets at 31 December 2018	453.0	98.6	2.7	554.3

History of experience gains and losses:	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
<b>UK</b>					
Fair value of scheme assets	458.0	453.0	486.2	542.4	484.2
Present value of defined benefit obligation	(557.1)	(580.3)	(620.0)	(658.1)	(529.4)
Asset ceiling	–	–	–	(12.8)	(15.2)
Deficit in the scheme	(99.1)	(127.3)	(133.8)	(128.5)	(60.4)
Experience adjustments arising on liabilities	52.2	(1.1)	(4.3)	1.3	3.2
Experience adjustments arising on assets	8.9	(30.0)	20.2	57.8	(7.9)
<b>Company</b>					
Fair value of scheme assets	109.3	98.6	134.0	134.2	105.1
Present value of defined benefit obligation	(95.1)	(83.7)	(90.8)	(89.7)	(70.2)
Surplus in the scheme	14.2	14.9	43.2	44.5	34.9
Experience adjustments arising on liabilities	0.3	(2.3)	–	(0.3)	–
Experience adjustments arising on assets	10.8	(35.6)	(0.4)	28.1	(2.2)
<b>Other</b>					
Fair value of scheme assets	3.0	2.7	2.8	2.6	89.7
Present value of defined benefit obligation	(8.1)	(7.1)	(6.7)	(6.8)	(90.4)
Members' share of deficit	–	–	–	–	13.6
(Deficit)/surplus in the scheme	(5.1)	(4.4)	(3.9)	(4.2)	12.9
Experience adjustments arising on liabilities	–	–	–	0.1	4.2
Experience adjustments arising on assets	0.2	–	0.2	0.3	1.1

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £129.3m loss (2018: £153.1m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.



## 35 Leases

### Group as a lessee

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

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

#### (a) Amounts recognised in the Balance Sheet

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

	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
<b>Right-of-use assets</b>				
Additions	30.1	74.1	0.1	104.3
Depreciation charge	(28.7)	(41.3)	(0.7)	(70.7)
Net book value at 31 December 2019	118.2	265.5	1.5	385.2

Set out below are the carrying amounts of lease liabilities (included in borrowings – note 29) at 31 December 2019:

	2019 £m	2018 £m
<b>Lease liabilities</b>		
Current	97.8	48.0
Non-current	309.7	94.6
	407.5	142.6

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

#### (b) Amounts recognised in the Income Statement

	2019 £m
Depreciation expense on right-of use assets	70.7
Interest on lease liabilities	12.8
Interest income on sub-leases	(0.2)
Variable lease payments (included in operating costs)	-
Expenses relating to short-term leases (included in operating costs)	10.3
Expenses relating to leases of low-value assets (included in operating costs)	7.6
Income from sub-leasing right-of-use assets (included in other revenue)	(1.6)
Gains and losses arising from sale and leaseback transactions	(6.8)

It is not expected that commitments for short-term leases will materially differ from those in place at 31 December 2019.

#### (c) Amounts recognised in the Cash Flow

	2019 £m	2018 £m
<b>Total cash outflow for leases</b>	<b>(91.1)</b>	(49.9)

### 35 Leases continued

#### (d) Extension and termination options

Some property and vehicle leases contain extension or termination options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension or termination options in new leases to provide operational flexibility. The extension and termination options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension or termination options and 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 does not have variable lease payments that are not included in the lease liability.

#### (f) Residual value guarantees

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

#### (g) Future lease commitments

At the year end the Group had commitments relating to leases not yet commenced of £7.7m.

#### Group as a lessor

The Group entered into finance leasing arrangements as a lessor for certain vehicles to its customers. During 2019, the Group recognised interest income on lease receivables of £0.2m (2018: £nil).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date. Under IAS 17, the Group did not have any finance leases as a lessor.

	< 1 year £m	1-5 years £m	> 5 years £m	Total undiscounted lease receivable £m	Unearned finance income £m	Net investment in the lease £m
<b>Net investment in the lease</b>						
Finance lease receivable	1.6	3.5	0.4	5.5	(0.5)	5.0

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

	2019 £m	2018 £m
<b>Net investment in the lease</b>		
Current	1.4	-
Non-current	3.6	-
	5.0	-

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

	< 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	> 5 years £m	Total £m
<b>Operating leases under IFRS 16</b>							
Operating lease receipts	2.1	2.1	2.0	0.9	0.3	0.1	7.5

## 36 Commitments and contingencies

### (a) Capital commitments

	2019 £m	2018 £m
Contracted	141.7	62.6

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

### (b) Contingent liabilities

#### Guarantees

The Group has guaranteed credit facilities totalling £13.4m (2018: £21.4m) of certain joint ventures.

#### Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2019, the Group had performance bonds in respect of businesses in the US of £157.9m (2018: £172.3m), in Spain of £83.6m (2018: £46.0m), in Germany of £26.0m (2018: £11.3m) and in the Middle East of £6.2m (2018: £6.3m). Letters of credit have been issued to support insurance retentions of £112.4m (2018: £118.2m).

#### Long-term contracts

The Group has a long-term service contract to operate Rhine-Ruhr Express train services on behalf of the Public Transport Authority in Germany. Consideration for the Group's services is fixed, with profitability under the contract dependent on the value of operating costs incurred by the Group. Given the contract has only recently been mobilised and the wide range of operating cost outcomes, the Directors are satisfied that, with mitigating actions available to the Group, it is possible, not probable, that the contract could be loss making in the future.

#### Tax

Tax authorities in the markets in which we operate (UK, Spain, Germany, USA, Canada and Morocco) carry out tax audits from time to time. As was detailed in note 10(d) tax provisions, the current ongoing tax audits relate to our Moroccan business. The Directors are satisfied that, based on current knowledge, adequate tax provisions are held to cover any tax uncertainties. The Group had tax provisions at 31 December 2019 of £10.8m (2018: £7.9m). There are no material contingent liabilities relating to tax.

## 37 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Joint ventures</b>						
Bahrain Public Transport Company W.L.L.	0.4	0.5	-	0.5	-	-
ALSA joint venture	-	-	-	0.2	-	-
<b>Associates</b>						
ALSA associates	5.7	4.7	3.4	2.3	(1.3)	(1.0)
<b>Total joint ventures and associates</b>	<b>6.1</b>	<b>5.2</b>	<b>3.4</b>	<b>3.0</b>	<b>(1.3)</b>	<b>(1.0)</b>
<b>Trade investments</b>						
ALSA trade investments	5.8	6.1	-	0.1	(0.1)	(0.9)
North America trade investments	0.3	-	-	-	-	-
<b>Total investments</b>	<b>6.1</b>	<b>6.1</b>	<b>-</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(0.9)</b>
<b>Property transactions</b>						
ALSA property transactions	4.2	5.5	0.4	0.4	(0.5)	(0.7)
North America property transactions	4.3	-	-	-	-	-
<b>Total property transactions</b>	<b>8.5</b>	<b>5.5</b>	<b>0.4</b>	<b>0.4</b>	<b>(0.5)</b>	<b>(0.7)</b>
<b>Total other related parties</b>	<b>14.6</b>	<b>11.6</b>	<b>0.4</b>	<b>0.5</b>	<b>(0.6)</b>	<b>(1.6)</b>
<b>Total</b>	<b>20.7</b>	<b>16.8</b>	<b>3.8</b>	<b>3.5</b>	<b>(1.9)</b>	<b>(2.6)</b>

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

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

### 37 Related party transactions continued

#### Compensation of key management personnel of the Group

	2019 £m	2018 £m
Total compensation paid to key management personnel (note 7)	6.9	6.9

### 38 Service concession arrangements

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

Concession	Description of the arrangement	Concession period	Concession commencement	Nature of infrastructure	Classification under IFRIC 12
German Rail	The Group operates two train services in Germany.	15 years	2015 – 2020	Rolling stock and tracks used in the operation of the service are provided by the delegating authority.	No financial or intangible asset is recognised for construction as the infrastructure is provided to the Group.
Moroccan Urban Bus	The Group has two contracts with the Moroccan authority for the operation of public transport bus services.	15 years	September 2019	Public service vehicles used in the operation are provided by the Group.	Intangible asset
		Up to 15 years	November 2019	Initially, public service vehicles used in operation are provided by the public authority. Replacement public service vehicles will be provided by the Group and public authority in future years.	Financial asset
Spanish Urban Bus	The Group has a contract with the Spanish government to operate urban commuter coach services in Spain.	10 years	August 2019	Public service vehicles used in the operation are provided by the Group.	Financial asset

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

## 39 Cash flow statement

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

	2019 £m	2018 £m
Total operations		
Profit before tax from continuing operations	187.0	177.7
Loss before tax from discontinued operations (note 11)	-	(1.7)
Total profit before tax	187.0	176.0
Net finance costs	55.7	38.6
Share of results from associates and joint ventures	(0.4)	(0.9)
Depreciation of property, plant and equipment	203.1	133.8
Intangible asset amortisation	59.7	47.0
Amortisation of fixed asset grants	(1.3)	(0.5)
Gain on disposal of property, plant and equipment	(10.3)	(8.4)
Gain on disposal of intangible assets	(3.6)	(8.3)
Share-based payments	6.4	6.4
Increase in inventories	(2.6)	(1.4)
Increase in receivables	(75.0)	(57.7)
Increase in payables	46.2	86.3
Decrease in provisions	(26.7)	(49.7)
<b>Cash generated from operations</b>	<b>438.2</b>	<b>361.2</b>

