Driving Mobility Solutions

Annual Report and Accounts
for the year ended 31 December 2022

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

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

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

2022 Highlights

Operational Highlights

Improving financial and operating performance
- Revenue up 29% to £2.8bn; underlying operating profit of £197.3m, more than double the prior year
- Strong cash conversion of 81%, delivering free cash flow of £160.5m; ROCE up 430bps to 7.7%
- Reinstating full year 2022 dividend at 5.0p per share reflecting confidence in the future
- Statutory loss before tax of £209.9m driven by £261m non-cash impairment of goodwill in ALSA, arising from a rise in discount rates; underlying trading assumptions unchanged

Strong growth in passenger demand with good momentum
- 23% increase in passenger journeys across the Group
- Sustained growth in passenger demand in Spain, Morocco, the UK and Germany; strengthening in the second half of the year

Progress on driver recruitment and route reinstatement in US School Bus
- 900 net new drivers added in 2022, closing the gap by one third as expected, allowing route reinstatement to commence
- Average rate increases of just above 10% achieved on the 40% of contracts renewed in the year recovering increased driver costs albeit with a timing lag

Improving covenant gearing
- Covenant gearing at 2.8 times (December 2021: 3.6 times); expect to be close to target range in the next two years with reducing leverage remaining a key priority

Resilient and agile in the face of industry headwinds
- Restructured operations in Spain, Morocco, North America and the UK
- Network relaunch in UK scheduled coach saving 6% in cost per passenger mile
- Actively managing contracts to recover inflation
- Fuel cost 100% hedged for 2023 and 56% for 2024

Evolve strategic momentum delivering tangible results; well-positioned to deliver future growth
- 35 new contracts won, including the RRX Lot1 contract in Germany, worth approximately £150m in annualised revenue demonstrating our ability to convert a strong pipeline of opportunities into tangible growth
- Commenced service in new key target cities, such as Lisbon and Richmond, Virginia as well as multi-modal hub expansions in Geneva, Madrid and Boston
- Fleet decarbonisation accelerating with plans approved for 1,500 ZEVs across the Group by 2024

Financial Highlights

Revenue (£m)
+29%
£2,808m
(2021: £2,170m)

Free Cash Flow (£m)
+30%
£160.5m
(2021: £123.4m)

Underlying Operating Profit (£m)
+227%
£197.3m
(2021: £87.0m)

Statutory Operating Loss £m
£(158.5)m
(2021: (£36.2)m)

Underlying EPS (p)
15.0p
(2021: 0.2p)

Statutory EPS (p)
(36.6)p
(2021: (16.6)p)

Covenant Gearing
2.8x
(2021: 3.6x)

Dividend (p)
5.0p
(2021: 0.0p)

To supplement IFRS reporting, we also present our results on an underlying basis to show the performance of the business before separately disclosed items. These are detailed in note 5 to the Financial Statements and principally comprise intangible amortisation for acquired businesses, impairment of goodwill, certain costs arising as a direct consequence of the pandemic and onerous contract charges in respect of driver shortages in North America. 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 can be found on pages 291 to 292.

Contents

We provide safe, efficient, clean, and reliable shared mobility solutions to cities, businesses, education, healthcare and consumers

We are internationally diversified with a balanced portfolio of high quality contracts and market-leading customer brands

What we do

We design, mobilise, and operate high quality mass transportation services in and between cities across the globe.

We have global standards that apply to how we operate, maintain and drive vehicles. The vehicles can be owned or leased.

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

Where we operate

We operate in more than 50 key cities in 11 countries across the world, providing services to cities, businesses, education providers and direct to customers.

The Group at a glance

46,200
employees

11
countries

50+
cities

977m
annual passenger journeys

1/2bn+
car journeys avoided

28,000
vehicles operated

*Revenue breakdown by territory

1 Spain

£788m (2021: £592m)
- Regional / long haul coach
- Urban bus
- Charter, private hire, and leisure

2 Portugal, Switzerland and France

£33m (2021: £12m)
- Charter, private hire, and leisure
- Urban bus

3 USA

£981m (2021: £816m)
- Student transportation
- Transit and Shuttle
- Charter, private hire, and leisure

4 Canada

£68m (2021: £56m)
- Student transportation
- Urban bus
- Charter, private hire, and leisure

5 Morocco

£140m (2021: £115m)
- Urban bus

6 United Kingdom and Ireland

£528m (2021: £398m)
- Regional / long haul coach
- Urban bus
- Charter, private hire, and leisure

7 Germany

£268m (2021: £182m)
- Rail

8 Bahrain*

- Urban bus*

*Joint venture business reported through associates

National Express

At a glance

Around 70% of the Group's revenue is generated through multi-year contracts

Revenue breakdown by business line

Shading denotes the proportion of revenue that is contracted.

Student transport (North America school bus)	£683m
Transit and Shuttle (North America)	£305m
Urban bus (UK bus, ALSA)	£549m
Regional / long-haul coach (ALSA regional and long haul, UK coach)	£760m
Charter, private hire and leisure (North America, ALSA and UK)	£241m
Rail (German rail)	£269m

85% of our contracts have a high or medium level of cost inflation protection

High protection	42%
Medium protection	43%
Low protection	15%

We keep our customers safe

Per mile, bus travel is

10x

safer than driving a car

Our solutions support society in time of rising fuel prices and cost of living

The cost of buses is around

20%

of that of car ownership

We are well placed to drive and to benefit from the modal shift from cars to mass transit

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

Evolving Society

Changing demographics impact demand for public transport. For example:

- Younger people are less likely to drive, with a report suggesting that US Millennials are 8% less likely to drive than Generation X, and 9% less likely than Baby Boomers
- Older people need more access to healthcare with a report from The Healthcare Foundation in the UK showing a rise in long-term healthcare needs for the over 75s

Increasing urbanisation will lead to ever more congested cities unless mass transit solutions are implemented.

Demand for transport is expected to increase: long-term, the fundamental transport demand drivers of population growth and wealth growth will continue putting more pressure on finite road capacity and increasing congestion and air pollution.

To an individual the cost of using the bus is around 20% of that of car ownership.

Affordable, clean, safe and accessible transport provides connectivity and mobility to everyone, providing access to education and jobs as well as leisure activities.

Supportive Governments

Government support for cleaner, greener, more liveable and sustainable places

Governments around the world are increasingly implementing policies which promote greater use of public transport, and funding Zero Emission Vehicles (ZEVs) to meet their decarbonisation and clean air targets:

- **UK:** In the West Midlands, the UK government is providing over £1bn of sustainable transport funding including:
  - major infrastructure investments to improve journey times
  - zero emission buses
  - financial support to retain low bus fares
- **US:** $700bn infrastructure fund package including $150bn of investment to:
  - improve and modernise transport
  - accelerate the transition to ZEVs
  - improve accessibility for elderly and people with disabilities
- **Spain:** €13bn of investment planned by the Spanish government to boost the transition to ZEVs

How National Express is driving the modal shift

See **Our Markets** pages 11 to 15

See **Engaging our Stakeholders: Governments** on page 67

Clean, reliable, accessible and affordable shared mobility solutions will have a crucial role to play in sustainable cities; in driving social mobility and creating places that people want to live in

Reducing Barriers to Modal Shift

Factors	What?	Evolve Outcome
Safety and security	Passengers want to know that they and their families and employees will arrive safely: at least as safely as travelling in their own car	Safest Most satisfied customer
Reliability and frequency	Customers want to know that they have a service they can depend on, which will depart and arrive on time, and that they can depend on catching connections	Most reliable Most satisfied customer
Value for money	Customers want an affordable, sustainable service which receives investment	Strong financial returns Most satisfied customer
Clean, green and comfortable	Passengers are increasingly choosing transport modes that are good for the planet and local environment. Employees also like to work for companies that provide solutions that are good for the planet and local environment.	Environmental leader Most satisfied customer Employer of choice
Information provision	Passengers want access to real-time and accurate travel information which enables greater accessibility and connectivity	Most reliable Most satisfied customer

Driving Growth

The UK Climate Change Committee forecasts that, by 2030, one in ten car journeys will need to be taken by bus instead, if we are to remain on track for net zero by 2050.

Modal shift reduces:

Pollution – The Confederation for Public Transport estimates just two trips per month on a bus rather than by car will reduce CO_2 emissions by 15.8m tonnes by 2050 (more than total carbon emissions of the North East in 2019) .

Congestion – One single bus takes up to 70 cars off the road.

Accidents – Per mile, travelling by bus is 10x safer than by private car.

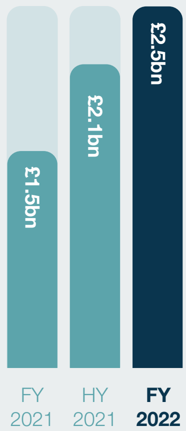
The Confederation for Public Transport estimates a 41% increase in local bus passenger kilometres by 2030, and 83% by 2050 through modal shift for Great Britain.

In Spain, it is estimated that 35% of passenger kilometres travelled by private vehicle will need to shift to public transport to meet the 2030 target of a 33% reduction in emissions.

See the **Evolve Strategy** on page 16.

What does this mean for National Express?

National Express already has a growing pipeline of new business, with £2.5bn of revenue in terms of bidding and inorganic growth opportunities.



We're performing a leading role decarbonising the shared mobility sector

To deliver our ambition we target:
Industry leadership on the shift to zero emission vehicles

- UK Bus and North America Transit by 2030
- UK coach and ALSA bus by 2035
- ALSA coach, Morocco and North America School Bus by 2040
- We have committed to never buy another diesel bus in the UK
- Emissions targets and transition of fleet to ZEVs are built into senior management incentives

For more information see
Executive Remuneration on page 140

See **Sustainability at National Express** on page 68

Our reporting frameworks

We have used the Sustainability Accounting Standards Board's (SASB's) Materiality Map® and the United Nations Sustainable Development Goals (SDGs) to ensure that we are working, in our core business, on what can make the biggest impact for our stakeholders.

We also comply with the requirements of the Task Force on Climated-Related Financial Disclosures (TCFD).

Our external recognition

Sustainalytics: rated in the 3rd percentile of all transport companies (out of 387) and in the 7th percentile of over 15,000 companies in Sustainalytics global universe

MSCI*: December 2022, MSCI rated AA, the second possible highest rating, with an industry adjusted score of 8.5 out of 10

National Express is a constituent of the FTSE4Good Index series

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ZEVs in service or on order at December 2022

491

Target for ZEVs in service or on order by 2024

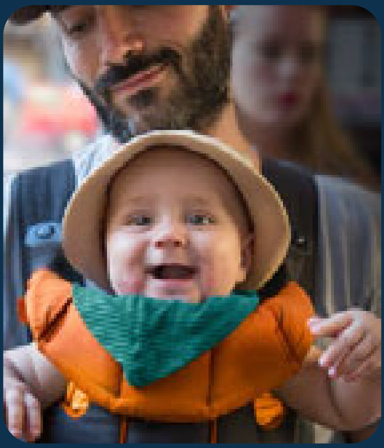
1,500

Benefits to society

As we transition to a zero emission vehicle future, someone choosing to swap their journey from an EV car to an EV bus, can save 10 times their total lifetime carbon emission, and that bus can take up to 70 cars off the road, significantly reducing congestion and freeing up liveable spaces.

There are significant health benefits too - the World Health Organization (WHO) estimates that approximately 4.2 million people die prematurely from outdoor air pollution each year.

Petrol and diesel engines emit a variety of pollutants and particulate matter, which have an impact on air quality. In addition, particulates from brake, tyre and road-surface wear also directly contribute almost half of particle pollution from road transport. Every time we stop using an Internal Combustion Engine (ICE) vehicle and buy a zero emission vehicle, not only do we reduce GHG emissions and move closer to net zero, but we also help to reduce air pollution.

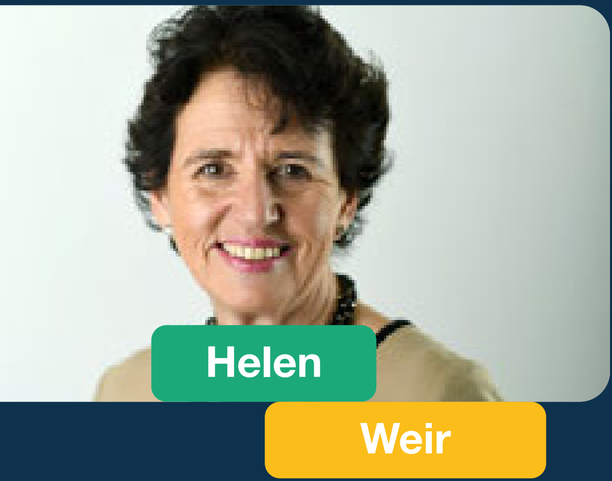


Benefits to National Express

Although purchase costs of ZEVs are higher, we expect to see significant operating cost savings over the vehicle life, and there are early signs of revenue uplift from higher passenger demand for ZEVs.

Emerging funding models will also provide scope to reduce upfront capital expenditure as well as defraying the technology transition risk.

We see long-term structural growth opportunities across each of our businesses through modal shift and the resulting higher demand for public transport.



“I have been greatly impressed by the focus on safety which is embedded in our culture and at every level of the business. Our safety performance in 2022 is our best ever.”

Chair’s Statement

Dear fellow shareholders,

Our sincere and heartfelt thanks to Sir John Armitt CBE

I am delighted to be presenting my first review to you since I took over as Chair from Sir John Armitt on 1 January 2023.