### (b) Analysis of changes in net debt

	At 1 January 2019 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2019 £m
<b>Components of financing activities:</b>						
Bank and other loans <sup>1</sup>	(9.0)	(169.8)	(0.7)	(5.1)	0.1	(184.5)
Bonds	(852.4)	(244.6)	-	13.4	1.7	(1,081.9)
Fair value of interest rate derivatives	6.6	-	-	(0.2)	(3.1)	3.3
Fair value of foreign exchange forward contracts	(6.8)	(20.8)	-	7.2	-	(20.4)
Cross currency swaps	(0.2)	-	-	-	11.9	11.7
Net lease liabilities <sup>2</sup>	(356.3)	91.1	(42.6)	12.3	(107.0)	(402.5)
Other debt payable	(73.7)	-	-	4.4	1.0	(68.3)
<b>Total components of financing activities</b>	<b>(1,291.8)</b>	<b>(344.1)</b>	<b>(43.3)</b>	<b>32.0</b>	<b>(95.4)</b>	<b>(1,742.6)</b>
Cash	74.6	36.8	4.3	(4.5)	-	111.2
Overnight deposits	1.9	0.2	-	-	-	2.1
Other short-term deposits	41.2	323.8	-	-	-	365.0
<b>Cash and cash equivalents</b>	<b>117.7</b>	<b>360.8</b>	<b>4.3</b>	<b>(4.5)</b>	<b>-</b>	<b>478.3</b>
Other debt receivables	2.1	0.3	-	-	-	2.4
Remove: fair value of foreign exchange forward contracts	6.8	20.8	-	(7.2)	-	20.4
<b>Net debt<sup>3</sup></b>	<b>(1,165.2)</b>	<b>37.8</b>	<b>(39.0)</b>	<b>20.3</b>	<b>(95.4)</b>	<b>(1,241.5)</b>

<sup>1</sup> Net of arrangement fees totalling £2.7m on bank and other loans

<sup>2</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 1). The closing balance is inclusive of finance leases receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

<sup>3</sup> Excludes accrued interest on long-term borrowings

### 39 Cash flow statement continued

For the purpose of calculating the Group's financial covenants, net debt is retranslated using the average exchange rates for the year to 31 December 2019, resulting in adjusted net debt of £1,266.0m (2018: £939.8m).

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

Borrowings include non-current interest-bearing borrowings of £1,104.9m (2018: £1,029.3m) as disclosed in note 28.

Other non-cash movements represent lease additions and disposals of £107.0m (2018: £5.4m), an £11.9m increase in the fair value of the cross currency swaps (2018: £nil) and a £0.7m net reduction from the amortisation of loan and bond arrangement fees (2018: £0.3m). A £3.1m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £2.1m fair value increase in bonds and a £1.0m fair value increase in other debt payable.

	At 1 January 2018 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2018 £m
Components of financing activities:						
Bank and other loans <sup>1</sup>	(115.6)	93.0	(1.7)	14.7	0.6	(9.0)
Bonds	(851.9)	–	–	(2.6)	2.1	(852.4)
Fair value of interest rate derivatives	10.3	–	–	–	(3.7)	6.6
Fair value of foreign exchange swaps	1.5	20.0	–	(28.3)	–	(6.8)
Cross currency swaps	1.0	7.6	–	(8.8)	–	(0.2)
Lease liabilities	(173.1)	49.9	(6.7)	(7.3)	(5.4)	(142.6)
Other debt payable	(73.6)	–	–	(0.8)	0.7	(73.7)
<b>Total components of financing activities</b>	<b>(1,201.4)</b>	<b>170.5</b>	<b>(8.4)</b>	<b>(33.1)</b>	<b>(5.7)</b>	<b>(1,078.1)</b>
Cash	100.7	(50.7)	22.7	1.9	–	74.6
Overnight deposits	4.9	(3.0)	–	–	–	1.9
Other short-term deposits	208.7	(167.5)	–	–	–	41.2
<b>Cash and cash equivalents</b>	<b>314.3</b>	<b>(221.2)</b>	<b>22.7</b>	<b>1.9</b>	<b>–</b>	<b>117.7</b>
Other debt receivables	0.7	1.4	–	–	–	2.1
Remove: fair value of foreign exchange swaps	(1.5)	(20.0)	–	28.3	–	6.8
<b>Net debt<sup>2</sup></b>	<b>(887.9)</b>	<b>(69.3)</b>	<b>14.3</b>	<b>(2.9)</b>	<b>(5.7)</b>	<b>(951.5)</b>

<sup>1</sup> Net of arrangement fees totalling £2.6m on bank and other loans

<sup>2</sup> Excludes accrued interest on long-term borrowings

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

	2019 £m	2018 £m
Increase/(decrease) in cash and cash equivalents in the year	365.1	(198.5)
Cash inflow from movement in other debt receivables	0.3	1.4
Cash (outflow)/inflow from movement in debt and leases liabilities	(366.6)	142.1
Change in net debt resulting from cash flows	(1.2)	(55.0)
Change in net debt resulting from non-cash movements	(75.1)	(8.6)
<b>Movement in net debt in the year</b>	<b>(76.3)</b>	<b>(63.6)</b>
Opening net debt <sup>1</sup>	(1,165.2)	(887.9)
<b>Net debt</b>	<b>(1,241.5)</b>	<b>(951.5)</b>

<sup>1</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases'

## 40 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2019 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
<b>United Kingdom &amp; Ireland</b>		National Express Petermann UK Limited (07855188)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Airlinks The Airport Coach Company Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Rail Replacement Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Altram LRT Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Brooke Management Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Spanish Holdings Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Central Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
E Clarke & Son (Coaches) Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Transport Holdings Limited (04338163)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Eurolines (UK) Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express UK Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Clarkes Holdco Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD, (previously Helium Miracle 236 Limited)</i>	100	NE Canada Limited (08596333)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Inter-Capital and Regional Rail Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	40	NE Durham UK Limited (08270480)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
London Eastern Railway Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Europe Finance Limited (07876047)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Maintrain Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE No.1 Ltd, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
Midland Main Line Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE No.2 Ltd, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Bus & Coach Services Limited, <i>4th Floor, 7/8 Wilton Terrace, Dublin 2, Ireland</i>	100	NE No. 3 Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express East Anglia Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NE Trains South Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express European Holdings Limited (05652775)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	National Express Middle East Plc (previously NX Bahrain Bus Company Plc), <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Finance Company Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NX Crossrail Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Financing LP, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NX Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Group Holdings Limited (04339932)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NXEA Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Holdings Limited (02156473)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NXEC Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Intermediate Holdings Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	NXSR Trains Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express International Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Scotrail Railways Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Silverlink Train Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express Manchester Metrolink Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Speedlink Airport Services Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100
National Express North America Holdings Limited (07855182)*, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Stewarts Coach Group Limited, <i>National Express House Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, England, B5 6DD</i>	100
National Express Operations (Stansted) Limited, <i>Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN</i>	100		
National Express Operations Limited, <i>Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN</i>	100		

40 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Stewarts Coaches Limited, <i>National Express House Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, England, B5 6DD</i>	100	Atlantic & Southern Transportation, <i>150 Market Street, Suite 800, Indianapolis, IN 46204</i>	100
Taybus Holdings Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	Beck Bus Transportation Corp., <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Tayside Public Transport Co. Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	Beck Bus Transportation III, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
The Kings Ferry Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Beck Bus Transportation IV, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel Birmingham Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Beck Bus Transportation, LLC, <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel Coventry Limited (previously WM Card Systems Limited), <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Bus Co., Inc., <i>208 S. LaSalle Street, Chicago, County of Cook, IL 60604</i>	100
Travel Dundee Limited, <i>44/48 East Dock Street, Dundee, DD1 3JS</i>	100	Caravan Leasing Vehicles LLC, <i>8020 Excelsior Drive, Suite 200, Madison, WI 53717</i>	100
Travel Merryhill Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Carrier Management Corporation, <i>600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071</i>	100
Travel West Midlands Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Chicagoland Coach Lines LLC, <i>1209 Orange Street, Wilmington, DE 19801-1120</i>	100
Travel WM Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Community Transportation, Inc., <i>600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071</i>	100
Travel Yourbus Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Cook-DuPage Transportation Company, Inc., <i>208 S. LaSalle Street, Chicago, IL 60604</i>	100
West Anglia Great Northern Railway Limited, <i>National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD</i>	100	Diamond Transportation Services, Inc., <i>4701 Cox Road, Glen Allen, County of Henrico, VA 23060</i>	100
West Midlands Accessible Transport Limited (previously Travel Coventry Limited), <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Discount Enterprises, Inc., <i>3800 North Central Avenue, Ste. 460 Phoenix, AZ 85012</i>	100
West Midlands Transport Information Services Limited, <i>Unit 8 – Pendeford Place, Pendeford Business Park, Wobaston Road, Wolverhampton, WV9 5HD</i>	20	Durham D&M LLC, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
West Midlands Travel Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Durham Holding I, LLC, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
WM Property Holdings Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Durham Holding II, LLC, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
WM Travel Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Durham School Services, L.P., <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
WM Ventures Limited, <i>51 Bordesley Green, Birmingham, B9 4BZ</i>	100	Fox Bus Lines Inc., <i>155 Federal Street, Suite 700, Boston, MA 02110</i>	100
Woods Coaches Limited, <i>National Express House Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, England, B5 6DD</i>	100	Greensburg Yellow Cab Co., <i>600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071</i>	100
Woods Reisen Limited, <i>National Express House Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, England, B5 6DD</i>	100	Haid Acquisitions LLC, <i>4400 Easton Commons Way, Suite 125, Columbus, OH 43219</i>	100
<b>Canada</b>		JNC Leasing, Inc., <i>40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675</i>	100
National Express Canada (Holdings) Limited, <i>40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada</i>	100	Kiessling Transit, Inc., <i>155 Federal Street, Suite 700, Boston, MA 02110</i>	100
National Express Canada Transit Ltd., <i>40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada</i>	100	Meda-Care Vans of Waukesha, Inc., <i>301 S. Bedford St., Suite 1, Madison, WI 53703</i>	100
Stock Transportation Ltd., <i>40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada</i>	100	MF Petermann Investment Corporation, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
<b>US</b>		Monroe School Transportation, Inc., <i>28 Liberty Street, New York, NY 10005</i>	100
"The Provider" Enterprises, Inc., <i>9 Capitol Street, Concord, NH 03301</i>	100	MV Student Transportation, Inc., <i>40 West Lawrence, Suite A, Helena, Montana 59601</i>	100
A1A Transportation, Inc., <i>1200 Pine Island Road, Plantation, FL 33324</i>	100	National Express Acquisition Corporation, <i>1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120</i>	100
Aristocrat Limousine and Bus, Inc., <i>820 Bear Tavern Road, West Trenton, NJ 08628</i>	100		
A&S Transportation Incorporated, <i>1200 Pine Island Road, Plantation, FL 33324</i>	100		
Atlantic & Southern Transportation, <i>289 Culver Street, Lawrenceville, GA 30046</i>	100		
Atlantic & Southern Transportation, <i>3867 Plaza Tower Drive, Baton Rouge, LA 70816</i>	100		