Before I go further, I would like to take the opportunity, on behalf of us all, to say a sincere and heartfelt thank you to Sir John, who provided exemplary leadership of National Express over the last 10 years. Sir John will forever be a part of the history of the Company and helped navigate National Express through many challenges and opportunities in his time as Chairman. His wise counsel will be missed.

I am honoured to be taking over the stewardship of National Express from Sir John and to be serving a business that has a strong purpose, to drive modal shift, a clear strategy in Evolve and an exciting pipeline of growth opportunities.

The external environment this year has been volatile. The war in Ukraine has driven energy supply concerns resulting in energy prices rising to unprecedented levels. We have also seen the return of inflation and interest rates at levels not seen for a generation, with continuing tight labour markets impacting our ability to deliver all of the services we would like to.

Despite these short-term headwinds, each of our business divisions has delivered strong revenue growth, demonstrating both resilience and agility.

I would also like to take the opportunity to say thank you, on behalf of myself and the Board, to all of our colleagues around the world who have worked tirelessly through what has been another challenging year, to deliver first class services for our passengers and customers and a performance that we can all feel proud of.

Safety

I have been greatly impressed by the focus on safety which is embedded in our culture and at every level of the business. Our safety performance in 2022 is our best ever result. In the UK we have again been recognised with the award of the sixth Sword of Honour by the British Safety Council. In North America School Bus, all of our operating authorities have received the highest safety rating from the US Department of Transportation (DOT) and Canadian Provincial Governing Agencies and in ALSA we have also achieved external recognition for our safety achievements and AENOR certification for road safety.

Decarbonisation of the Fleet Gaining Momentum

I am particularly pleased to see that the pace of the decarbonisation of our fleet has gained momentum this year. We now have plans approved across the Group for 1,500 zero emissions vehicles ('ZEV') by 2024, increasing to 14,500 by 2030.

UK Bus is on track to have 50% of the bus fleet to be ZEV by 2025 and 100% by 2030.

The pace in North America School Bus has picked up rapidly with recent funding, driven by the Bipartisan Infrastructure and Investment and Jobs Act in the USA, and in Canada by the Government's Zero Emission Transit Fund (ZETF), accelerating the pace of change. To date, a total of US$30m has been awarded to National Express NA for electric school bus vehicles and electric vehicle infrastructure.

In our ALSA division, we have pioneered the introduction of hydrogen buses, with the first hydrogen bus on a scheduled route in Madrid, and the first 100% electric bus routes in Bilbao, Granada, Jaen and Tres Cantos.

Employer of Choice

An important part of our Evolve strategy is to be as an employer of choice. I am very pleased that we completed our first global employee engagement survey in 2022, delivering a 77% response rate. Key results from the survey included 80% of colleagues recognising our commitment to safety; 76% of colleagues agreeing that we promote Diversity, Equality and Inclusion and 65% indicating that they are proud of our brands. Nevertheless, there is more work to do to drive improvements on the +7 eNPS score and this will be a focus of attention for the coming year. We also refreshed our People Strategy as explained on page 77.

Financial Performance and Dividend

It has been pleasing to see passenger demand returning, with strong out-turn particularly in the UK and ALSA. Group revenue is now above 2019 levels and operating profit is more than double 2021 levels despite inflationary headwinds. It is especially encouraging to see that this uplift in profit has translated into cash, with our free cash flow conversion in 2022 being above the pre-pandemic average. Not only have we been able to significantly reduce gearing, but we have also continued to invest for growth.

We continue to expand our global footprint and this year we successfully mobilised the Lisbon urban bus contract, making Portugal the eleventh country in which we operate. Although it happened post year end it was also pleasing to see us win the contract to operate the RE1 and RE11 Rhein-Ruhr Express lines in Germany, a contract worth €1bn, over the next 10 years.

The Board had committed to paying a dividend once our 2022 results had been finalised if that dividend could be afforded, and in the context of our priority to reduce leverage. After careful deliberation and with a high degree of confidence in our recovery, the Board is clear that now is the time to return to paying dividends. The Board believes that meaningful progress is being made on reducing our gearing, and that the dividend is affordable. However, the Board recognises that reinstating the dividend needs to be done prudently and with the right balance between the speed of deleverage and maintaining capacity for growth. As a result I am pleased to confirm that a full year dividend of 5.0p per share will be paid.

The Year Ahead

The Evolve strategy will continue to underpin our progress in 2023 and we are well positioned to capitalise on our pipeline of growth opportunities.

We will continue to focus on actions which enable us to manage the volatile external environment, in particular, tight cost management and a focus on cash generation which will enable us to reduce our leverage. This will not only enable us to mitigate the impact of increasing interest rates, but will also allow us to take full advantage of the growth opportunities where identified.

Helen Weir
Chair

1 March 2023

For more information see our **Business Model** on pages **18 to 23**

For more information see our **Strategy** on pages 16 to 17

For more information see our **Case Studies** on pages **35 to 47**

Strategic Report

Our Markets

Trends in 2022

We saw an increase in demand for travel across all our businesses in 2022 consistent with the fundamental drivers of mass transit demand as set out below:

Impact of Global Trends

Covid-19 Pandemic

We have seen a strong recovery in patronage across our markets during 2022, despite higher levels of working from home than pre-pandemic and a lower level of public transport utilisation among older demographics as a result of Covid-19.

However, these structural headwinds are far outweighed by modal shift. In context, only a 0.5% shift from car to bus drives a 10% increase in passenger journeys. Opportunity will also arise as we adapt our networks and customer propositions to changing travel patterns.

Demographics

Long-term demographic trends remain favourable to the Group, including;

(1) ageing population with increased requirements for public transport services providing access to healthcare;

(2) younger demographics less likely to own or drive a car; and

(3) more flexible travel and work patterns creating opportunities for innovative transport solutions to fill the Transit Gap.

Economic environment

High levels of inflation, driven by surging fuel and energy costs, are creating significant pressure on disposable income. Bus services offer the best value for money form of transport at the local level, while long-distance coach and rail services are more affordable than private car.

Carbon emissions and road congestion

Long-term structural growth opportunities, with local and central governments increasingly focused on policies designed to reduce emissions and congestion from private car use and improve air quality. Public transport is a key enabler to maintain mobility while combating these challenges.

Our Markets continued

Relationships with governments and local authorities

We have built strong long-term relationships with both local and central governments and local authorities in each of our businesses. We adopt a partnership approach, working collaboratively in order to deliver and improve essential bus and transit services and helping our partners achieve their wider objectives. Safe, reliable public transport is key to delivering a greener, cleaner future, encouraging social and physical mobility including access to jobs, education, healthcare and leisure.

We see the strength of these relationships as a major competitive advantage when we are looking to renew, extend or bid for new contracts. A great example of this can be seen in the growth of our business in Morocco, where the strength of our relationships with the local authorities, combined with the successful mobilisations of previous contracts, saw a tripling in the size of our business through new contract wins in Rabat and Casablanca. Another example is in Germany, where our relationship with the local passenger transport authorities following the successful mobilisation of two emergency contract awards, has been further rewarded as we recently secured the renewal of one of those contracts, a 10-year contract worth €1bn in revenue over the life of the contract. We are trusted to plan, mobilise and operate services and this trust is a key differentiator.

Through our strong relationships we have also been able to influence policy at both local and national level. For example the partnership approach model in our UK Bus business helped to shape the National Bus Strategy's Bus Service Improvement Plan model (BSIP). The West Midlands will benefit from £88m of BSIP funding over the next three years. We also worked closely with TfWM and the Mayor to secure Coventry as the first electric bus city in the UK.

Our relationships are also enabling us to identify and access funding to support the decarbonisation of our fleet and in the US we have recently been awarded $30m of federal funding for electric school buses. We are working to secure further funding in the coming years.

What is the modal shift?

Modal shift is quite simply the change from one form of transportation to another. We firmly believe that modal shift away from private cars to public transport is the key to creating a more sustainable transport system that benefits our passengers, wider society and the environment.

How is National Express well placed to drive the modal shift?

Modal shift from private cars to public transport is the single most important driver of reduced emissions and congestion. As a leading international transport provider, National Express will be at the forefront of driving modal shift, working closely alongside passenger transport authorities, local and central governments.

Our services provide vital connectivity for our customers and the communities we serve and are usually the cheapest mode of transport. Local and central government campaigns are seeking to encourage people to switch their modes of transport, either by implementing discounted fares, investing in bus priority infrastructure to speed up journeys or through the introduction of low emission and clean air zones (LEZs and CAZs) and restricted parking, in many of the towns and cities in which we operate.

In England, the DfT is providing funding for capped bus fares in the first quarter of 2023 and in Germany the government has already introduced discounted fares on trains – all promoting the habit of modal shift. CAZs and LEZs are now widely implemented in cities across the world. Casablanca, where we worked in partnership with the local authorities who funded 50% of the cost of a total fleet renewal of 700 buses, has led to a significant increase in passengers since we took over operations in 2019.

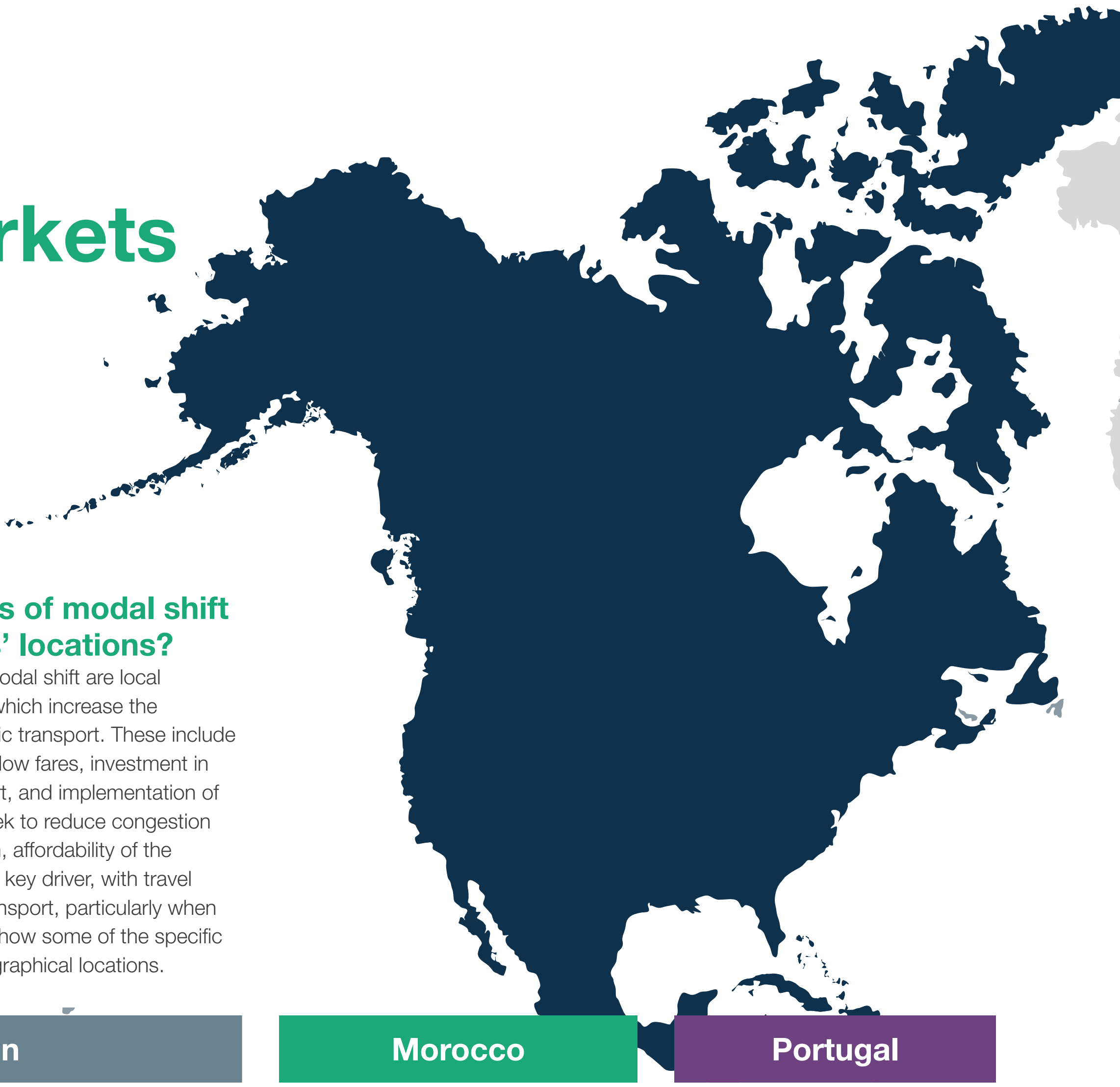
Wherever we operate, whether it's Birmingham, Barcelona or Boston, we are a key solution in the drive to encourage people out of private cars and onto buses. Our investment in ZEVs is also driving higher levels of patronage as passengers enjoy the experience of travelling on clean, quiet, green, state-of-the-art buses.

In a recent survey

38%

of bus users have replaced driving a car for travelling on the bus in the West Midlands

Our Markets
continued



What are the drivers of modal shift in National Express' locations?

The most powerful drivers for modal shift are local or central government policies which increase the convenience and quality of public transport. These include government funding to support low fares, investment in infrastructure for public transport, and implementation of CAZs and LEZs, all of which seek to reduce congestion and lower emissions. In addition, affordability of the different modes of transport is a key driver, with travel by bus the cheapest form of transport, particularly when fuel prices are high. Below we show some of the specific drivers across our different geographical locations.

Spain

The Spanish government is implementing a package of new regulations, measures and aids to promote sustainable mobility and decarbonisation. As part of its 'Safe, Sustainable and Connected Mobility Strategy 2030', new legislation is being drafted – the 'Sustainable Mobility Law' - among other things will include a new framework for financing public transport in cities and metropolitan services.

It is currently estimated that in order to meet the 33% reduction in emissions target in the decade to 2030, 35% of passenger kilometres travelled by private vehicles, will need to shift to public transport and non-emitting modes.

LEZs are at the forefront of driving modal shift in Spain, with new legislation introduced, requiring cities with more than 50,000 inhabitants to introduce them. This legislation affects around 180 cities and towns across Spain and will help to encourage people to switch to public transport, as access within cities and towns is restricted for private vehicles.

In the past year, the government has also introduced measures to reduce the price of public transport, including a discount of up to 50% on fares on urban, metropolitan and regional transport as well as for rail travel. These discounted fares will continue throughout 2023 and in addition, other discounts are also being promoted by regional governments and local councils on their public transport services.

There is also significant funding support to encourage the move to cleaner modes of transport with €13bn of investment planned by the government to boost the transition to ZEVs.

Morocco

In Morocco, the government has introduced various measures to promote the use of public transport.

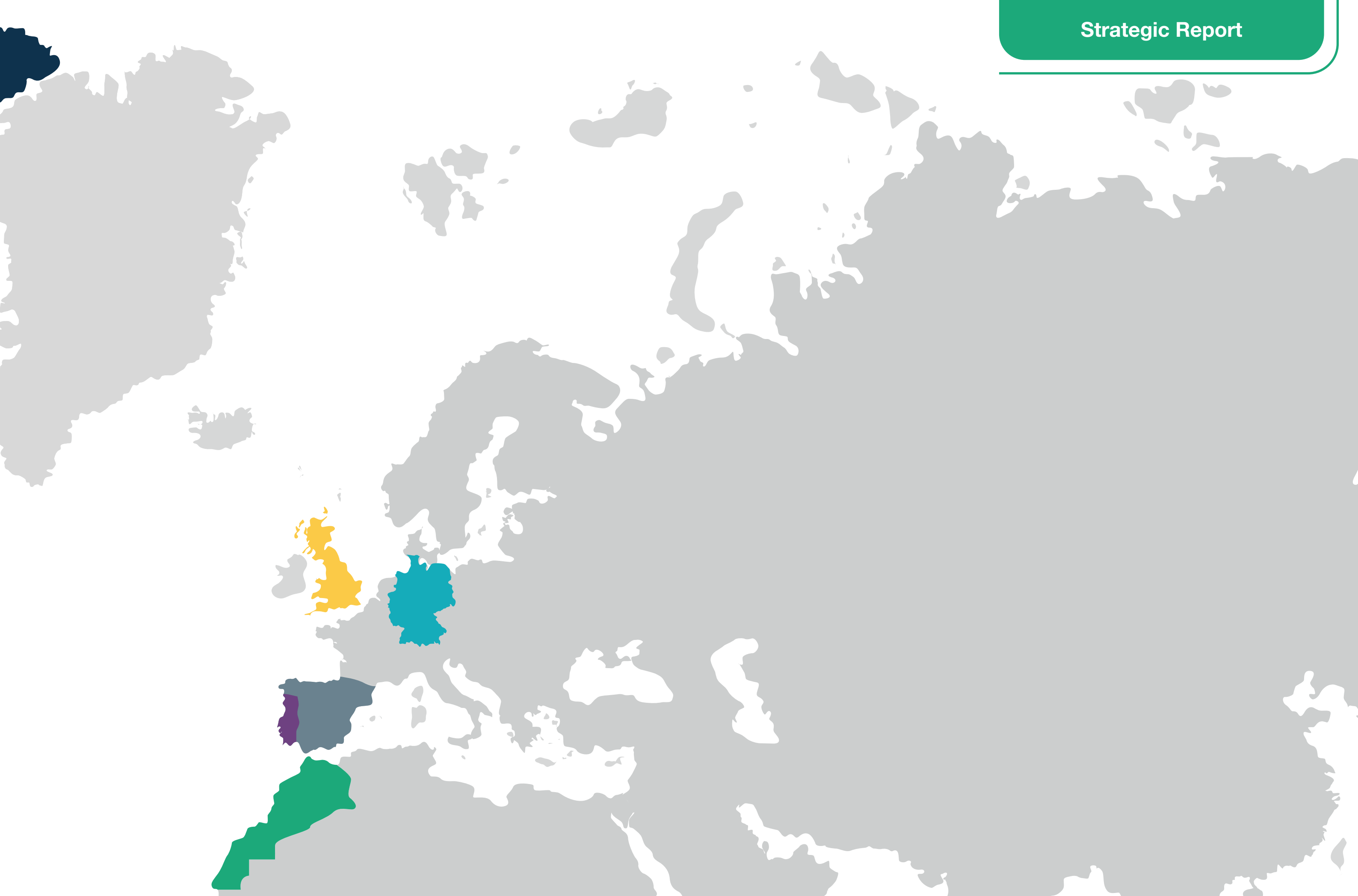
Keeping fares affordable is a key driver for promoting modal shift. In Morocco, the government is helping to keep fares low by: part funding investment in new fleet, where 50% is funded by central government (helping to keep fares lower for passengers as the bus operators bear lower up-front costs); subsidising fuel costs to bus operators in order to keep bus fares low and; integrating fares across different modes of public transport. For example, in Casablanca, integrated fares across bus, tram and BRT allow affordable access to public transport by whichever mode across the city, improving connectivity and convenience and making it more attractive to travel on public transport.

Investment in public transport infrastructure is also key, with bus priority lanes and BRT projects being implemented in cities such as Marrakech, Agadir, Rabat and Casablanca, with faster journey times encouraging modal shift from private cars and taxis.

Portugal

In Portugal, the government is providing subsidies for fleet investment in electric vehicles, paying 70% of the difference in cost between diesel and electric vehicles. This is being funded by Next Generation EU funds, with €48m funding approved for Porto and Lisbon alone.

The government is also looking to drive modal shift through maintaining low fares, freezing the cost of season tickets on public transport for 2023, with some municipalities also subsidising part of the cost of season tickets.



Germany

The German government has a target to double rail passenger volumes by 2030, through increased investment in infrastructure which will increase capacity of the rail networks and also allow higher frequency of services, making travel by train as opposed to private car, more attractive. Currently, services on our RRX lines run hourly between Cologne and Dortmund: however changes to services have already enabled the frequency to double, and with the investment in infrastructure this should increase to services running every 15 minutes, on a road corridor where commuter traffic is very congested.

The government introduced significantly discounted local and regional rail fares in the summer of 2022, with €9 monthly travel schemes available for three months to encourage people to switch to public transport as well as helping consumers to cope with higher energy prices. The scheme was extremely successful and a new permanent monthly scheme will be introduced in 2023 for local public transport throughout Germany.

UK

Coach travel in the UK is flexible and adaptable, providing a critical public transport service (particularly in times of rail disruption).

In the West Midlands, the UK government is providing over £1bn of sustainable transport funding including major infrastructure investments to improve bus journey times, introduce zero emission buses (including the complete electrification of our Coventry operation) and provide financial support to retain low bus fares. This goes beyond the wider government initiative to cap bus fares at £2 for the first half of 2023.

New bus priority measures, providing more space for our bus services, have already improved journey times by over 20% on two of our key corridors in Birmingham.

Birmingham is also a CAZ, with congestion charging for older diesel vehicles and planned significant reductions in parking facilities encouraging people to leave their cars at home and travel on public transport.

With around one third of Coventry's fleet now electric, we are seeing around 4% higher passenger demand on our electric buses (on a like-for-like basis), demonstrating that passengers enjoy travelling on clean and green vehicles and are more inclined to swap their cars for public transport if cleaner options to travel are available.

North America

In the US, funding is available at both the federal and state level for electric vehicles with funding for school buses accessed directly by the school boards rather than the bus operators. School Bus is perfectly suited to electrification, with relatively low mileage and fixed journey times enabling intraday charging, while vehicle to grid charging models will provide additional sources of revenue for asset owners.

Federal funding worth over $23bn is available through the Inflation Reduction Act (2022) for investment in clean transportation, including investment in EVs, while the Environmental Protection Agency has awarded nearly $1bn in Clean School Bus rebates to nearly 400 school districts across the US. This funding will help school districts purchase over 2,400 clean school buses, helping to accelerate the transition to zero emission vehicles and producing cleaner air in and around schools and communities.

Our shuttle business fills the transit gap, with corporate and university campuses seeing restrictions in available parking spaces as local policymakers seek to reduce emissions and congestion on roads.

Our Evolve Strategy

Customer Propositions

Reinvigorate public transport

Grow the use of public transport in cities suffering congestion by building partnerships with stakeholders who want sustainable solutions.

Multi-modal expansion

Build more modal capability and city hubs from existing locations where we already have a physical footprint.

Operational transformation

Application of our processes and know-how to drive efficiency, operational improvement and lower costs.

Fill the transit gap

Encouraging modal shift away from private cars in areas that are not well served by public mass transit.

Consolidate & compound

Consolidate fragmented markets and create 'at scale' operations to drive operating efficiencies and better customer solutions.

Consistent Outcomes for Growth

Most reliable

We will lead the industry in reliability by striving for ever increasing levels of punctuality, and driving down cancelled services and lost miles.

See **Sustainability at National Express** page 68

Links to KPI: **OTP and lost time** See page 27

Safest

We will lead the industry in safety by continually driving down accidents.

See **Sustainability at National Express** page 68

Links to KPI: **FWI; Vehicle Emissions** See page 26

Underpinned by our focused application of technology

Environmental leader

We will lead the transition to zero emission vehicles.

See **Sustainability at National Express** page 68

Links to KPI: **GHG emissions** See page 27

Most satisfied customers

Our customers will rate us the highest in the industry.

See **Sustainability at National Express** page 68

Links to KPI: **Passenger journeys** See page 26

Employer of choice

We will embed high performance culture that attracts and retains the best people.

See **Sustainability at National Express** page 68

Links to KPI: **NPS; Engagement score** See page 27

Our Business Model

What we do

We have a range of products

Urban bus:
single and double decker bus services in busy cities and their suburbs, in the UK, Ireland, Spain, Portugal, Morocco and Bahrain.

Long distance coach:
inter-city, tourism and airport transfer services in the UK and Spain, providing a cheaper and often more convenient alternative to rail.

Student transportation:
home-to-school transportation, predominantly in North America where we are the second largest operator and transport over one million children daily.

Corporate shuttle:
a range of services for transporting their employees to work; includes full home-to-work service and filling the "last mile" gap from mass transit hubs to the place of work.

Private hire:
the provision of buses or coaches to individuals, employers, schools or other organisations for field trips, days out, holidays, etc.

Rail:
we operate a number of lines in the southwest of Germany following a successful start of operations in 2015.

That enable us to create solutions for our customers across each of our five Evolve customer propositions

Customer Propositions

Reinvigorate public transport
Grow the use of public transport in cities suffering congestion by building partnerships with stakeholders who want sustainable solutions.

Multi-modal expansion
Build more modal capability and city hubs from existing locations where we already have a physical footprint.

Operational transformation
Application of our processes and know-how to drive efficiency, operational improvement and lower costs.

Fill the transit gap
Encouraging modal shift away from private cars in areas that are not well served by public mass transit.

Consolidate & compound
Consolidate fragmented markets and create 'at scale' operations to drive operating efficiencies and better customer solutions.

Our globally diversified contract models

We have a mix of contracted and non contracted revenues

Around 70% of the Group's revenue is generated from contracts, where payment is typically made by a public transport authority, a school board or a corporate entity. The remaining circa 30% of revenue comes from individual passengers directly purchasing tickets from the Group without any contractual arrangement in place.

Just over a third of contracted revenue has a high degree of protection. This means that all of substantially all of the revenue on those contracts is pre-determined regardless of fluctuations in passenger numbers. For example, payment could be based on mileage and therefore the payment is not affected by fluctuations in occupancy. This category principally comprises "gross cost" contracts, which includes many of the urban bus contracts in ALSA, plus the majority of the rail contracts in Germany. Similarly a proportion of School Bus contracts have minimum operating days protection and are therefore included in this category.

40% of contracted revenue has a medium level of protection. This is where the customer has the right to vary the demand requirement, such as routes run or volume of services offered. The majority of School Bus is in this category.

The remainder of contracted revenue, around a quarter, has demand exposure. These are referred to as "net cost" contracts.

The chart on page 3 shows the extent to which our contracts offer protection against inflation. 42% have a high level of protection, which means the costs are either "pass through" or have a highly effective index mechanism. For example the annual price rise calculation could include a specific link to a wage index, providing effective protection against wage inflation.

A further 43% offer medium protection. This is where the annual price rises are based on a general inflation index (e.g. CPI) and therefore provide a good level of protection but ate exposed if certain costs, such as fuel or wages, inflate by more than the general index.

Only about 15% of our contract costs have low protection. This is defined as being where we have fixed price rises built into the contract. Whilst this offers good protection if cost inflation is in line with the fixed price rises set at the outset of the contract, there is exposure if cost inflation exceeds those levels.