## 40 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
National Express Durham Holding Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Trans Express, Inc., 28 Liberty Street, New York, NY 10005	100
National Express Leasing Company LLC, 1209 Orange Street, Wilmington, DE 19801-1120	100	Transit Express, Inc., 301 S. Bedford St., Suite 1, Madison, WI 53703	100
National Express LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Transit Express Services, Inc., 301 S. Bedford St., Suite 1, Madison, WI 53703	100
National Express Transit Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Trinity, Inc., 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100
National Express Transit Services Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Trinity Cars, Inc., 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100
New Dawn Transit LLC, 28 Liberty Street, New York, NY 10005	100	Trinity Coach LLC, 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100
NU Express LLC, 1209 Orange Street, Wilmington, DE 19801-1120	100	Trinity Management Services Co. LLC, 4624 13th St., Wyandotte, MI 48192	100
Petermann Acquisition Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Trinity Student Delivery LLC, 40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675	100
Petermann Acquisition Corporation, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	TWB Transport, LLC, 208 S. LaSalle Street, Chicago, County of Cook, IL 60604	100
Petermann Holding Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	WeDriveU America LLC, 150 West Market Street, Suite 800 Indianapolis, IN, 46204	100
Petermann Ltd., 4400 Easton Commons Way, Columbus, County of Franklin, OH 43219	100	WeDriveU Inc., 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833	60
Petermann Northeast, LLC, 4400 Easton Commons Way, Columbus, County of Franklin, OH 43219	100	WeDriveU Canada Inc., 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833	60
Petermann Northwest, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	WeDriveU Holdings, Inc., 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833	60
Petermann Partners, Inc., 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	WeDriveU Leasing Inc., 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833	60
Petermann Southwest, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	White Plains Bus Co., Inc., 28 Liberty Street, New York, NY 10005	100
Petermann STS, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Whitetail Bid Co., LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100
Petermann STSA, LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100	Wise Coaches, Inc., 300 Montvue Road, Knoxville, TN 37919	100
PM2 Co. LLC, 1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120	100		
Quality Bus Service, LLC, 28 Liberty Street, New York, NY 10005	100	<b>Andorra</b>	
Queen City Transportation, LLC, 4400 East Commons Way, Suite 125, Columbus, OH 43219	100	Estació 2017, S.A. Carrer de la Cúria, s/n, Andorra la Vella	11
Rainbow Management Service, Inc., 28 Liberty Street, New York, NY 10005	100	Estació d'Autobusos d'Andorra, Av. de Tarragona, 42, AD500 Andorra la Vella	100
Safeway Training and Transportation Services, Inc., 9 Capitol Street, Concord, NH 03301	100	Transports Dels Pirineus, - Carrer de la Cúria, s/n – Andorra la Vella	100
Septran, Inc., 150 West Market Street, Suite 800, Indianapolis, IN 46204	100		
Smith Bus Service, Inc., 2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264	100	<b>France</b>	
Suburban Paratransit Services, Inc., 28 Liberty Street, New York, NY 10005	100	Iberolines, 41 Boulevard Poniatowski, 75012, Paris	46
Total Transit Enterprises, LLC, 12815 N 39th Avenue, Phoenix, AZ 85029	100	SARL Chamexpress.com, 498 Avenue des Alpages, 74310 Les Houches	100
		<b>Morocco</b>	
		Alsa al Baida, twin center ang bd zerkouni et al massira etg 5 et 6, Casablanca	100
		Alsa City Agadir S.A., Rue De Teheran, Q.I Agadir	100
		Alsa City Sightseeing Maroc, Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100
		Alsa City Tour S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	95
		Alsa Education a la Sécurité Routière S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	98

40 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Alsa Khouribga S.A., No 22 Rue Meknes Hay Haboub, Khouribga	100	Autobuses Urbanos de Bilbao, S.A., C/Tellaetxeidea 3, Bilbao	75
Alsa Tanger S.A., 37 Rue Omar Ibn Khattab, Immeuble Maspalomas 2, Tanger	100	Autobuses Urbanos de León, S.A.U., Pol. Ind. Vilecha Oeste, León (24192)	100
Centre de Formation Techn. Profes. Transport S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	99	Autocares Castilla-León, S.A.U., Estación de Autobuses, Av Ingeniero Sáenz de Miera, León (24009)	100
Groupe Alsa Transport S.A., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100	Autocares Discrecionales del Norte, S.L.U., Alameda de Urquijo, n o 85, 1o -Dcha., Bilbao- Vizcaya (48013)	100
Immeubles Véhicules Accessoires Maroc S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	80	Automóviles Luarca, S.A.U., Magnus Blikstad 2, Gijón (33207)	100
Interprovincial Maroc S.A.R.L., Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100	Automóviles Sigras Carral, S.A. Ctra. El Burgo-Los Pelamios s/n Culleredo - A Coruña	100
Transport de Voyageurs en Autocar Maroc S.A. Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech	100	Autos Cal Pita, S.A. Ctra. El Burgo-Los Pelamios s/n Culleredo - A Coruña	97
Alsa Citybus Rabat-Salé-Temara, S.A., Rue cadí Srayri et Cadí Ben Hammadi, Quartier de la Pinede - Rabat	51	Autos Pelayo, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100
<b>Portugal</b>		Autos Rodríguez Eocar, S.L., Cedofeita, c/ Requiande, 1 - Ribadeo-Lugo	80
Alsa Metropolitano do Porto, Lda, Avenida das Forças Armadas, N 125, 12 Lisboa	100	Baleares Business Cars, S.L., C/ Jorge Juan, 19- 2º Izquierda, Madrid (28001)	100
Tiac Viagens e Turismo Lda, Rua de Pedro Nunes, 39, Lisboa	100	Berlinas de Asturias, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
<b>Slovakia</b>		Berlinas de Extremadura, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
Efc Spol s.r.o., Tehelná 23 83103, Bratislava - Nové Mesto	80	Berlinas Calecar, S.L.U., Avenida Ingeniero Saenz de Miera, s/n (Estación de Autobuses), León (24009)	100
<b>Spain</b>		Berlinas de Canarias, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
Alsa Internacional, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Berlinas de Toledo, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
Alsa Internacional, S.L.U. y Otros U.T.E., C/ Alcalá, 478, Madrid (28027)	100	Berlinas Tibus, S.L.U., C/ Alcalá, 478, Madrid (28027)	100
Agreda Bus, S.L. Avda. Manuel Rodríguez Ayuso, 110 - Zaragoza	70	Berlinas VTC de Cantabria, S.L.U., Avenida de Candina, nº 35, Santander (39011)	100
Alianza Bus, S.L.U., C/ Alcalá, 478, Madrid (28027)	100	Buses de Palencia, S.L., C/ Campaneros, 4, 1o Dcha, Palencia (34003)	100
Almería-Murcia Bus, S.L., Avda Juan Pablo II, 33, Granada	100	Bus Metropolitano de Granada, S.L. Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)	50
Alsa Atlántica, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Busturialdea Lea Artibai Bus, S.A., Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510)	65
Alsa Ferrocarril, S.A.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Canary Business Cars, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
Alsa Granada Airport S.L., Avda Juan Pablo II, 33, Granada	100	Cataluña Business Cars, S.L., C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)	100
Alsa Grupo Intercontinental, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Center Bus, S.L., Paseo de Moret, 7, Madrid	90
Alsa Metropolitana, S.A.U., C/ Alcalá, 478, Madrid (28027)	100	Cetralsa Formación, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100
Alsa Rail, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Cía. del Tranvía Eléctrico de Avilés, S.A., Avda Conde de Guadalhorce 123, Avilés (33400)	87
Alsa Grupo, S.L.U., C/ Miguel Fleta, 4, Madrid (28037)	100	Compañía Navarra de Autobuses, S.A., C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona	50
Aplic. y Sist. Integrales Para el Transporte, S.A., Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)	100	Compostelana, S.A.U., Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña)	100
Aragonesa de Estación de Autobuses, S.A., Urbanización Plaza de Roma, F-1, Zaragoza	23	Concesionario Estación Autobuses Logroño, S.A., Avda de España, 1, Logroño- La Rioja	21
Argabus, S.A. C/ Real 116 - Arganda del Rey (Madrid)	100	Dainco, S.A.U., Avda Filiberto Villalobos, nº 71, Salamanca	50
Argantours, S.A. C/ Real 116 - Arganda del Rey (Madrid)	100		
Artazo Servicios Integrales, S.L., Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10	100		
Asturies Berlinas de Luxu, S.L., C/Jorge Juan, 19 - 2º Izquierda, Madrid (28001)	100		
Autedia, S.L., Avda Juan Pablo II, 33, Granada	50		
Autobuses Urbanos de Arganda, S.A. Avda. del Mediterráneo 50 - Madrid	100		

## 40 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Ebrobus, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Grupo Enatcar, S.A., <i>C/ Alcalá, 478, Madrid (28027)</i>	100
Eme Association Business, S.A., <i>Avda. del Mediterráneo 50 – Madrid</i>	100	Ibero-Euro Sur, S.L., <i>C/ Alcalá, 478, Madrid (28027)</i>	20
Estación Autobuses de Cartagena, S.A., <i>Avda Trovero Marín. Nº 3, (Estación Autobuses), Cartagena (30202)</i>	54	Inforcyl, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Estación Autobuses de Ponferrada, S.A., <i>Ctra de Asturias, Ponferrada</i>	49	Informática, Comunicaciones y Logística, S.L.U., <i>Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizcaya (48013)</i>	100
Estación Central de Autobuses de Zaragoza, S.A., <i>Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)</i>	19	Intercambiadores Europeos, S.L., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	60
Estación de Autobuses de Siero, S.L., <i>C/ Ramón y Cajal, Pola de Siero</i>	50	International Business Limousines, S.A.U., <i>Pol. Ind. Las Fronteras. C/Límite, Torrejón de Ardoz (Madrid)</i>	100
Estación de Autobuses Aguilar de Campoo, S.L., <i>Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)</i>	67	Interurbana de Autocares, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Estación de Autobuses Chamartin, S.A., <i>Pº de la Castellana, 216, Madrid</i>	49	Irubus, S.A.U., <i>C/ Alcalá, 478, Madrid (28027)</i>	100
Estación de Autobuses de Aranda de Duero, S.L., <i>Avda Valladolid, Aranda de Duero (Burgos)</i>	43	Jimenez Lopera, S.A.U., <i>Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)</i>	100
Estación de Autobuses de Astorga, S.L., <i>Avda Las Murallas, nº 52, Astorga-León (24700)</i>	79	Julia Travel S.A., Automoviles Luarda S.A.U., Transportes Bacorna S.A.U. U.T.E., <i>C/ Puerto Used, 20, Madrid</i>	50
Estación de Autobuses de Aviles S.L., <i>C/ Los Telares (Estación de Autobuses) Aviles (33400)</i>	100	Julia Travel y Automóviles Luarda Sa Ute, <i>Avda Sancho El Sabio, 31, Donostia</i>	50
Estación de Autobuses de Benavente, S.L., <i>Avda Primo de Rivera, Benavente</i>	23	La Tafallesa, S.A.U., <i>C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona</i>	50
Estación de Autobuses de León, S.A., <i>Estación de Autobuses, Avda Ingeniero Saenz de Miera, León (24009)</i>	89	La Unión Alavesa, S.L., <i>C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)</i>	50
Estación de Autobuses de Plasencia, S.A., <i>C/ Tomavacas, 2, Plasencia</i>	52	La Unión de Benisa, S.A., <i>C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)</i>	98
Estación de Autobuses de Ribadeo, S.L., <i>Avda Rosalía de Castro, Ribadeo</i>	50	Lineas Europeas de Autobuses, S.A., <i>C/Guillem de Castro, 77, Valencia</i>	43
Estación de Autobuses de Vitoria, S.L., <i>C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)</i>	32	Los Abades de la Gineteta, S.L.U., <i>C/ Alcalá, 478, Madrid (28027)</i>	100
Estación de Líneas Regulares, S.L., <i>Plaza de las Estaciones, Santander (Cantabria)</i>	46	Mai Tours, S.L.U., <i>Avenida de la Hispanidad O- Parking P12, Barajas, Madrid</i>	100
Estaciones Terminales de Autobuses, S.A., <i>Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009)</i>	79	Manuel Vázquez, S.L., <i>C/ Jacques Cousteau, 2 – Arteijo (A Coruña)</i>	60
Euska Alsa, S.L.U., <i>Alameda de Urquijo, n o 85, 1o – Dcha., Bilbao- Vizaya (48013)</i>	100	Movelía Tecnologías, S.L., <i>C/ Santa Leonor, 65 –Avalón Parque Empresarial, Edificio A, Madrid</i>	78
Extremadura Business Limousines, S.L., <i>C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)</i>	100	Mundaka Consultoria, S.L.U., <i>Alameda de Urquijo, no 85, 1o – Dcha., Bilbao- Vizaya (48013)</i>	100
Ezkerraldea-Meatzaldea Bus, S.A., <i>Centro de Transportes de Vizcaya, Barrio el Junca, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510)</i>	65	NEX Continental Holdings, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Gal Bus, S.L. <i>Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña</i>	100	NX Middle East, S.L.U., <i>C/ Inglaterra, 20-22, Palencia (34004)</i>	100
G.S. Carretera, Plaza de la Constitución, Estación de Autobuses, <i>2ª Planta, Oficina 26, Lugo</i>	25	Proyectos Unificados, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
General Técnica Industrial, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	Rapid Aeroport, S.A.U., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	100
Gorbea Representaciones, S.L., <i>Alameda de Urquijo, n o 85, 1o – Dcha., Bilbao- Vizcaya (48013)</i>	100	Representaciones Mecánica, S.A.U., <i>Alameda de Urquijo, n o 85, 1o –Dcha., Bilbao- Vizcaya (48013)</i>	100
Guaguas Gumidafe, S.L. <i>Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10</i>	100	Rutas a Cataluña, S.A., <i>C/ Musico Gustavo Freire, 1 -1º Dcha, Lugo (27001)</i>	28
		Rutas del Cantábrico, S.L., <i>Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizcaya (48013)</i>	95
		Semarvi, <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	34
		Serviareas 2000, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
		Servicios Auxiliares del Transporte C.B., <i>C/Méndez Álvaro (Estación de Autobuses), Madrid</i>	100

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40 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest	Name and country of incorporation	% equity interest
Servicios El Temple, S.L. <i>Ctra. El Burgo-Los Pelamios s/n Culleredo - A Coruña</i>	100	Transportes Urbanos de Guadalajara, S.L., <i>Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)</i>	100
Servicios Empresariales Especiales, S.L.U., <i>Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizcaya (48013)</i>	100	Tranvías Metropolitanas de Granada, S.A.U., <i>Avenida de Cádiz, número 70, 1º-B, Granada</i>	100
Servicios Generales de Automoción, S.A.U., <i>Alameda de Urquijo, no 85, 1o -Dcha., Bilbao- Vizcaya (48013)</i>	100	Tury Express, S.A., <i>Alameda de Urquijo, n o 85, 1o -Dcha., Bilbao- Vizcaya (48013)</i>	100
Servicios VTC Tibus, S.L.U. <i>C/ Alcalá, 478, Madrid (28027)</i>	100	Ute Catamaranes Bahía Cadiz, <i>Avda José León de Carranza, nº 20, Cádiz</i>	23
Setra Ventas y Servicios, S.A.U., <i>Pol. Ind. Las Fronteras. C/ Límite, Torrejón de Ardoz (Madrid)</i>	100	Ute Ea Cordoba, <i>Glorieta de las Tres Culturas, Córdoba</i>	50
Sisalde Arrendamiento de vehículos con conductor, S.L., <i>C/ Deyanira, 29 - Madrid</i>	60	Ute Extremadura, <i>C/ Alcalá, 478, Madrid (28027)</i>	100
Sociedad Anónima Unipersonal Alsina Graells de A.T., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	100	Ute Guadalajara, <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Técnicas en Vehículos Automóviles, S.L.U., <i>C/ Alcalá, 478, Madrid (28027)</i>	100	Ute Mundiplan, <i>C/ Ruiz Perelló, 15, Madrid</i>	17
Tecnologías Formativas en Simuladores, S.L., <i>Newton, 6, Edificio 6, Nave, 6.P, Leganés, Madrid (28914)</i>	50	Ute Murcia City Tour, <i>Magnus Blikstad 2, Gijón (33207)</i>	50
Terminal de Autobuses de Garellano, S.L., <i>Alameda de Mazarredo, 21, Bilbao</i>	41	Ute Ea Alicante, <i>Muelle de Poniente, Alicante</i>	50
Tibus, S.A., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	60	Viajes ALSA, S.A.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100
Tibus Berlines de Luxe, S.L.U., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	100	Viajes Por Carretera, S.A.U., <i>Alameda de Urquijo, n o 85, 1o -Dcha., Bilbao- Vizcaya (48013)</i>	100
Tibus Business Cars, S.L.U., <i>C/ Ali Bei, 80 (Estación de Autobuses) Barcelona, (08013)</i>	100	Vecolux Lleida, S.L., <i>calle Ali Bei, nº 80 - Barcelona</i>	60
Tibus Business Limousines, S.L.U., <i>C/ Alcalá, 478, Madrid (28027)</i>	100	Voramar el Gaucho S.L.U., <i>S' Hort den Serral (San Agustín) Sant Josep de sa Talaia, Illes Balears</i>	100
Tibus Luxury Services, S.L.U., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	100		
Transporte Colectivos, S.A.U., <i>Gran Vía de D. Ingacio de Haro, 81, Bilbao</i>	100	<b>Switzerland</b>	
Transportes Accesibles Peninsulares, S.L., <i>C/ Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)</i>	100	AlpyBus S.a.r.l., <i>8 Chemin de Morglas, 1214, Genève</i>	100
Transportes Adaptados Andaluces, S.A.U., <i>Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén</i>	100	Eggmann Frey, <i>Rue du Mont Blanc 14, 1201, Genève</i>	100
Transportes Adaptados Regionales, S.L.U., <i>Estación de Autobuses, Av Ingeniero Sáenz de Miera, León (24009)</i>	100	GVA Transfers.com SARL, <i>Chemin de Morglas, 8 - Vernier</i>	100
Transportes Adaptados Cantabros, S.A., <i>Avda Candina, 35-37, Santander (39011)</i>	98	Linien Abfertigung GmbH, <i>Rue du Mont Blanc 14, 1201, Genève</i>	80
Transportes Bacoma, S.A.U., <i>C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)</i>	100	Odier Excursions, S.A., <i>Chemin Des Aulx 9 - Plan Les Ouates - Switzerland</i>	100
Transportes de Viajeros de Aragón, S.A., <i>Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)</i>	59		
Transportes Santo Domingo, S.L.U. <i>C/ Investigación. Nº 2 - Getafe (Madrid)</i>	100	<b>Bahrain</b>	
Transportes Terrestres Cantabros, S.A., <i>Avda Candina, 35-37, Santander (39011)</i>	93	Bahrain Public Transport Company W.L.L., <i>Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain</i>	50
Transportes Unidos de Asturias, S.L., <i>Pol. Ind. Espirtiu Santo, Oviedo (33010)</i>	100		
Transportes Unidos, S.L.U., <i>C/ Miguel Fleta, 4, Madrid (28037)</i>	100	<b>Germany</b>	
Transportes Urbanos de Cantabria, S.L.U., <i>Avda Candina, 35-37, Santander (39011)</i>	100	National Express Germany GmbH, <i>Trakehner Strasse 7-9, 60487 Frankfurt am Main, Germany</i>	95
Transportes Urbanos de Cartagena, S.A., <i>Paraje de la Asomada, Cartagena (Murcia)</i>	97	National Express Holding GmbH, <i>Vogelsanger Weg 38, 40470 Düsseldorf, Germany</i>	100
Tranvía de Vélez, S.A.U., <i>Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)</i>	100	National Express Rail GmbH, <i>Maximinenstrasse 6, 50668 Cologne, Germany</i>	100
		Süddeutsche Regionalbahn GmbH, <i>Vogelsanger Weg 38, 40470 Düsseldorf, Germany</i>	
		(Renamed: previously called National Express Südwest GmbH)	100
		<b>Netherlands</b>	
		National Express Holdings LLC BV, <i>Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands</i>	100
		<b>Czech Republic</b>	
		National Express Cz s.r.o. (in liquidation), <i>Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic</i>	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.