70%
of Group revenue is contracted

74%
of contracted revenue has high or medium level of certainty

85%
of contracted revenue has high or medium level of cost inflation protection

Our Business Model continued

How we create long-term value for stakeholders and wider society

The resources we rely upon

Our Resources

Vehicles

We operate around 28,000 vehicles of varying sizes, from taxis and minibuses, to double decker buses and long haul coaches. The fleet is predominantly diesel propulsion currently, but we also operate alternative fuel technologies such as propane, electric and hydrogen. We have well-developed plans to transition the whole fleet to zero emission vehicles and are making strong progress.

Sites

Our services operate from hundreds of depots across 11 countries and more than 50 key cities. These depots are where we bring our colleagues together, deliver training and embed our safety practices. We continually review our depots to optimise processes and to adapt to new technologies such as electric vehicle charging.

Financial

National Express has a track record of consistently generating cash flow from its operations, which is then used to maintain a strong balance sheet, invest for growth and provide returns to shareholders.

Colleagues

We employ over 46,000 colleagues across our businesses around the world, the majority of whom are drivers. They deliver excellent customer service, exemplary levels of safety, and bring extensive technical skills and expertise in areas such as operational excellence, route optimisation and vehicle technology.

Intellectual property

We continually develop and refine critical intellectual property, which allows us to design, mobilise and operate transport solutions that deliver on our Evolve outcomes.

Our Relationships

We have extensive, long-term relationships at local and national levels of government and with city or regional transport authorities. We engage collaboratively to find solutions, and improvements, to transport needs, and we believe in maintaining strong relationships with the communities in which we operate. We invest in long-term, collaborative relationships with suppliers; working together to develop innovative solutions and improvements to safety, reliability, customer satisfaction and environmental impact.

How we create value

What we do – our customer propositions

We have a range of products that enable us to create solutions for our customers across each of our five Evolve customer propositions.

For more information see our **Evolve Strategy** on pages 16 to 17

Our global diversified contract models

Around 70% of the Group's revenue is generated from contracts. The remaining circa 30% of revenue comes from individual passengers directly purchasing tickets from the Group without any contractual arrangement in place.

For more information see our **what we do** on page 18

Benefits to National Express

Sustainable long-term growth

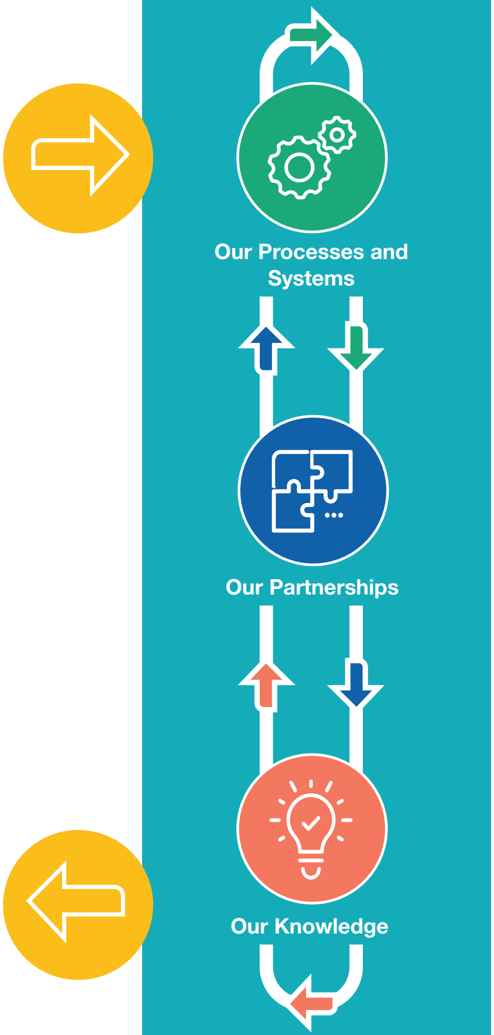
Our strong relationships with customers, suppliers and government bodies, combined with experienced colleagues, in-depth knowledge and considerable scale in terms of resources and geographical spread, enable us to drive sustainable long-term growth. We take a long-term view to the planning and utilisation of our resources, and to the organic and inorganic opportunities for growth.

Strong financial returns

We utilise our resources and relationships to achieve strong financial returns. By growing revenue, converting it to profit and delivering cash flow, we provide the ability to invest for growth, maintain a strong balance sheet and provide returns to shareholders. In the 10 years prior to the pandemic, National Express delivered a revenue and profit compound annual growth rate of 6% and 7% respectively.

The value we create

Our key differentiators



Value generated for stakeholders

Colleagues

We provide attractive employment opportunities, paying competitive wage and salary rates, and creating safe, enjoyable and inclusive working environments.

Passengers and customers

We provide best-in-class, value-for-money services that provide a compelling alternative to the private car. Our services enable passengers to connect with family, friends, and workplaces, and facilitate access to healthcare and education.

Suppliers

We support suppliers through the procurement of goods and services. We work with a wide range of suppliers from individuals to large businesses. We develop partnerships with key suppliers, working collaboratively to develop new innovations in, for example, safety or vehicle technology.

Equity and debt investors

We aim to provide attractive total shareholder returns. The Board has recommended the reinstatement of the dividend in respect of the full year 2022. We have strong long-term relationships with lenders, utilising a variety of sources of funding.

Communities

Our services facilitate social mobility and promote economic activity; connecting people to jobs, education, healthcare and leisure. Our services can be critical for people without access to a car and we provide transport for vulnerable people.

By encouraging modal shift from private car to public transport, we play an important role in improving air quality in our communities.

Governments

We have strong relationships at local and national levels of government, which enables us to help shape policies regarding public transportation. We are also able to bring transport solutions to local government bodies and transport authorities; transforming the services in their areas.

The Group also generates significant tax contributions to public finances across employee, sales, corporation, property and other taxes.

The environment

Public transport offers a more environmentally friendly mode of transport than the private car. One bus takes up to 70 cars off the road. Furthermore, we are moving fast to transition our fleet to zero emission, further reducing pollution and improving air quality.

Benefits to Society

Social mobility

Our services connect people to each other and to places of work, education and healthcare.

For more information see
our sustainability on pages 68 to 80

Reduced pollution and improved air quality

Many of our existing diesel vehicles already emit lower emissions than the average family car. By driving modal shift from private car to public transport, as well as transitioning our fleet to zero emission vehicles, we can make a significant impact on reducing pollution and improving air quality.

Our Business Model continued

Our key differentiators are our processes and systems, knowledge and partnerships

Our Processes and Systems

We have strong processes and systems in place across each of our businesses in order to achieve our five outcomes identified within the Evolve strategy: to be the most reliable; the safest; the environmental leader; have the most satisfied customers; and be the employer of choice. These processes are underpinned by standard operating procedures and global policies applied across each business.

The application of our processes and systems enables us to deliver consistency and operating efficiencies, whilst performance management and monitoring of KPIs identifies focus areas to drive continuous improvement, delivering superior outcomes as well as helping to drive lower costs.

All our processes and systems are digitally enabled, driving further improvements in operational and financial KPIs.

Our Knowledge

We hold market-leading positions in those markets where we choose to compete. Strong management teams across each of our businesses, using local knowledge whilst applying global best practice and expertise, enables us to both retain and win new business across the Group.

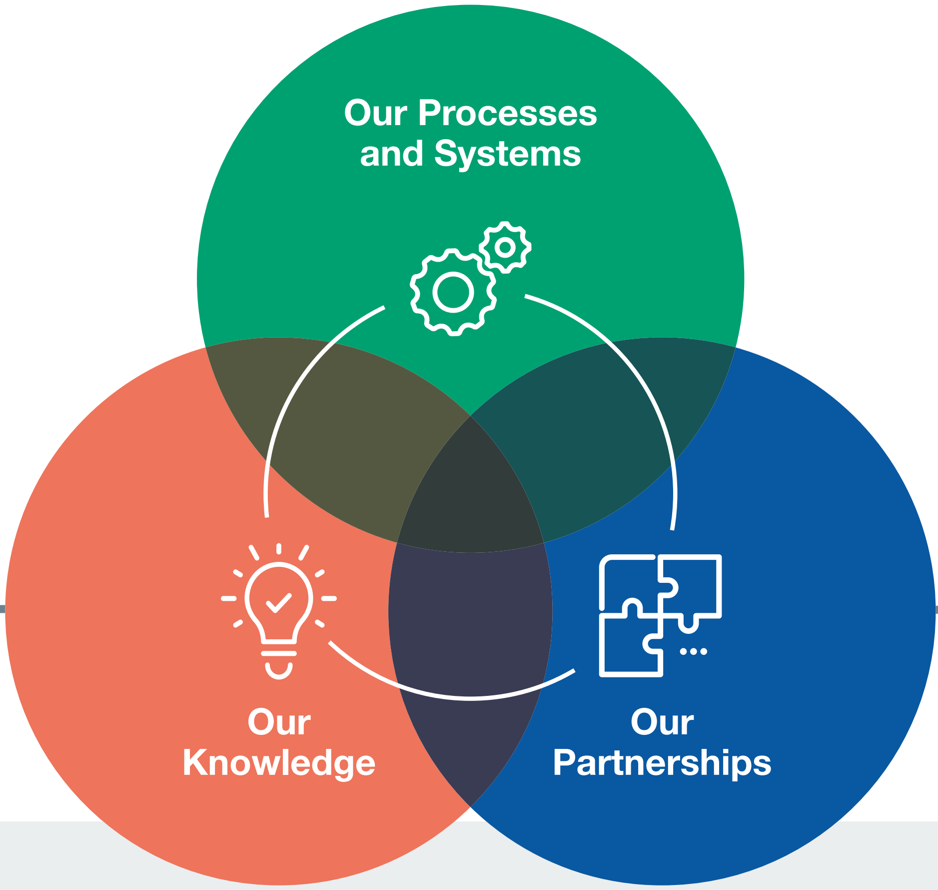
Our strength in network design and route scheduling supported by strong commercial capabilities in terms of marketing, pricing and revenue management are major competitive advantages, complemented by our leading brands.

We have a strong reputation for successful mobilisation of new contracts where we are both agile and flexible, widely recognised by local passenger transport authorities in each of our markets.

Key areas of differentiation:

- Design: Network planning, timetabling, scheduling, fleet planning
- Operations: Safety, dispatch, monitoring and controls, maintenance and customer care
- Mobilisation: Recruitment, training, fleet procurement and specification, ZEV implementation

Enabling us to design, mobilise and operate safe, reliable transport networks as a trusted partner



Our Partnerships

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

We have developed strong relationships with local public transport authorities, governments, school boards and corporate customers and work in partnership to deliver high quality services whilst at the same time providing solutions to enable customers to achieve their wider aims, which are designed to solve the challenges of congestion, carbon, clean air and inclusive social mobility.

By working in partnership with our customers, not only are we able to better understand their needs, but also through collaborative efforts, we are able to access available funding for promoting modal shift and for the transition to ZEVs.

For more information see our **Business Model** on page 18

For more information see our **Case Studies** on pages 35 to 47

Measuring Progress

Financial

Underlying Operating Profit (£m)

£197.3m
2021: £87.0m

KPI definition
Group Underlying Operating Profit from operations.

Relevance to strategy
A key measure of the overall performance of the business.

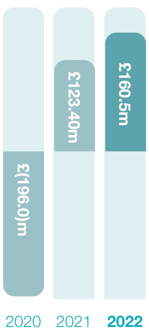
We are focused on driving growth in operating profit in order to generate higher and sustainable returns for our shareholders and providing the platform for further growth for all our stakeholders including our employees, our customers and our partners.

Performance
Underlying Operating Profit increased by £110.3m, despite a £95.7m reduction in Covid-related government support, reflecting a 29% increase in revenues combined with continued cost control.

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

Free cash flow (£m)

£160.5m
2021: £123.4m



KPI definition
Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 293.

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

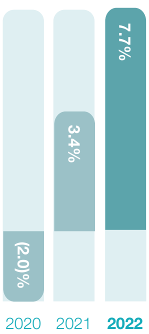
This focus on strong cash generation ensures that we are running the business efficiently, converting profit to cash to enable investment into the business; returns to shareholders; achieve our leverage targets and provide the platform for further growth for all our stakeholders.

Performance
Free cash inflow of £160.5 million is 30% up year-on-year, principally reflecting a £118.1m increase in EBITDA part offset by a £42.4m increase in capital expenditure, which retuned to more normal levels after the impact of the pandemic-related freeze in the prior year. Free cash flow conversion of 81% is better than the pre-pandemic long-term average of 65%.

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

Return on capital employed (%)

7.7%
2021: 3.4%



KPI definition
Return on capital employed (ROCE) is Underlying Operating Profit, divided by average net assets excluding Net Debt and derivative financial instruments, translated at average exchange rates. See reconciliation on page 293.

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

A focus on ROCE ensures that we maintain a disciplined approach to capital investment and continue to invest in those areas in which we deliver the best returns. This ensures that we maximise returns to shareholders for the capital they invest.

Performance
ROCE of 7.7% remains low as we rebuild profits, but represents a significant year-on-year improvement. During the year the Group invested £184.5 million of net maintenance capital, predominantly in replacing our fleet in our existing operations, and £93.1m in growth capital expenditure including vehicles to service new contracts in ALSA and North America.

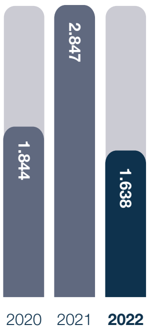
Remuneration linkage
ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.