## Company Balance Sheet At 31 December 2019

	Note	2019 £m	2018 £m
<b>Non-current assets</b>			
Intangible assets	4	-	-
Property, plant and equipment	5	0.1	-
Investments in subsidiaries	6	1,978.5	1,720.4
Derivative financial instruments	7	10.1	6.7
Deferred tax assets	13	14.5	14.4
Defined benefit pension asset	16	14.2	14.9
<b>Total non-current assets</b>		<b>2,017.4</b>	<b>1,756.4</b>
<b>Current assets</b>			
Debtors	8	561.3	223.1
Derivative financial instruments	7	38.4	7.5
Cash at bank and in hand	9	357.5	35.1
<b>Total current assets</b>		<b>957.2</b>	<b>265.7</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	10	(903.3)	(299.3)
Derivative financial instruments	7	(35.5)	(10.5)
Provisions for liabilities and charges	12	(2.0)	(3.8)
<b>Total current liabilities</b>		<b>(940.8)</b>	<b>(313.6)</b>
<b>Net current assets/(liabilities)</b>		<b>16.4</b>	<b>(47.9)</b>
<b>Total assets less current liabilities</b>		<b>2,033.8</b>	<b>1,708.5</b>
<b>Non-current liabilities</b>			
Creditors: amounts falling due after more than one year	11	(788.5)	(926.1)
Derivative financial instruments	7	(6.5)	(4.4)
Provisions for liabilities and charges	12	(1.2)	-
Deferred tax liability	13	(2.4)	(2.6)
<b>Total non-current liabilities</b>		<b>(798.6)</b>	<b>(933.1)</b>
<b>Net assets</b>		<b>1,235.2</b>	<b>775.4</b>
<b>Shareholders' equity</b>			
Called-up share capital	15	25.6	25.6
Share premium account		532.7	532.7
Capital redemption reserve		0.2	0.2
Own shares		(6.0)	(7.0)
Hedging reserve		(5.8)	-
Retained earnings		688.5	223.9
<b>Shareholders' equity</b>		<b>1,235.2</b>	<b>775.4</b>

The Company reported a profit for the financial year ended 31 December 2019 of £546.8m (2018: loss of £0.8m).

### D Finch

Group Chief Executive  
27 February 2020

### C Davies

Group Finance Director

Company Number 02590560

## Financial Statements

### Company Statement of Changes in Equity For the year ended 31 December 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2019	25.6	532.7	0.2	(7.0)	-	223.9	775.4
Change in accounting policies <sup>1</sup>	-	-	-	-	-	0.2	0.2
At 1 January 2019 (restated)	25.6	532.7	0.2	(7.0)	-	224.1	775.6
Profit for the year	-	-	-	-	-	546.8	546.8
Actuarial loss, net of tax	-	-	-	-	-	(0.9)	(0.9)
Revaluation through Other Comprehensive Income	-	-	-	-	(7.7)	-	(7.7)
Transfers to the Income Statement on cash flow hedges	-	-	-	-	1.9	-	1.9
Total comprehensive income for the year	-	-	-	-	(5.8)	545.9	540.1
Shares purchased	-	-	-	(6.2)	-	-	(6.2)
Own shares released to satisfy employee share schemes	-	-	-	7.2	-	(7.2)	-
Share-based payments	-	-	-	-	-	4.0	4.0
Dividends	-	-	-	-	-	(78.3)	(78.3)
<b>At 31 December 2019</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(6.0)</b>	<b>(5.8)</b>	<b>688.5</b>	<b>1,235.2</b>

<sup>1</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 1)

The Company reported a profit for the financial year ended 31 December 2019 of £546.8m (2018: loss of £0.8m), which included an intercompany dividend arising on Group restructuring activities of £459.5m, which is non-distributable.

The Company's retained earnings includes £219.0m (2018: £212.3m) that is available for distribution. Cumulative gains on the Company's defined benefit pension scheme, which is currently in a net surplus position, are deemed to be not distributable. In addition, own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. The share premium, capital redemption and hedging reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 12 to the consolidated Group accounts.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Retained earnings £m	Total £m
At 1 January 2018	25.6	532.7	0.2	(6.0)	326.1	878.6
Loss for the year	-	-	-	-	(0.8)	(0.8)
Actuarial loss, net of tax	-	-	-	-	(27.0)	(27.0)
Total comprehensive income	-	-	-	-	(27.8)	(27.8)
Shares purchased	-	-	-	(9.7)	-	(9.7)
Own shares released to satisfy employee share schemes	-	-	-	8.7	(8.7)	-
Share-based payments	-	-	-	-	5.1	5.1
Dividends	-	-	-	-	(70.8)	(70.8)
<b>At 31 December 2018</b>	<b>25.6</b>	<b>532.7</b>	<b>0.2</b>	<b>(7.0)</b>	<b>223.9</b>	<b>775.4</b>

## 1 Accounting policies

### Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, IFRS 16 'Leases', standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the consolidated accounts.

No Income Statement is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit or loss attributable to the Company is disclosed in the footnote to the Company's Balance Sheet.

### Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No key sources of estimation uncertainty have been identified in the year; however, the following item is considered a critical accounting judgement:

#### Pensions – defined benefit assets

Judgement is required regarding the application of IFRIC 14 and the extent to which the Company can recognise its defined benefit pension asset. Changes in this judgement could significantly impact the value of the balance recognised.

Based on the terms and conditions of the scheme, and from consultation with independent advisers, the Company determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. The surplus has therefore been recognised in full.

#### Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment. They are depreciated on a straight-line basis over their estimated useful lives as follows:

Land and buildings	– 10 years
Plant and equipment	– 3 to 5 years

The carrying value is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

#### Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

## **1 Accounting policies** continued

### **Interest-bearing loans and borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

### **Retirement benefits**

The Company has both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

For the defined benefit scheme, the Balance Sheet position comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. The trustees complete a full actuarial valuation triennially but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised as operating costs. Past service gains and losses are also recognised within operating costs and in the period in which the related plan amendment or curtailment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Comprehensive Income in the period in which they arise.

For the defined contribution scheme, the amount charged to the Income Statement is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

### **Share-based payments**

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

### **Foreign currencies**

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences arising are recorded in the Income Statement.



## 1 Accounting policies continued

### Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

### Derivative financial instruments

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

The Company's interest rate derivatives are designated as either cash flow hedges or fair value 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. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

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

Foreign currency derivatives and cross currency swaps are used to hedge the Group's net investment in foreign currency denominated operations. For the Company, gains and losses are recognised immediately in the Income Statement. For the Group, to the extent that the derivatives are designated and effective as net investment hedges, they are transferred to equity on consolidation to match against foreign exchange exposure in the related assets and liabilities.

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

### Adoption of new standards

#### IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. IFRS 16 introduces a single, on-balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognised a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to opening retained earnings.

The Company has one lease contract for an item of property. Before the adoption of IFRS 16, the lease was classified as an operating lease. Payments made under the operating lease were charged to profit or loss on a straight-line basis over the period of the lease. Upon adoption of IFRS 16, the Company recognised a right-of-use asset and lease liability for the lease previously classified as an operating lease. The right-of-use asset was recognised based on the carrying amount as if the standard had always been applied. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The weighted average incremental borrowing rate used to measure lease liabilities at the date of initial application was 2.63%.

## 1 Accounting policies continued

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	31 December 2018	Re- measurements £m	1 January 2019
Property, plant and equipment	–	0.2	0.2
<b>Net assets</b>	<b>775.4</b>	<b>0.2</b>	<b>775.6</b>
<b>Shareholders' equity</b>			
Retained earnings	223.9	0.2	224.1
<b>Total equity</b>	<b>775.4</b>	<b>0.2</b>	<b>775.6</b>

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments at 31 December 2018	0.2
Discounted using incremental borrowing rates	–
<b>Lease liabilities recognised at 1 January 2019</b>	<b>0.2</b>

## 2 Exchange rates

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

	2019		2018	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.33	1.28	1.28	1.34
Canadian Dollar	1.72	1.69	1.74	1.73
Euro	1.18	1.14	1.11	1.13

## 3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

## 4 Intangible assets

	Software £m
<b>Cost:</b>	
At 1 January 2019	0.4
Disposals	(0.4)
<b>At 31 December 2019</b>	<b>–</b>
<b>Amortisation:</b>	
At 1 January 2019	0.4
Disposals	(0.4)
<b>At 31 December 2019</b>	<b>–</b>
<b>Net book value:</b>	
<b>At 31 December 2019</b>	<b>–</b>
At 1 January 2019	–

## 5 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost:</b>			
At 1 January 2019	-	0.3	0.3
Change in accounting policies <sup>1</sup>	1.4	-	1.4
At 1 January 2019 (restated)	1.4	0.3	1.7
Disposals	-	(0.3)	(0.3)
<b>At 31 December 2019</b>	<b>1.4</b>	<b>-</b>	<b>1.4</b>
<b>Depreciation:</b>			
At 1 January 2019	-	0.3	0.3
Change in accounting policies <sup>1</sup>	1.2	-	1.2
At 1 January 2019 (restated)	1.2	0.3	1.5
Charge	0.1	-	0.1
Disposals	-	(0.3)	(0.3)
<b>At 31 December 2019</b>	<b>1.3</b>	<b>-</b>	<b>1.3</b>
<b>Net book value:</b>			
<b>At 31 December 2019</b>	<b>0.1</b>	<b>-</b>	<b>0.1</b>
At 1 January 2019 (restated)	0.2	-	0.2

<sup>1</sup> Opening balances have been restated for the adoption of IFRS 16 'Leases'

The net book value of land and buildings as at 31 December 2019 includes £0.1m right-of-use asset for the lease under IFRS 16. Depreciation for the year included £0.1m relating to depreciation of this asset.

## 6 Investments in subsidiaries

	£m
<b>Cost or valuation:</b>	
At 1 January 2019	2,252.3
Additions	258.1
Disposals	-
<b>At 31 December 2019</b>	<b>2,510.4</b>
<b>Provisions:</b>	
At 1 January 2019	531.9
Provided in the year	-
Disposals	-
<b>At 31 December 2019</b>	<b>531.9</b>
<b>Net carrying amount:</b>	
<b>At 31 December 2019</b>	<b>1,978.5</b>
At 1 January 2019	1,720.4

The net carrying amount of investments in subsidiaries is not in excess of the Group's market capitalisation value as at the date of approval of these financial statements, so no impairment indicators have been identified in relation to these investments.

The addition in the year represents an investment in National Express Financing LP, made via a distribution in specie from National Express Intermediate Holdings Limited.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 40 to the consolidated Group accounts. The principal country of operation in respect of the companies below is the country in which they are incorporated and all holdings are 100% held directly by the Company:

Incorporated in England and Wales

National Express Intermediate Holdings Limited	Holding company for the majority of the Group's operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements
National Express Financing LP	UK incorporated limited partnership

## 7 Derivative financial instruments

	2019 £m	2018 £m
Interest rate derivatives	2.1	6.7
Cross currency swaps	8.0	–
<b>Derivative financial assets due over one year</b>	<b>10.1</b>	<b>6.7</b>
Interest rate derivatives	7.9	3.9
Cross currency swaps	3.5	–
Foreign exchange forward contracts	27.0	3.6
<b>Derivative financial assets due under one year</b>	<b>38.4</b>	<b>7.5</b>
Cross currency swaps	(6.5)	(4.4)
<b>Derivative financial liabilities due over one year</b>	<b>(6.5)</b>	<b>(4.4)</b>
Interest rate derivatives	(3.7)	–
Foreign exchange forward contracts	(31.8)	(10.5)
<b>Derivative financial liabilities due under one year</b>	<b>(35.5)</b>	<b>(10.5)</b>

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the Consolidated Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

## 8 Debtors

	2019 £m	2018 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	546.3	214.6
Corporation tax recoverable	11.2	3.0
Other debtors	0.8	2.5
Prepayments	3.0	3.0
	<b>561.3</b>	<b>223.1</b>

Expected credit losses in respect of amounts owed by subsidiary undertakings were £nil (2018: £nil) at the reporting date.

## 9 Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank	0.1	0.1
Short-term deposits	357.4	35.0
	<b>357.5</b>	<b>35.1</b>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

## 10 Creditors: amounts falling due within one year

	2019 £m	2018 £m
Bank overdraft	79.3	84.7
Bank loans	100.0	-
Bonds	437.1	-
Lease liability	0.2	-
Trade creditors	12.1	23.4
Amounts owed to subsidiary undertakings	150.0	136.6
Accruals and deferred income	111.8	43.2
Accrued interest on borrowings	12.8	10.9
Other debt payable	-	0.5
	<b>903.3</b>	<b>299.3</b>

Trade creditors are non-interest bearing and are normally settled on 30 day terms and other creditors are non-interest bearing and have an average term of six months.

Lease liabilities arose on the adoption of IFRS 16 'Leases' (see note 1).

## 11 Creditors: amounts falling due after more than one year

	2019 £m	2018 £m
Bank loans	75.4	-
Bonds	644.8	852.4
Other debt payable	68.3	73.7
	<b>788.5</b>	<b>926.1</b>

## 12 Provisions for liabilities and charges

	Total £m
At 1 January 2019	3.8
Released in the year	(0.6)
<b>At 31 December 2019</b>	<b>3.2</b>
<b>Current 31 December 2019</b>	<b>2.0</b>
<b>Non-current 31 December 2019</b>	<b>1.2</b>
	<b>3.2</b>
Current 31 December 2018	3.8
Non-current 31 December 2018	-
	<b>3.8</b>

Provisions for liabilities and charges relates to restructuring activities and is expected to be utilised within the next five years.

### 13 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2019 £m	2018 £m
Deferred tax assets	14.5	14.4
Deferred tax liability	(2.4)	(2.6)
<b>Net deferred tax asset</b>	<b>12.1</b>	<b>11.8</b>

The major components of the provision for deferred taxation are as follows:

	2019 £m	2018 £m
Accelerated capital allowances	0.1	0.1
Other timing differences	0.1	–
Losses carried forward	14.3	14.3
Defined benefit pension	(2.4)	(2.6)
<b>Net deferred tax asset</b>	<b>12.1</b>	<b>11.8</b>

A reconciliation of the deferred tax balances is as follows:

	Deferred tax assets £m	Deferred tax liability £m
Deferred tax at 1 January 2019	14.4	(2.6)
Credit to Income Statement	0.1	0.1
Credit to Other Comprehensive Income	–	0.1
<b>Deferred tax at 31 December 2019</b>	<b>14.5</b>	<b>(2.4)</b>

#### Timing differences associated with Group investments

No deferred tax (2018: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable and no binding agreement to distribute the past earnings in the future has been entered into by the subsidiaries.

#### Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £nil (2018: £nil).

## 14 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

	2019 £m	Maturity	Effective interest rate	2018 £m	Maturity	Effective interest rate
<b>Current</b>						
Bank overdraft	79.3	–	–	84.7	–	–
Bank loans	100.0	2020	Various	–	–	–
10-year Sterling bond	225.8	June 2020	6.85%	–	–	–
2.5-year Euro floating rate note	211.3	May 2020	EURIBOR + 0.4%	–	–	–
Lease liability	0.2	October 2020	2.63%	–	–	–
Accrued interest on borrowings	12.8	–	–	10.9	–	–
<b>Total current</b>	<b>629.4</b>			<b>95.6</b>		
<b>Non-current</b>						
Bank loans	75.4	2021	Various	–	–	–
10-year Sterling bond	–	–	–	227.9	June 2020	6.85%
7-year Sterling bond	400.2	November 2023	2.54%	400.3	November 2023	2.54%
9-year Sterling bond	244.6	November 2028	2.38%	–	–	–
2.5-year Euro floating rate note	–	–	–	224.2	May 2020	EURIBOR + 0.4%
Euro Private Placement	68.3	August 2021	4.55%	73.7	August 2021	4.55%
<b>Total non-current</b>	<b>788.5</b>			<b>926.1</b>		

The Company currently has £557.0m of unsecured committed revolving credit facilities, which mature between 2020 and 2023. At 31 December 2019, there was £nil (2018: £nil) drawn down on the facilities, with £2.7m of capitalised deal fees remaining.

In October 2019, the Company issued a series of private placements totalling £414m denominated in USD, Sterling and Euros with maturities ranging from 2027 to 2032 with an effective interest rate of 1.92%, to be drawn from May 2020.

The cash flow on the lease liability in 2019 was £0.2m, with an interest charge in the year of less than £0.1m.

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the consolidated Group accounts.

## 15 Called-up share capital

	2019 £m	2018 £m
<b>At 31 December:</b>		
<b>Authorised:</b>		
800,000,000 (2018: 800,000,000) ordinary shares of 5p each	40.0	40.0
<b>Issued called-up and fully paid:</b>		
511,738,648 (2018: 511,738,648) ordinary shares of 5p each	25.6	25.6

The total number of share options exercised in the year by employees of the Group was 1,825,123 (2018: 2,248,309) of which all (2018: 1,910,086) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises in 2018 were settled via a direct purchase of shares from the open market.

### Own shares

Own shares comprises 1,404,751 (2018: 1,758,660) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 1,471,214 (2018: 2,025,000) shares and 1,825,123 (2018: 1,910,086) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2018: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2019 was £6.6m (2018: £6.6m). The dividends payable on 972,605 of these shares have been waived (2018: 3,551,284).