Measuring Progress continued

Non-Financial

Safety – Fatalities and Weighted Injuries

1.638
2021: 2.847



KPI definition

The Fatalities and Weighted Injuries (FWI) Index weights injuries by severity to give an overall standard-based score. The definition has been amended in the year to exclude non-responsible minor injuries, with prior year numbers restated to give a like-for-like comparison.

Relevance to strategy

Safety is of paramount importance to a public transport operator and being the 'safest' is one of the five Evolve outcomes.

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

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

Performance

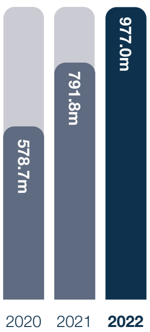
In 2022, the FWI score improved by 42% to 1.638, the best ever score recorded by the Group despite challenging traffic conditions. On a per million miles basis, the score of 0.003 represents a 50% improvement year on year and equals our best ever score in 2019, and a more than 90% improvement since we first introduced our Driving Out Harm programme in 2011.

Remuneration linkage

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

Passenger journeys

977.0m
2021: 791.8m



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 and shuttle services are not paid on a per passenger basis.

Relevance to strategy

Growth in passenger journeys is a leading indicator for customer satisfaction and hence growth, and modal shift from cars to public transport. Having the 'most satisfied customers' is a key aim of the Evolve strategy.

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

Performance

Passenger numbers recovered strongly to 977m, rising by 23% in 2022, with demand recovering strongly in the UK, Germany, Spain and Morocco. We saw a particularly strong recovery in demand for discretionary travel with our coach businesses in the UK and Spain up 164% and 82% respectively. We also delivered record number of passengers in Morocco with over 330m passenger journeys, an increase of 75% versus 2019, reflecting new contracts in Rabat and Casablanca and growth in existing contracts.

Remuneration linkage

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

Links to Strategy

- Safest
- Most satisfied customers
- Environmental leader
- Employer of choice
- Most reliable

GHG emissions*

34.37

2021: 25.34

KPI definition

Total Scope 1,2 and 3 greenhouse gas emissions divided by the total number of passenger kilometres travelled across each of our operating divisions.

* Measured as tCO_2e/million passenger km.

Relevance to strategy

Reducing the environmental impact of transport is core to our purpose and links to the evolve strategy outcome: being the environmental leader.

Per passenger, bus and coach travel is significantly less polluting than cars and, as such, modal shift is the single most important thing we can do to drive the climate change and clean air agendas. We are also committed to making public transport itself 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

In 2022 we completed a Group-wide assessment of our Scope 3 emissions across all relevant categories, enabling fuller disclosure of our Scope 3 emissions compared to previous years and forming a new baseline for comparison in future years. This resulted in a 35.6% increase in tCO_2e/per million passenger km to 34.37 for Scope 1,2 and 3 emissions.

For tCO_2e/per million passenger km Scope 1 and 2 emissions, we have seen a 4.3% improvement year on year reflecting the building back of occupancy levels across our services, together with some early benefits as we transition to ZEVs over the next few years.

We expect to make further progress as we accelerate our transition to ZEVs over the next few years.

Remuneration linkage

25% of the Executive Directors' and senior managers' Long-Term Incentive Plan is linked to reducing GHG emissions and transitioning to ZEVs. See Remuneration Report commencing on page 140.

OTP

91.1%

2021: 93.9%

KPI definition

On-time Performance (OTP) measures the percentage of our services, weighted by mileage across divisions, that are arriving on time at specified timing stops. The definition of 'on-time' varies by business, (for example no more than one minute early or five minutes late for urban bus services) and each business has its own specific OTP targets. The OTP KPI excludes rail services, high frequency bus services (where frequency and actual versus scheduled waiting times) is a more appropriate reliability measure, and services where we are currently not able to measure OTP accurately.

Relevance to strategy

Improving OTP is a key measure of reliability, driving customer retention and the ability to win new contracts. It links directly to the Evolve strategy outcome: most reliable. Our reputation for reliability, whether it be for fare paying passengers on our buses or with school boards and local passenger transport authorities, is vital to drive growth across the each of our businesses.

OTP is also a driver for achieving operating efficiencies across the Group, helping to improve financial returns.

Performance

Following improved levels of punctuality in 2020 and 2021, primarily driven by reduced traffic levels and road congestion during the pandemic, overall OTP in 2022 was in line with our pre-pandemic performance. Traffic volumes and congestion returned following the lifting of Covid restrictions, and we also experienced operational challenges related to significant network variability and driver shortages in some of our markets. We saw a positive trend in the second half of 2022, as our relentless focus on reliability across our operations delivered OTP performance 60 basis points ahead of the same period in 2019. We continue to focus on initiatives to further enhance punctuality going forward, including our data driven scheduling optimisation in UK Bus which uses sophisticated data analytics to optimise route performance and efficiency.

Remuneration linkage

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

eNPS

+7

2021: N/A

KPI definition

Employer Net Promoter Score, or eNPS, is a widely used scoring system designed to help employers measure employee satisfaction and loyalty within their organisations.

Relevance to strategy

The eNPS score is a key measure of employee satisfaction and engagement. Tracking eNPS allows us to identify areas of strength and also where we can improve in order to retain and grow our talent in the business. It links directly to our evolve strategy outcome: employer of choice.

Performance

This is a newly introduced measure following the launch of our first global employee survey in 2022 and will be used as a base to measure our performance in the future and inform our action plan. In our first global survey we achieved an engagement score of 77% of our employees across the Group against a target of 68%.

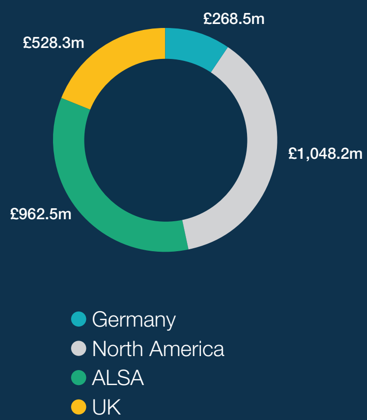
Remuneration linkage

The Employee Net Promoter Score is a new input into the Executive Directors' and senior managers' annual bonus structure from 2023.

CEO's Review

"There has been underlying growth across our operations, and we have acted decisively in a uniquely challenging operating environment."

Group Revenue (£m)



Underlying Operating Profit
(+127% against 2021)
£197.3m

Statutory Operating Loss
(Loss of £36.2m in 2021)
£158.5m

Overview

I am pleased to be reporting another year of significant progress, where momentum has continued to build across our diversified business in the face of macroeconomic volatility. So, first of all, let me thank our 46,200 employees for their hard work and tireless commitment throughout 2022, a year that clearly has not been without its challenges for our sector. Nonetheless, we saw continuing strong growth in passenger journeys of 23% year-on-year. Group revenue is up by 29% to £2.8bn (24% on a constant currency basis). This is despite Q1 being significantly impacted by Omicron.

As a result of this strong sequential improvement in revenue, we have started to rebuild our profitability and cash flow conversion. Underlying Operating Profit of £197m was more than double the level in 2021 and this improved profit performance has converted to cash, with the Group delivering free cash flow of £161m in the year at a cash conversion rate of 81%.

The statutory loss before tax was £210m compared to a loss of £85m last year, primarily as a result of a £261m non-cash impairment of goodwill in ALSA driven by an increase in the discount rates rather than any changes in the underlying trading assumptions used to forecast future cashflows. Further detail is set out in the CFO's Review starting on page 48.

We continued to make significant progress on our Evolve strategy. This was achieved despite a uniquely challenging operating environment in our main end markets underscoring the resilience of our increasingly diversified portfolio of businesses. Maintaining our focus on our people, operations, and contracts, the key highlights were:

- **People:** we right sized the workforce in both ALSA and North America. We also combined our Transit and Shuttle activities to drive operational synergies and create a Business Development and Customer Insights team capable of converting the significant opportunities in the sector. Additionally, we brought our UK coach and NXTS (National Express Transport Solutions) teams under common management. We also launched our first global engagement survey;
- **Operations:** in ALSA, we deployed and rolled out advanced network planning software as well as optimised pricing in our Long-Haul business using dynamic yield management. Meanwhile, in North America, we accelerated the roll-out of our digital operating platform, and we rebuilt and redesigned our UK Coach network to be more efficient delivering higher frequencies and faster journey times on key intercity routes, while reducing cost per passenger mile by 6%; and
- **Contracts:** across the Group we renegotiated contracts to reflect post-Covid reality in US Transit and achieved out-of-cycle rate increases in School Bus.

In October 2021 we set our Evolve strategy to be the world's premier shared mobility operator; leading the modal shift from cars to public transport whilst delivering strong financial returns. We made significant progress against all five of our key outcomes:

- **Safest:** We are making further improvements in safety, where our Fatalities Weighted Index per million miles score has improved by 42% year on year, our best ever result;
- **Most reliable:** Our relentless focus on reliability means that our Group-wide on-time performance measure for 2022 was 91%, which is in line with our pre-pandemic performance despite the challenges of significant network variability;
- **Environmental leader:** We have made further progress towards our goal to become the environmental leader in our sector, with plans approved for 1,500 ZEVs by 2024, and scope 1 and 2 Greenhouse Gas Emissions falling per passenger km;
- **Most satisfied customers:** we delivered 977 million passenger journeys in the year, a 23% increase on prior year; and
- **Employer of choice:** This year we refreshed our people strategy, and we launched our first global employee engagement survey achieving a 77% response rate and eNPS score (employer net promoter score) of +7.

This progress is in the areas that matter to customers:

- We have won 35 new contracts during the year with an annualised revenue of £150m (worth approximately £1.2bn over the contract lives), including RRX Lot1 contract. This conversion rate is in line with what we need to achieve to deliver our target of £1bn of incremental revenue by 2027;
- We expanded the range of our product offerings in existing cities creating multi-modal hubs in Geneva (with an all-electric bus contract win), Madrid (entering into the €1.4bn paratransit market with the acquisition of Vitalia) and Boston (where we have won new corporate shuttle and universities contracts);
- We commenced service in new key target cities including Lisbon and Richmond, Virginia; and

For more information see our **Business Model** on pages **18 to 23**

For more information see our **Strategy** on pages 16 to 17

For more information see our **Case Studies** on pages **35 to 47**

CEO's Review continued

- We made further progress towards our goal of being the environmental leader in our sector and lead the transition to net zero, with plans approved for 1,500 ZEVs by 2024. Importantly, we are also seeing early signs that electric buses are helping to drive modal shift, with both patronage and customer satisfaction higher on our ZEVs.

Despite the challenges faced in the year, the fundamentals of our business remain strong:

- Underlying demand for travel continues to increase;
- We are demonstrating good levels of conversion from our attractive pipeline (which is now worth £2.5bn) and we are winning new contracts to drive growth;
- The outcomes of our Evolve Strategy make us the differentiator in the eyes of our customers which will enable us to win more of this growth; and
- We are continuing to diversify our portfolio across our multi-modal offering into new geographies and market segments, providing us with greater resilience and further opportunities for future growth.

Passenger and new contract growth across our operations

In ALSA, we delivered record revenue exceeding the billion-euro mark for the first time and against a competitive backdrop of high-speed rail roll out. We saw a strong performance across all business lines, reflecting an improvement in underlying mobility. The diversification of ALSA from Long Haul to a more multi-modal portfolio continued. We mobilised our first urban bus contract in Lisbon, Portugal (with Porto to follow in 2023) and our acquisition of Vitalia in Spain, as well as encouraging recent expansion into new territories.

In North America, School Bus grew revenue by 8%, despite industry wide driver shortages which slowed the rate of route recovery. Through relentless focus on recruitment, retention (aided by a significant investment in wages) and route reinstatement, we achieved our target of closing the driver gap by one third by the calendar year end. Route reinstatement also progressed well, with about one quarter of routes now reinstated. Encouragingly, of the School Bus contracts which renewed during the year, we achieved rate increases of 10.3% (7.1% across the portfolio), compared to total wage increases of 10.1%, and we expect to recover more of the wage investment as the reinstatement of the contracts come up for renewal.

Elsewhere in North America, revenue in our Shuttle business was up 21% as the majority of customers returned to their workplaces. Transit was broadly stable versus the prior year: our retained contracts benefited from a progressive improvement in service volumes offset by the full-year impact of the actions we have previously undertaken to exit loss-making contracts. Because of our high customer satisfaction ratings and the quality of the service we deliver, we were awarded 21 new Transit and Shuttle contracts during the year worth over $100m over their base terms, most of which are asset light. Key wins were Greater Richmond Transit Company, Alexandria Real Estate (Boston), and Washington University in St Louis.

In the UK, our Coach business experienced a very strong growth in demand after the near complete network shutdown in Q1 as a result of Omicron. UK core coach revenue more than doubled, with airports reopening and strong demand for intercity travel. We continued to ramp up our capacity over the key summer trading period and have also benefited from the ongoing disruption on the national rail network. By reorganising our UK Coach operations under a single management team, we have been able to carefully manage our capacity by deploying non-scheduled Transport Solutions vehicles onto the scheduled Coach network in periods of high demand. Our Bus operations have also seen a continuing recovery in demand, with commercial passenger journeys up 39% year-on-year.

In Germany revenue grew 49% with the emergency award of two contracts at the start of the year delivering an additional €100m of annualised revenue. In January 2023, we announced that we had been awarded extensions of these contracts on a 10-year basis.

Profit and cash flow benefiting from operational leverage, cost control and pricing power

Underlying Operating Profit more than doubled, driven by strong performances in ALSA, the UK and Germany. A relentless focus on operational leverage, cost discipline and successful pricing actions has underpinned a recovery in profit and margin as well as in the Return on Capital Employed.

ALSA delivered a strong result with Underlying Operating Profit up 85%, again driven by a significant uplift in underlying mobility, with the Underlying Operating Margin up 290 basis points year-on year to 10.8% and with our Long-Haul yield 3% higher than 2019.

North America has been impacted by labour issues, with high levels of wage inflation and driver shortages reflected in the 17% decrease in Underlying Operating Profit of $84.7m. Wage inflation has been successfully recovered on 40% of our contracts, which reflects the usual renegotiation on expiry and unprecedented out of cycle increases. As the remainder of contracts come up for renewal over the next two school years, we expect to see further recovery of costs. Driver shortages have also impacted the number of billable routes, with a timing-related gap between driver additions and routes being reinstated (as discussed further in the North America review starting on page 10) and which we expect to continue to close over the remainder of the 2022/23 school year, with a natural reset at the beginning of school year 2023/24.

The UK delivered a step up in Underlying Operating Profit of £48m year-on-year, reversing the losses in 2021. This performance is all the more pleasing in the context of the losses made in the first half of the year, as Omicron weighed on performance in the first quarter. The strong rebound in passenger demand in our scheduled Coach business is the key driver for this significantly improved performance, combined with strong yield management, with yields up 27% year-on-year and (15% ahead of pre-pandemic levels), and passengers up to 151% on prior year.

Germany grew its operating profit to £17.6m (up £12.6m on prior year) as a result of the RRX Lot 1 emergency award, and the associated operating synergies arising from achieving significantly larger scale.

As we look into 2023, there remain significant head winds in respect of cost inflation and driver shortages, but we have taken action to address these, and we have further plans in place for the year ahead. In particular, in North America, we have taken steps to boost recruitment, increase retention, and reinstate routes in our US School Bus business to address the challenges we experienced in 2022.

We continue to actively manage the challenges of cost inflation across the Group. Fuel costs are 100% hedged for 2023, and 56% for 2024. 85% of our contracted businesses benefit from high or medium level of protection against inflation, containing either annual fixed price or inflation-linked price increases, and in some cases a direct pass through of cost. However, in some cases there remains a lag in the timing of costs arising and the business driving associated price increases through contract renewals, contract indexation provisions and renegotiations.

On a statutory basis, the Group made a loss before tax of £210m, after £356m of separately disclosed items, which principally include; £261m in respect of a non-cash impairment of goodwill in ALSA as described above; £37.2m of amortisation of intangibles (consistent with previous years); and £31.4m of onerous contract charges and impairments directly attributable to post-covid market wide issues of driver shortages.

Outlook

I am pleased with the significant progress we made in 2022, which saw strong growth in passenger volumes resulting in a 29% increase in Group revenue; the doubling of revenue in our UK coach business and ALSA's revenue exceeding €1bn for the first time. After a first quarter that was impacted by Omicron, the resilience and agility of our teams amid a uniquely challenging operating environment meant we saw momentum build across our businesses through the year, and continue into 2023.

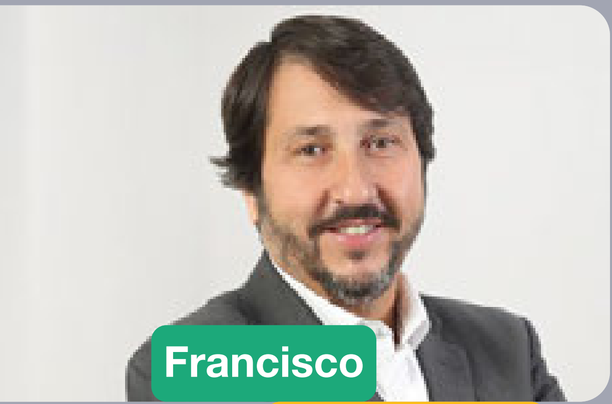
Whilst the operating backdrop remains challenging, with inflationary pressures continuing in key markets, we expect to see that momentum continue, driven by growth in passenger numbers, mobilisation of new contracts, an ongoing recovery in US School Bus and the securing of rate increases during 2023 and 2024 allowing us to recover cost increases.

Our expectations for 2023 are unchanged, and we have clear and robust actions in place to mitigate macro-economic headwinds and to reduce costs if necessary. The continued and expanding demand for public transport over the coming years will bring growth opportunities. Our Evolve strategy positions us well to capitalise on those opportunities and make progress toward our long-term guidance to 2027 of achieving £1bn of incremental revenue, over £100m of additional EBIT and cumulative free cash flow of £1.25bn.

Ignacio Garat

Ignacio Garat
Group CEO

1 March 2023



Francisco Iglesias

Revenue
(+35% against 2021)
€1,129.3m

Underlying Operating Profit
(+85% against 2021)
€121.8m

Statutory Operating Loss
(Profit of €35.2m in 2021)
€199.9m

Underlying Operating Margin
(+290bp against 2021)
10.8%

Revenue
(+34% against 2021)
£962.5m

Underlying Operating Profit
(+84% against 2021)
£103.9m

Statutory Operating Loss
(Profit of £30.2m in 2021)
£170.2m

Divisional Review

ALSA

ALSA is the leading company in the Spanish road passenger transport sector.

Celebrating its 100-year anniversary in 2023, ALSA has significantly diversified its portfolio away from Long Haul to a multi-modal offering, which today additionally spans Regional and Urban bus and coach services across Spain, Morocco, Switzerland and Portugal. ALSA is a 'bid engine' that will power future growth.

Overview

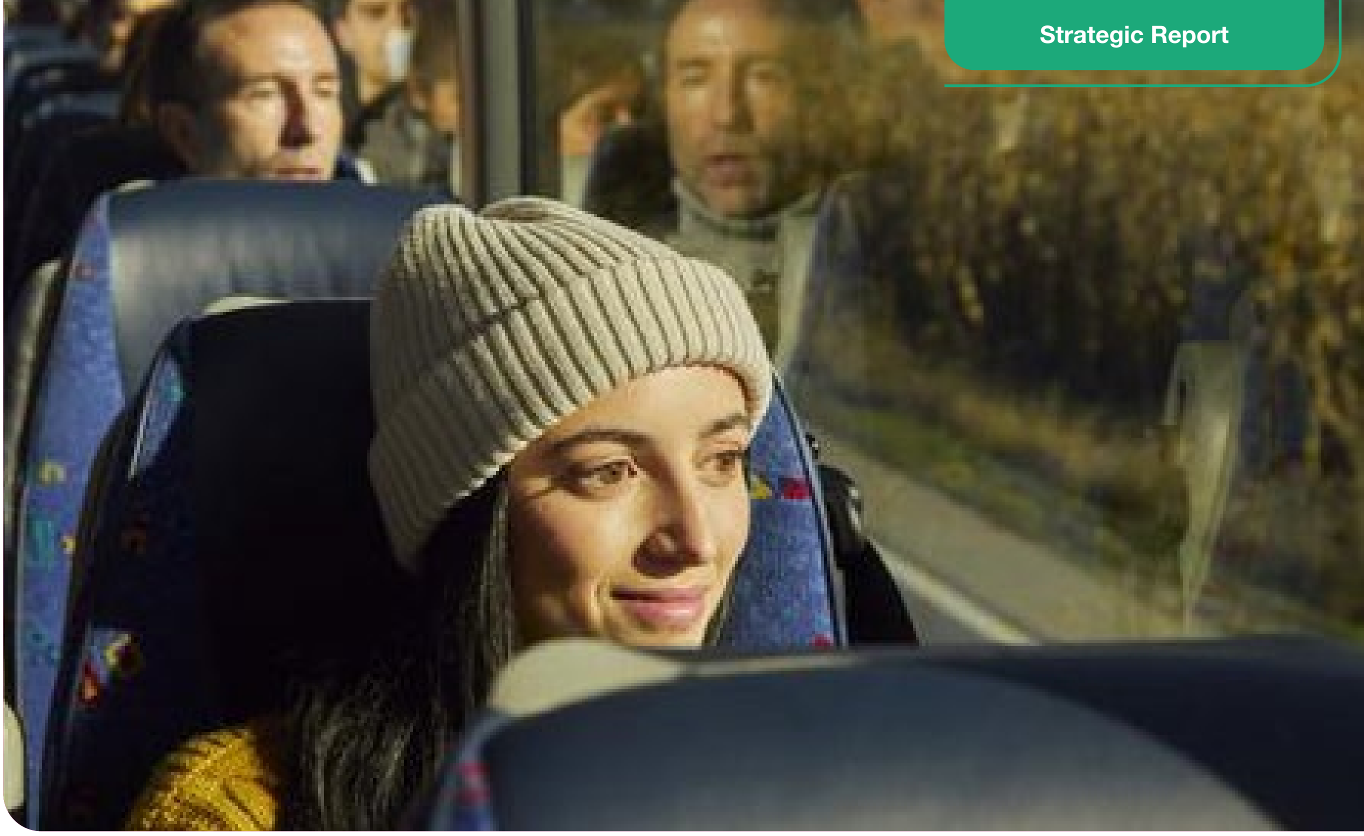
ALSA delivered very strong growth in both Revenue and Underlying Operating Profit, reflecting the improving trajectory in trading over the year and the further diversification of our multi-modal activities. Revenue exceeded €1bn for the first time, growing by 35.1% to €1,129.3m, with a strong uplift across all business lines. Underlying Operating Profit of €121.8m was 84.8% ahead of the prior year, with a 290 basis points uplift in the Underlying Operating Margin to 10.8%. After separately disclosed items of €321.7m, this resulted in a statutory operating loss of €199.9m. The increase in separately disclosed items reflects a non-cash impairment of goodwill arising solely as a result of an increase in the discount rate, driven by increases in government bond yields and the cost of debt (as discussed in the CFO Review), with no change in the trading outlook of the business.

Revenue growth, passenger recovery

All our activities benefited from a significant uplift in underlying mobility, in terms of both patronage and service levels.

In Long Haul, revenue increased 76% year-on-year, with the steady improvement in underlying mobility over the year helping to optimise supply management and occupancy ratios. At the same time, we benefited from the recovery in passenger numbers and the enhanced digital sales ratio across all our nine main corridors as well as in other routes, with passenger numbers growing 64% on prior year. Long Haul yield was 3% higher than pre-pandemic levels.

Regional (revenue +22% versus 2021) and Urban bus (+23%) also delivered strong performances. Urban bus passenger volumes grew 15% on prior year. Revenue growth of 26% in Morocco was boosted by the network enhancement in Casablanca and Rabat as well as growth across other cities in which we operate at pre-pandemic levels.



Revenue growth was supported by both successful contract renewal, including Valencia-Alicante and Les Marines-Alicante in Regional, as well as new business wins (such as a new Urban bus contract in Alcantarilla and Murcia, and a bicycle supply contract in Santander) worth around €192m over their lifetime.

During 2022, we successfully mobilised a seven-year urban bus contract in Lisbon, our first win in Portugal. Having delivered on time and ahead of other operators, we continue to underscore our reputation for reinvigorating public transport, which provides us with strong credentials to bid for additional contracts in Portugal and for entry into other new markets as we look to increase our exposure to Southern Europe. We further expanded our offering with the acquisition of Vitalia in the attractive paratransit sector, which provides patient transport services in both the public and private sectors in Madrid and a number of other cities across Spain where we have existing operations. Since acquisition, we have significantly increased the size of the business, particularly in the private sector where we have seen a doubling in the number of customers.

Progressing Evolve

We made good progress with our Evolve strategic priorities during the year.

Our focus on safety delivered further encouraging results in 2022. The ongoing implementation of best practice and investment in driving training as well as smarter, AI-enabled digital systems continued to deliver improvements, while we continue to partner closely with OEMs to deliver the next generation of safety technology. Accordingly, we were proud to achieve 10 years of AENOR safety certification, demonstrating that our business meets the highest standards, and we remain an active promoter of changes in road safety legislation.

Using our digital optimisation platform in the Spanish Urban and Regional businesses has allowed us to make operational improvements in network planning, resulting in better reliability and use of resources. Additionally, as we have re-established our network and mileage to meet post-pandemic demand, the introduction of double-decker vehicles to our Long-Haul routes has delivered a lower unit cost of delivery, resulting in improved efficiency in corridors with high-speed rail competition as well as enhanced occupancy and customer satisfaction ratios.

Consistent with our aim to be the environmental leader, we continued to add ZEVs to our fleet during the year. Currently we operate 39 ZEVs rising to 62 including Lisbon. With 20 additional ZEVs supporting our new contract starting in 2023, almost the entire fleet in the urban contracts in Switzerland is zero emission while we continue to incorporate new electric buses to our contracts. In addition, we rolled out the first hydrogen buses in Madrid and the first 100% electric bus service in Bilbao, Granada, Jaen and Tres Cantos. Looking to the future, we have a number of trials in place with different OEMs including testing the latest battery and fuel technologies. We are making a number of environmental improvements to our depots (such as installing solar panels and 'smart' charging points), and we joined the Spanish Hydrogen Network ('SHYNE'), the largest multi-sectoral consortium in Spain created to promote the decarbonisation of the economy through renewable hydrogen.