## 16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

### Defined benefit scheme

The defined benefit scheme is now closed to all future accrual.

On 11 October 2018, the trustees of the defined benefit scheme completed a buy-in transaction whereby the assets of the scheme were invested in a bulk annuity policy with the insurer Rothesay Life, under which the benefits payable to defined benefit members became fully insured. The insurance policy was purchased using the existing assets of the plan. As the buy-in transaction has resulted in the defined benefit obligations being fully insured, the Company has no obligation to make any further payments into the scheme.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2019 is based on the results of the 5 April 2016 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Details of the latest actuarial valuation are included in note 34 to the consolidated Group accounts.

The relevant assumptions used are as follows:

	2019 £m	2018 £m
Rate of increase of pensions	2.9%	3.2%
Discount rate	2.1%	2.9%
Inflation assumption (RPI)	2.9%	3.2%
Inflation assumption (CPI)	2.0%	2.2%
Post-retirement mortality in years:		
Current pensioners at 65 – male	22.3	22.7
Future pensioners at 65 – male	23.6	24.1
Current pensioners at 65 – female	24.9	25.4
Future pensioners at 65 – female	26.4	26.9

Sensitivities regarding key assumptions are disclosed in note 34 to the consolidated Group accounts.

The amounts charged to the Income Statement and comprehensive income for the years ended 31 December 2019 and 2018 are set out in the following tables:

	2019 £m	2018 £m
Income Statement		
Past service cost	–	(0.9)
Net interest income	0.4	1.1
<b>Total credit to the Income Statement</b>	<b>0.4</b>	<b>0.2</b>

During the year £0.3m (2018: £0.2m) of administrative expenses were incurred.

	2019 £m	2018 £m
Comprehensive income		
Actuarial (loss)/gain during the period from obligations	(11.5)	7.3
Expected return on plan assets greater/less than discount rate	10.8	(35.6)
<b>Net actuarial loss</b>	<b>(0.7)</b>	<b>(28.3)</b>

The actuarial loss in the prior year of £35.6m includes £26.5m representing the difference between the costs of the insurance policy and the accounting value of the liabilities secured through the buy-in transaction described above.

In addition to the above actuarial movements, the Statement of Changes in Equity included a £0.3m loss (2018: £0.6m loss) for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.



## 16 Retirement benefits continued

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

	2019 £m	2018 £m
Insurance policy	95.1	83.7
Other	14.2	14.9
Fair value of scheme assets	109.3	98.6
Present value of scheme liabilities and defined benefit obligation	(95.1)	(83.7)
<b>Defined benefit pension surplus</b>	<b>14.2</b>	<b>14.9</b>

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

	2019 £m	2018 £m
Defined benefit obligation at 1 January	(83.7)	(90.8)
Past service cost	-	(0.9)
Benefits paid	2.5	2.9
Finance charge	(2.4)	(2.2)
Actuarial loss arising from changes in financial assumptions	(13.8)	7.4
Actuarial gain arising from changes in demographics	2.0	2.2
Actuarial loss arising from experience adjustments	0.3	(2.3)
<b>Defined benefit obligation at 31 December</b>	<b>(95.1)</b>	<b>(83.7)</b>

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

	2019 £m	2018 £m
Fair value of scheme assets at 1 January	98.6	134.0
Expected return on plan assets	2.8	3.3
Expected return on plan assets greater/(less) than discount rate	10.8	(35.6)
Administrative expenses	(0.4)	(0.2)
Benefits paid	(2.5)	(2.9)
<b>Fair value of scheme assets at 31 December</b>	<b>109.3</b>	<b>98.6</b>

History of experience gains and losses:	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	109.3	98.6	134.0	134.2	105.1
Present value of defined benefit obligation	(95.1)	(83.7)	(90.8)	(89.7)	(70.2)
Surplus in the scheme	14.2	14.9	43.2	44.5	34.9
Experience adjustments arising on liabilities	0.3	(2.3)	-	(0.3)	-
Experience adjustments arising on assets	10.8	(35.6)	(0.4)	28.1	(2.2)

## 17 Share-based payment

During the year ended 31 December 2019, the Company had a number of share-based payment arrangements, which are described in note 7(b) to the Consolidated Group accounts.

The options have a weighted average contractual life of one year (2018: one year). Options were exercised throughout the year and the weighted average share price at exercise was 417p (2018: 388p).

## **18 Commitments and contingencies**

### **Contingent liabilities**

#### **Guarantees**

The Company has guaranteed credit facilities totalling £42.9m (2018: £211m) of certain subsidiaries. The Company has also guaranteed certain liabilities of a number of its subsidiaries under Section 479C of the Companies Act 2006. These subsidiaries are highlighted in the full subsidiaries listing in note 40 to the consolidated accounts.

#### **Bonds and letters of credit**

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. Letters of credit have been issued to support insurance retentions of £112.4m (2018: £118.2m).

## Additional Information

### Five Year Summary

	2019	2018	2017	2016	2015
<b>Group normalised</b>					
Revenue	2,744.4	2,450.7	2,321.2	2,093.7	1,745.4
Normalised operating profit	295.3	257.7	241.5	217.5	190.6
Return on capital	12.4%	12.4%	11.9%	11.9%	11.7%
Basic EPS	34.5	32.9	29.1	26.3	23.4
<b>IFRS</b>					
Revenue	2,744.4	2,450.7	2,321.2	2,093.7	1,745.4
Operating profit	242.3	215.4	197.9	183.7	164.9
PBT	187.0	177.7	156.4	134.8	120.6
Basic EPS	27.6	26.6	25.7	23.0	20.9
Dividends per share	16.4	14.9	13.5	12.3	11.3
<b>Net (debt)/funds</b>					
Cash	478.3	117.7	314.3	324.4	60.4
Other debt receivable	2.4	2.1	0.7	0.5	0.8
Bonds	(1,081.9)	(852.4)	(851.9)	(983.2)	(583.5)
Bank loans <sup>1</sup>	(184.5)	(9.0)	(115.6)	(13.3)	(45.3)
Fair value of derivatives included in financing activities	15.0	6.4	11.3	25.5	14.3
Lease liabilities <sup>2</sup>	(402.5)	(142.6)	(173.1)	(159.5)	(127.6)
Other debt payable	(68.3)	(73.7)	(73.6)	(72.4)	(64.6)
Net debt	(1,241.5)	(951.5)	(887.9)	(878.0)	(745.5)
Gearing ratio	2.40	2.30	2.30	2.50	2.45

<sup>1</sup> Net of arrangement fees totalling £2.7m on bank and other loans

<sup>2</sup> Lease liabilities are reported net of finance lease receivables that are reported separately from borrowings on the face of the Group's balance sheet

### Ordinary shares

The Company's ordinary shares, each of nominal value 5 pence, are traded on the main market for listed securities on the London Stock Exchange (LON:NEX).

### Company website:

[www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

The Company website contains information about the Company, including results announcements, annual reports, general meeting notices and other corporate communication and shareholder materials which are available to view and download. Information can also be found there about the Company share price and dividends, the Group and its operations, and links to further information.

### Registrar: Equiniti

For assistance and enquiries relating to the administration of shareholdings in National Express Group PLC, such as lost share certificates, dividend payments or a change of address, please contact the Company's Registrar:

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

Telephone from UK:  
0371 384 2152\*

Telephone from overseas:  
+44 (0) 121 415 0804\*

Textel (for the hard of hearing):  
0371 384 2255\*

If you are registered for online shareholder communications, you can contact the Registrar and access details of your shareholdings electronically via [www.shareview.co.uk](http://www.shareview.co.uk).

\* Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays.

### e-Communication

We encourage shareholders to receive communications from the Company electronically as this will enable you to receive them more quickly and securely. It also allows the Company to communicate in a more environmentally friendly and cost effective manner.

To register for this service, you should go to [www.shareview.co.uk](http://www.shareview.co.uk).

### Payment of dividends to UK resident shareholders

Shareholders whose dividends are currently sent to their registered address may wish to consider having their dividends paid directly into their personal bank or building society account. This has a number of advantages, including the crediting of cleared funds on the actual dividend payment date. If you would like your future dividends paid in this way, you should contact the Registrar on 0371 384 2152 or complete a mandate instruction available at [www.shareview.co.uk](http://www.shareview.co.uk) and return it to the Registrar at the address given above. Under this arrangement, dividend confirmations are still sent to your registered address.

### Payment of dividends to non-UK resident shareholders

Instead of waiting for a Sterling cheque to arrive by post, shareholders can request that their dividends be paid directly to a personal bank account overseas. This is a service which the Registrar can arrange in over 30 different countries worldwide, and in local currencies, and it normally costs less than paying in a Sterling cheque. For more information, you should contact the Registrar on +44 (0)121 415 7049 or download an application form online at [www.shareview.co.uk](http://www.shareview.co.uk). Alternatively, you can contact the Registrar at the address given above.

### Annual Dividend Confirmation

The Company issues Annual Dividend Confirmations (ADC) to private shareholders. An ADC in respect of dividends paid by the Company during the tax year 2019/20 has been issued at the same time as this report.

### Share dealing service

Equiniti provides both existing and prospective UK shareholders with an easy to access and simple to use share dealing facility for buying and selling shares in the Company by telephone, online or by post. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays). Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. For online dealing, log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). For postal dealing, call 0371 384 2248 for full details and a dealing instruction form. Existing shareholders will need to provide the account/shareholder reference number shown on their share certificate.

Other brokers, banks and building societies offer similar share dealing facilities.

### ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate their shares to ShareGift which will sell them and donate the proceeds to a wide range of charities. For further information, contact:

ShareGift  
PO Box 72253  
London  
SW1P 9LQ

Telephone: 020 7930 3737  
Email: help@sharegift.org  
Website: www.sharegift.org

### Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register (UAR) programme which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information, contact:

Telephone: 0333 000 0182  
Email: uarenquiries@uk.experian.com  
Website: www.uar.co.uk

### Unsolicited mail

The Company is legally obliged to make its share register available on request, subject to a proper purpose test, and this may result in shareholders receiving unsolicited mail. To limit the receipt of such unsolicited mail, contact:

MPS Complaint Department  
The Mailing Preference Service  
DMA House  
70 Margaret Street  
London  
W1W 8SS

Telephone: 020 7291 3310  
Website: www.mpsonline.org.uk

### Shareholder security

Share fraud includes scams where Shareholders receive unsolicited calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'. Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free reports into the Company. If you receive any such unsolicited calls, correspondence or investment advice:

- ensure you get the correct name of the individual and firm;
- check that the individual and/or firm appear on the Financial Conduct Authority (FCA) Register to ensure they are authorised at <https://register.fca.org.uk/>;
- use the details on the FCA Register to contact the firm, if you want to call them back;
- call the FCA Consumer Helpline (0800 111 6768) if there are no contact details for the firm on the FCA Register or you are told they are out of date;
- if you are approached by an unauthorised individual or firm, you should inform the FCA via its website;
- if you do buy or sell shares from an unauthorised individual or firm, you may not have access to the Financial Ombudsman Service of the Financial Services Compensation Scheme; and
- if you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

**REMEMBER:** if it sounds too good to be true, it probably is, and if you are contacted by telephone and feel uncomfortable with the call or the calls persist, simply hang up and/or block the caller's number.

### Personal data

The Company processes personal data about its shareholders in compliance with applicable laws. A copy of the Shareholder Privacy Notice explaining how the Company processes your personal data and your rights in respect of that processing can be found at [www.nationalexpressgroup.com/investors/shareholder-centre/shareholder-privacy-notice](http://www.nationalexpressgroup.com/investors/shareholder-centre/shareholder-privacy-notice).

<b>2019 final dividend<sup>1</sup></b>	
23 APR	Ex-dividend date
24 APR	Record date
12 MAY	Payment date
<b>2020 AGM</b>	
7 MAY	Annual General Meeting <sup>2</sup>
<b>2020 interim dividend</b>	
27 AUG	Ex-dividend date
28 AUG	Record date
18 SEP	Payment date
<b>2020 reporting timetable</b>	
7 MAY	Trading update
30 JULY	Half year results
22 OCT	Trading update
<b>2021</b>	
25 FEB	Full year results <sup>3</sup>

<sup>1</sup> The Board has recommended a final dividend of 11.19 pence per ordinary share, subject to shareholders' approval at the forthcoming Annual General Meeting

<sup>2</sup> The Annual General Meeting will be held at 2.30pm on Thursday, 7 May 2020 in the Banqueting Hall at Glaziers Hall, 9 Montague Cl, London SE1 9DD. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company's website at [www.nationalexpressgroup.com](http://www.nationalexpressgroup.com)

<sup>3</sup> Provisional date

## Additional Information

### Definitions and Supporting Information

<b>2018 Code</b>	The UK Corporate Governance Code published by the FRC in 2018	<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>AFV</b>	Alternative fuel vehicle	<b>IFRS</b>	International Financial Reporting Standards
<b>AI</b>	Artificial intelligence	<b>KPIs</b>	Key performance indicators
<b>FRC</b>	The Financial Reporting Council	<b>LIBOR</b>	London Interbank Offered Rate
<b>Board</b>	The Board of Directors of the Company	<b>Listing Rules</b>	The Listing Rules of the FCA
<b>Bps</b>	Basis points	<b>LTIP</b>	Long-Term Incentive Plan
<b>BRT</b>	Bus Rapid Transit	<b>MAA</b>	Moving annual average
<b>BSOG</b>	Bus Service Operators Grant	<b>Maas</b>	Mobility as a service
<b>CDP</b>	Carbon Disclosure Project	<b>Net interest expense</b>	Finance costs less finance income
<b>Company</b>	National Express Group PLC	<b>Non-Executive Directors</b>	The Non-Executive Directors of the Company
<b>Consolidated Financial Statements</b>	The Financial Statements for the Group for the year ended 31 December 2019	<b>NPV</b>	Net present value
<b>Constant Currency</b>	Compares current period's results with the prior period's results translated at the current period's exchange rates.	<b>OEMs</b>	Original equipment manufacturers
<b>CPI</b>	Consumer Price Index	<b>Operating margin or 'margin'</b>	Ratio of normalised operating profit to revenue.
<b>CRM</b>	Customer relationship management	<b>Ordinary shares</b>	Ordinary shares of nominal value 5 pence each in the Company
<b>CTV</b>	Consolidated tax voucher	<b>PBT</b>	Profit before tax
<b>Directors</b>	The Directors of the Company	<b>RCF</b>	Revolving credit facility
<b>Dividend</b>	Dividend amount payable per ordinary share	<b>RIA</b>	Recruitment Incentive Awards granted under the LTIP
<b>DTRs</b>	Disclosure, Guidance and Transparency Rules	<b>RME</b>	Rhine-Münster Express
<b>EFQM</b>	European Foundation for Quality Management	<b>RMS</b>	Revenue Management System
<b>ESOS</b>	Energy Savings Opportunity Scheme	<b>RPI</b>	Retail Prices Index
<b>EURIBOR</b>	Euro Interbank Offered Rate	<b>RRX</b>	Rhine-Ruhr Express
<b>Executive Directors</b>	The Executive Directors of the Company	<b>SPAD</b>	Signal passed at danger
<b>EV</b>	Electric vehicle	<b>TfL</b>	Transport for London
<b>FRC</b>	The Financial Reporting Council	<b>TfWM</b>	Transport for West Midlands
<b>FWI</b>	Fatalities and Weighted Injuries Index	<b>TSR</b>	Total shareholder return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
<b>GDP</b>	Gross Domestic Product – used to determine the economic performance of a whole country or region	<b>TUPE</b>	Transfer of Undertakings (Protection of Employment) Regulations 2006
<b>GHG</b>	Greenhouse gas emissions	<b>ULSD</b>	Ultra low sulphur diesel
<b>Group</b>	The Company and its subsidiaries and associates		
<b>HMRC</b>	Her Majesty's Revenue and Customs		
<b>IAS</b>	International Accounting Standards		

## Additional Information

### Alternative performance measures

In the reporting of financial information, the Group has adopted various Alternative Performance Measures (“APMs”). APMs should be considered in addition to IFRS measurements. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group’s performance. The key APMs that the Group focuses on are as follows:

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
<b>EBITDA</b>	Operating profit <sup>1</sup>	Earnings before interest and tax plus depreciation and amortisation. It is calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, and share-based payments.  A reconciliation of normalised operating profit to EBITDA is included on page 23.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group’s gearing ratio.
<b>Gearing ratio</b>	No direct equivalent	The ratio of net debt to EBITDA over the last 12-months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
<b>Free cash flow (FCF)</b>	Net cash generated from operating activities	The cash flow equivalent of normalised profit after tax.  A reconciliation of normalised operating profit and net cash flow from operating activities to free cash flow is included on page 24.	Free cash flow allows us and external parties to evaluate the cash generated by the Group’s operations and is also a key performance measure for the Executive Directors’ annual bonus structure and management remuneration.
<b>Net maintenance capital expenditure</b>	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group’s profit.
<b>Growth capital expenditure</b>	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
<b>Net debt</b>	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest).  The components of net debt as they reconcile to the primary Financial Statements and notes to the accounts is disclosed in note 39.	Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.
<b>Normalised earnings</b>	Profit after tax	Is the normalised profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column.	Normalised earnings is a key measure used in the calculation of normalised earnings per share.
<b>Normalised earnings per share (EPS)</b>	Basic earnings per share	Is normalised earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled.  A reconciliation of statutory profit to normalised profit for the purpose of this calculation is provided within note 13 of the Financial Statements.	Normalised earnings per share is widely used by external stakeholders, particularly in the investment community.
<b>Normalised operating profit</b>	Operating profit <sup>1</sup>	Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column.	Normalised operating profit is a key performance measure for the Executive Directors’ annual bonus structure and management remuneration.  It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
<b>Organic revenue and profit growth</b>	Revenue and operating profit <sup>1</sup>	Year on year movement in revenue or profit derived from the Group’s continuing businesses in existence at the start of the current period.	This measure illustrates the year-on-year growth in revenue and profit, excluding the impact of in-year acquisitions.
<b>Return on capital employed (ROCE)</b>	Operating profit <sup>1</sup> and net assets	Normalised operating profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates.  The calculation of ROCE is included on page 23.	ROCE gives an indication of the Group’s capital efficiency and is a key performance measure for the Executive Directors’ annual bonus structure and management remuneration.

<sup>1</sup> Operating profit is presented on the Group Income Statement. It is not defined per IFRS, however is a generally accepted profit measure.



## Additional Information

### Key Contacts and Advisers

#### Group Company Secretary

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companysecretarial@nationalexpress.com

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#### Joint corporate brokers

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2 King Edward Street  
London  
EC1A 1HQ

HSBC Bank plc  
8 Canada Square  
London  
E14 5HA

\* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays. Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

### Cautionary statement

This Annual Report and the Company's website may contain certain 'forward-looking statements' with respect to the Company and its Group and their financial condition, results of operations and business, strategy, plans, objectives, goals and expectations with respect to such matters and/or with respect to the economies, markets and legal frameworks within which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of factors that could cause actual results and circumstances to differ materially from those expressed or implied by these

forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Group operates (including the outcome of the negotiations to leave the EU); changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings brought by or against or which otherwise affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS; and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or on the Company's website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

Nothing in this Annual Report or on the Company's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

### Disclaimer

The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, such members as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.



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