ALSA continued

In order to achieve the most satisfied customers, we extended our Mobility as a Service ('MaaS') app in further towns and cities following the launch last year. This app, which can be used for travel on all types of mobility services in the local area and, with real-time information on service, journey times and connections, makes it more convenient for customers to plan their routes. With expanded functionality and new even more convenient ways to pay, our MaaS app now has more than 50,000 users. This continued focus on improving in our capabilities helped to deliver a strong uplift in our customer satisfaction levels to pre-pandemic levels, with the award of a BCX seal for Best Customer Experience in the Transport Sector.

As a committed employer of choice, we digitised our talent management processes during the year, which will support our efforts around retention, skills development and succession planning, and were proud to achieve the 'Best Place to Work award in Morocco in H1.

Looking forward

We expect to see further growth in the coming year with continuing recovery in demand across our service lines. We also expect to continue to diversify our customer propositions; for example, with our second Regional and Urban bus contract in Porto, Portugal due to start operating in the second half of the year, as well as expansion in new territories.

We have a strong pipeline of bidding opportunities over the next 18 months, worth circa €430m, and we will target further opportunities over the coming year as we look to leverage our credentials. We see particular opportunity in Urban Bus, international markets, tourism, paratransit and corporate shuttle markets.

As we continue to roll out our digital platforms, we anticipate further cost efficiencies, with the ongoing shift to online or digital tickets and further integration of AI across our maintenance activities. There are also opportunities to reduce journey times and improve punctuality in our business through the adoption of our digital optimisation platform.

The Long-Haul concession renewal process has yet to restart, with the authorities continuing to conduct a remapping of the network. Industry expectations are for no impact from the Long-Haul concession renewal process before 2025 at the earliest. Long Haul is now only 15% of our revenues.

Francisco Iglesias
CEO: ALSA

Case Study

Reinvigorating public transport

Our strategic priorities in action

ALSA entered a new geographical market in 2022, after being awarded a seven-year contract to operate urban bus services in Lisbon, Portugal (one of our key strategic target cities). We were the only new operator when the contracts were awarded in 2021, and so it as particularly pleasing to not only meet all the contractual milestones on time, but to do so at least one month ahead of the incumbent operators - demonstrating our capability for successfully mobilising contracts and underlining our reputation for reliability.

Through this contract, we are providing bussing services on 153 routes, with a fleet of nearly 230 buses including 23 ZEVs, employing 350 people and enabling mobility for nearly 400,000 people across Lisbon.

As part of the mobilisation, all depots, fleet and on-board equipment were delivered on time as well as a new commercial network of routes; assessment and training of drivers was completed and our global safety procedures were in place from day one of services entering into operation; all of which demonstrates that our competencies of plan, mobilise and operate allows us to reinvigorate public transport.

Enabling mobility for nearly 400,000 people across Lisbon

Divisional Review

North America

Gary Waits

Erick Van Wagenen

Our business in North America focuses on two distinct areas of activity under separate management teams: student transportation (School Bus) and Transit & Shuttle services. We operate in 34 states and three Canadian provinces.

The School Bus business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students.

Our Transit & Shuttle business operates in a number of core distinct sectors across the USA. In Transit, our primary focus is on paratransit. Meanwhile, our Shuttle business, operating largely through WeDriveU, offers corporate employee shuttle services to technology, biotech and manufacturing clients, and is also growing in the universities shuttle market.

Revenue (+8% against 2021) **$1,296.8m**	**Revenue** (+20% against 2021) **£1,048.2m**
Underlying Operating Profit (-17% against 2021) **$84.7m**	**Underlying Operating Profit** (-8% against 2021) **£68.4m**
Statutory Operating Profit (-75% against 2021) **$15.8m**	**Statutory Operating Profit** (-73% against 2021) **£12.7m**
Underlying Operating Margin (-190bps against 2021) **6.5%**	

Overview

Overall, North America revenue increased by 8.3% to $1,296.8m, with growth in both our School Bus and combined Transit & Shuttle operations. However, Underlying Operating Profit declined to $84.7m with an Underlying Operating Margin of 6.5% reflecting the impact of driver shortages, investment in driver wages and route reinstatement delays. After separately disclosed items, statutory operating profit was $15.8m (2021: $63.8m). The increase in separately disclosed items relates to onerous contract provisions and impairments directly attributable to the post-covid market wide issue of driver shortages.

Revenue growth and service recovery

Our School Bus operations delivered an 8% revenue improvement versus the prior year, as schools returned to full in-school learning. Industry-wide labour issues, with high levels of wage inflation and driver shortages continued to act as a brake on our growth.

We ended FY 2022 having added over 900 net new drivers (compared to the end of the prior school year 2021/22), through enhanced recruitment processes, wage investment and focus on retention, which enabled us to close the driver gap by one-third. Route retention also progressed well, with about one-quarter of routes now reinstated.

As we have added drivers we have:

- released managers and other admin staff from driving roles so that they can focus on recruitment, training and deployment, route reinstatement and running our operations more effectively;
- undoubled routes. Doubled routes are those where, through necessity, one driver covers two combined routes and students experience much longer journeys to and from school. Our customers are keen to ensure that we return to single routes (undoubling) before we reinstate missing routes. Addressing this issue does not add to route count but is beneficial to revenue and profit (as doubled routes are not often paid at 100%) and it ensures we are satisfying our customers' priority needs leading to better contract retention and ability to seek price increases.
- reinstating routes we have been unable to run. This requires discussion with and agreement from our customers and as a result there is a timing lag between drivers being added and routes being reinstated. As the current school year progresses there is a risk that customers will be less inclined to reinstate routes for short periods of the remaining academic year and so we anticipate the next opportunity to significantly add routes will come with the beginning of school year 2023/2024 in September 2023.

Progress was also made in respect of recovery of the driver wage investment. Of the 40% of the portfolio that was renewed in the year we achieved rate increases of 10.3% (7.1% across the portfolio) compared to total wage increases of 10.1%.

In Shuttle (2022 revenue +21% versus 2021), we have seen the benefit of the majority of customers returning to their workplaces, which drove demand for our services. There was a 96% increase in service levels in 2022 vs 2021 noting that customers had continued to pay through 2021 regardless of service levels. We continued to diversify our activities away from technology-focused corporate customers towards a more balanced portfolio including biotechnology, education, and manufacturing: each of which has different drivers of demand in the end-markets we serve.

In Transit 2022 revenue was broadly flat on prior year. We saw a progressive improvement in service volumes, as well as the full-year impact of the actions we have previously undertaken to exit loss-making contracts.

The reduction in North America underlying operating profit largely came in School Bus, where wage inflation and route reinstatement delay were the main factors. As referenced above, the price recovery of wage inflation was successfully renegotiated on 40% of our contracts. In addition, we negotiated unprecedented out-of-cycle wage increases with a number of customers given the exceptional inflationary environment.

While our Transit & Shuttle operations have not been immune from underlying wage inflation and driver availability, the full-time nature of employment means that we do not compete against other pools of more casual or seasonal labour and were therefore less impacted than School Bus. We brought Transit & Shuttle under one management team creating benefits including a single Business Development and Customer Insights team that is capable of converting the significant opportunities in this sector.

We were awarded 21 new contracts during the year, worth over $100m over their base terms. Key wins included the Greater Richmond Transit Company, Alexandria Real Estate in Boston and Washington University in St Louis.

Progressing Evolve

Building on a strong performance in the prior year, we were pleased to record our best ever year for safety in North America in 2022 - in particular a further 16%

North America continued

reduction in speeding events - with the Driver Safety Scorecard continuing to be an important part of our overall safety programme. In those Customer Service Centres ("CSCs") in Canada where we received customer approval to do so we have installed driver safety cameras in over 80% of our vehicles and will complete the remaining installations in 2023. We have also made more use of technology to track both training and driving evaluation results in order to drive further improvements in safety.

We made continued progress with our aim to be the most reliable with operational transformation of School Bus in 2022, driven by the accelerated roll out of our digital operating platform. This has now been rolled out to 110 of our CSCs and has enabled us to automate and optimise wage control process. In addition, we deployed OPERATE, with over 350 of our leaders now trained, and the utilisation of this framework has delivered improvements in our approach to managing driver costs, routing efficiencies and the driver recruitment process. We have also seen further operational improvement in our School Bus business, with our excellent rate of preventable maintenance compliance indicative of the significant progress we have made over the last four years, particularly in terms of reducing cost per mile – and we opened our sixth parts reclamation centre during the year to safely dispose of redundant buses and reuse valuable parts.

During the year, we made further progress with our ambition to be the environmental leader. Working with our customers to access the Zero Emission Transit Fund in Canada and the Clean School Bus Program in the US, we added further ZEVs to our fleet. In addition, we successfully secured $30m in funding for 77 electric school buses and infrastructure to be deployed in the year ahead and will continue to pursue further funding in pursuit of our goal of 150 electric buses in 2023. Supporting our environmental targets, we continued to develop key partnerships with vehicle OEMs on technology integration relating to battery and charge management, route analytics for optimal efficiency, life cycle management and appropriate vehicle battery sizing, as well as address shortcomings such as range and ancillary loads.

We won Transportation Demand Management ('TDM') Excellence Award from the Association for Commuter Transportation with a number of our Shuttle customer programs being recognised with 'Best Workplace for Commuters' and 'Best Universities for Commuters' awards in 2022. This demonstrates our ability to win contracts based on our success to deliver outstanding customer service. We are also making further improvements to our customer service, using our digital customer management platform across our School Bus and Transit & Shuttle businesses to drive further efficiencies, from relationship mapping and account plans to automated customer surveys. Our BusZone app, introduced in Q4 2022, enables parents to track their child's school bus and receive real time updates. Although still in the early pilot stages, we look forward to bringing this app to more parents across additional locations in the future.

Consistent with our commitment to being an employer of choice, we are encouraged that the various employee initiatives we have implemented have contributed to a strong improvement in driver retention rates to circa 80%, a 500-basis point improvement versus 2021 and well above the average since 2015. We also saw a very positive response to our driver recruitment strategy to reach active job seekers, which was supported by targeted resource to focus on high volume sourcing in priority markets and locations.

Looking forward

Although we have made significant improvements to our underlying process in 2022, driver shortages and route recovery in our School Bus business remain the key factors in determining the pace of revenue and recovery in the short term. We expect the gap between driver additions and route additions to close over the remainder of this school year and into the next one. As the remainder of our contracts come up for renewal over the next two school years, we expect to see further improvement in the recovery of driver wage.

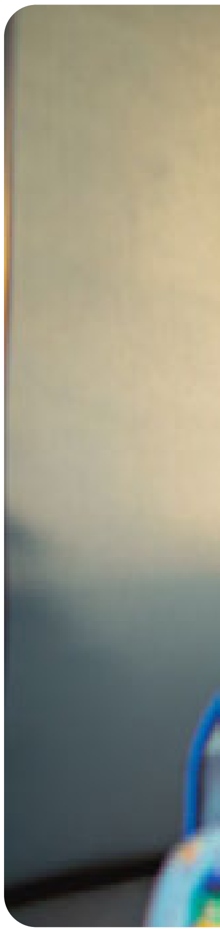
We have a strong pipeline of bidding opportunities over the next 18 months, worth circa $700m predominantly in the asset-light Transit & Shuttle businesses. In addition, we continue to see expansion bid opportunities in markets where we have existing Transit & Shuttle infrastructure, such as Los Angeles, Austin and Boston.

Our Shuttle business is well positioned to work with fast-growing corporations, who are seeking to attract the best talent and are providing private transport where public services do not exist or are not practical (due to restrictions on parking or high levels of congestion). We can share drivers, vehicles, maintenance staff and administrative costs in locations we own in our business, to capitalise on future opportunities, by maximising efficiencies and synergies. We have already successfully implemented this in Transit & Shuttle locations in Boston and Chicago.

Having restructured and combined our Transit & Shuttle activities in 2022 to bring them under a single management team, we see potential for future synergies; these include operating from combined depots and leveraging our digital customer management platform to identify opportunities across our combined customer base, as well as adopting common processes to drive key strategic outcomes (such as on-time performance and recruitment/retention).

Gary Waits
CEO: School Bus

Erick Van Wagenen
CEO: Transit and Shuttle



Case Study

Transforming our recruitment processes

Our strategic priorities in action

Our School Bus operations have faced significant challenges in the face of the industry-wide shortage of drivers in the US. In response to these challenges, we developed a multi-pronged strategy to expand our reach to active job seekers, with a series of new recruitment measures introduced across each of our Customer Service Centers (CSCs), in order to rapidly recruit new drivers.

These actions included: building on our support model by adding centralised recruiters to our School Bus HR team; increasing investment in online recruitment, with job postings on all the leading online recruitment websites; raising our brand awareness with third party recruitment agencies through new, company-sponsored content, branding and targeted advertisements; and improving our company website career page and also with Glassdoor.

As a result of these additional measures we have seen a 30% increase in driver applications over the prior year which is enabling us to address the driver shortages being experienced across the US.

30% increase in driver applications over the prior year

Tom Stables

Revenue
(+33% against 2021)
£528.3m

Underlying Operating Profit
(Loss of £7.5m in 2021)
£25.6m

Statutory Operating Profit
(Loss of £46.4m in 2021)
£18.1m

Underlying Operating Margin
(2021: n/a)
8.2%

Divisional Review

UK

National Express operates both Bus and Coach services in the UK and regional Rail in Germany.

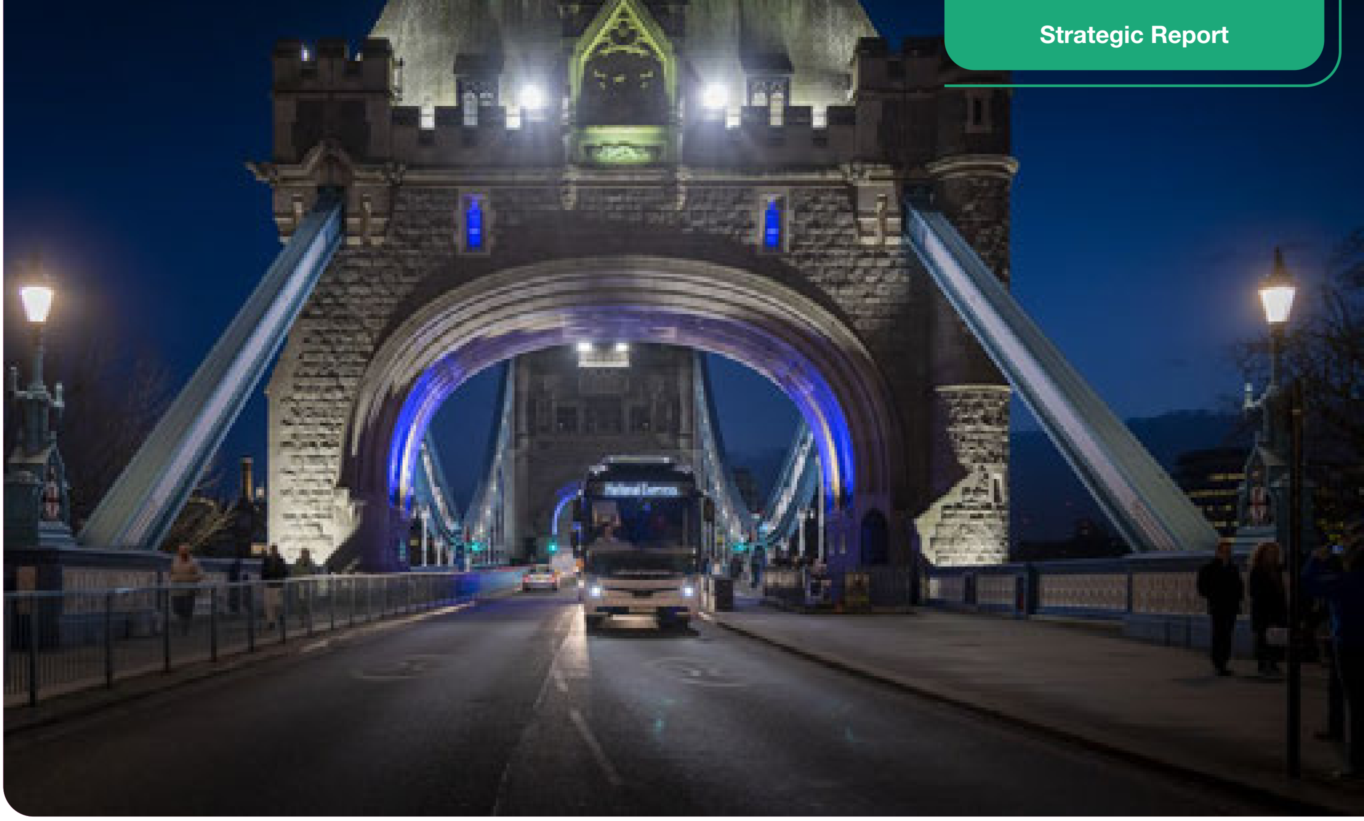
In UK Bus, National Express is the market leader in the West Midlands – the largest urban bus market outside London. In UK Coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services across the country. We also operate non-scheduled coach operations under one brand – National Express Transport Solutions – serving the fragmented commuter, corporate shuttle, private hire, accessible transport and holiday (under the Touromo brand) markets.

Overview

The UK delivered strong revenue growth, with a sequential improvement in Underlying Operating Profit following a challenging first half which was impacted by Omicron. Revenue was up 32.8% to £528.3m, with the recovery largely driven by UK Coach. The division returned to Underlying Operating Profit in H2 to deliver a full year outturn of £25.6m (2021: Underlying Operating Loss of £(22.6)m) and an Underlying Operating Margin of 4.8%. After separately disclosed items, the statutory operating profit was £18.1m, a year-on-year improvement of £64.5m reflecting recovery in passenger numbers as well as lower separately disclosed items

Revenue growth, return to profit, passenger recovery

Our UK Bus operations benefited from a continuing upward trend in demand, with commercial passenger growth of 39%. During the year, we received government funding support, including the Bus Recovery Grant which has now been extended to June 2023. Additionally, we continued to freeze our fares at pre-pandemic rates, funded by the West Midlands' region Bus Service Improvement Plan ('BSIP'), giving us the cheapest travel of any city area in England. These funded fares freeze allows us to continue to build patronage and drive modal shift at a time when many customers are considering making the switch to public transport. We also upgraded our digital ticketing systems during H2, which has already reduced fraud and improved the range of digital tickets we can offer; well over 80% of passengers now board with a digital ticket of some description, which allows us to leverage the resulting data to build future demand.



UK Coach delivered progressive year-on-year revenue growth with a strong recovery from March onwards. This was supported and driven by the dynamic rebuilding of the network to match new and emerging demand patterns to help deliver higher frequencies and faster journey times on key intercity routes. This ability to respond quickly has been made possible by the strong relationships with our Partner Operators and the ongoing integration of our Transport Solutions business, to optimise utilisation of spare vehicle and driver capacity to customer demand.

In our scheduled Coach operations – which celebrated its 50th anniversary in 2022 – overall patronage grew 150% on previous year, with H2 of 2022 up 37% on H1. As demand improved during the year, we continued to add capacity as a result of a smarter network and pricing interventions, our occupancy averaged 72% (significantly above pre-Covid levels, the yield in UK Coach was up 15% versus pre-pandemic levels). Encouragingly for the future, our research shows that almost 10% of new customers using our scheduled network during the strikes bought another ticket within a month to travel on a non-strike day.

Our Transport Solutions business also delivered a strong uplift in revenue, albeit versus a relatively low base in 2021, benefiting from recovery in private hire and holiday demand as travel restrictions eased post-pandemic. Having merged with our scheduled Coach business, both our business lines are now better placed to optimise scarce capacity in order to maximise customer demand.

2022 was a successful year for new business wins with over 30 wins across our transport solutions and events businesses. Among these, in Transport Solutions, we secured our first ZEV Shuttle contract, providing services to the Harry Potter World studio tour. Our second UK Demand Responsive Transport ('DRT') contract in the East Midlands with Leicester City Council reinforced our multi-modal expansion capability. We also saw returning confidence from larger B2B customers such as Next Generation Travel and delivered key one-off events including rail contingency services for the Commonwealth Games, the Tyson Fury fight at Wembley and US Navy shore leave provision in Southampton.

Progressing Evolve

During the year, we continued to make good progress versus our strategic objectives.

On safety, we continued to deliver very strong results, with initiatives such as investment in Virtual Reality driver simulators, the standardisation of driver and operator oversight and digital risk profiling helping to drive further improvements in FWI. As a result of this innovative approach, drivers are able to enter into service earlier than with traditional training and, encouragingly, we have seen a 20% reduction in collisions and a 15% reduction in risk profile in addition, we secured a 5-star audit from the British Safety Council and our sixth Sword of Honour accreditation. At the same time, our investment in people showed positive results, with record numbers of apprentices, graduates and management trainees building our capability for the future, and our ongoing focus on diversity and inclusion, wellbeing and health helping to ensure that we are seen as an employer of choice.

Our OPERATE transformation programme delivered further tangible improvements in our ambition to be the most reliable in 2022. For example, in UK Bus, we opened a new depot in Perry Barr, which has state-of-the-art design to optimise our environmental footprint and operational efficiencies. We also redesigned and reconfigured our UK core Coach network, to deliver higher frequencies and faster journey times (particularly on key intercity routes), increased utilisation, better interchanges, and efficiency savings, all of which with a view to delivering an improved customer experience.

Our net zero emission fleet targets are ambitious for a large public transport operator and remain on track to deliver in line with expectations. We now have 105 ZEV buses in service - and a further 375 approved and awaiting arrival – including Coventry where we are lead operator in the UK's first all-electric city. As part of our partnership, Transport for West Midlands ('TfWM') has secured funding for more than 100 hydrogen buses through the Zebra scheme, underscoring our commitment to help reinvigorate public transport. At the same time, as the number one Coach operator in the UK we are leading the industry in developing zero emission coaches for the future.

We continue to make progress on our aim to have the most satisfied customers. For example, the roll-out of our digital AI-enabled platform, which we are now using across our UK Bus business for timetable optimisation and service planning, is already delivering meaningful improvements in customer service, efficiency and revenue growth. Our Coach customers are also benefiting from a quicker, more streamlined online experience, resulting in higher spend per transaction as customers use new, more convenient ways to pay.

Looking forward

While we benefited from strikes elsewhere in public transport in 2022, our service levels have progressively grown, and we are encouraged by the momentum we have seen at the end of the year.

Our pipeline of bidding opportunities over the next 18 months is worth circa £240m. In Bus we will continue to benefit from longer term funding through the City Region Sustainable Transport Settlement ('CRSTS', £162m) which will double the length of priority bus lanes in the West Midlands. This will reduce journey times and improve punctuality and, as a result, increase passenger revenue and reduce our running costs, as well as underpin our low fares strategy. From January 2023, we are also receiving the Bus Fares Cap Grant to support the £2 single fare with a successor scheme in place for April 2023 onwards. BSIP provides a three-year funding platform to drive passenger growth and reinvigorate the network.

The start of 2023 has been encouraging, with continued passenger demand and contract growth in all businesses. Although the recruitment market remains tight, we have a strong employer proposition and as a result have full candidate pipelines; we expect vacancy gaps to be negligible by the Summer. Driver and engineering pay demands have reflected the national picture, and we anticipate these returning to normal levels as CPI reduces.

Tom Stables
CEO: UK and Germany

Case Study

Transforming our Coach network

Our strategic priorities in action

We implemented a major rebuild of our Coach network in 2022, redesigning the route network to better reflect the changing travel patterns in a post Covid-19 world, to deliver improved customer satisfaction and operational efficiencies.

With the first quarter of 2022 service provision impacted by Omicron, we used the opportunity to redesign a more optimal network, providing a strong platform to then rapidly ramp up our services over the course of the year. The new network offers higher frequencies of departures, faster journey times of key intercity routes and fewer interchanges. Operationally, the new network allows us to reduce unproductive hours and miles and increase asset utilisation.

The new network also allows us to deliver on a number of key Evolve outcomes: most satisfied customers; most reliable; and employer of choice.

Delivering improved customer satisfaction and operational efficiency

Divisional Review

Germany

Tom Stables

Revenue
(+49% against 2021)
€315.0m

Underlying Operating Profit
(+255% against 2021)
€20.7m

Statutory Operating Profit
(Loss of €28.0m in 2021)
€8.4m

Underlying Operating Margin
(+290bp against 2021)
5.6%

Revenue
(+48% against 2021)
£268.5m

Underlying Operating Profit
(+252% against 2021)
£17.6m

Statutory Operating Profit
(Loss of £24.1m in 2021)
£7.2m

In Germany, we are the second largest rail operator in the German federal state of North Rhine-Westphalia ('NRW') and within the top five private operators in Germany. We are the sole operator of the Rhein-Ruhr Express ('RRX'), which is one of the most important railway infrastructure projects in NRW.

The RRX covers a total of 16m train kilometres and connect major cities (including Cologne, Duesseldorf, Koblenz and Kassel), with 55 to 60m passenger journeys taken in 2022.

Following the long-term award of the Lot 1 tender in early 2023, we now run all three asset-light RRX services under long-term contracts which, together with our Rhein—Munster Express ('RME') operation, will deliver an expected 20m train kilometres in 2023. Our successful mobilisations, at very short notice and on time, showcase our significant know how and ability to work closely with local transport authorities, driving operational transformation and ultimately providing strong credentials to bid and win. Securing the full RRX operation over the long-term (of which more below) provides greater visibility on revenues and builds on our existing services within the region, helping to drive operational and cost efficiencies across our network.

Overview

German Rail delivered a good result in 2022. Revenue growth of 48.7% to €315.0m reflects the successful mobilisation and delivery of the short-term Emergency Award of the RRX Lot 1 in February 2022 and the impact of energy and inflation pass-through mechanisms in our contracts, which offset higher costs, albeit the RRX Lot 2/3 contract continued to utilise onerous provisions

Underlying Operating Profit reached €20.7m, reflecting operational synergies and economies of scale, with the German rail operation now reaching a critical mass that will support our future growth ambitions in the region.

After separately disclosed items, the statutory operating profit was €8.4m (2021: statutory operating loss of €28.0m). Separately disclosed items include a further €10.9m increase to the onerous contract provision on the original RRX contract in relation to traction energy costs that were not covered by the contracts compensation mechanism.

Progressing Evolve

We have continued to improve safety performance through our focus on driver performance, training and development. Our non-technical skills training was rolled out to all new drivers as the Emergency Award (RE1 & RE11) embedded during the year. This training supplements the extensive use of Driver Simulators that form a core part of our driver development programme.

We have focussed on reducing causes of unreliability that are in our control and to minimising the impact of broader DB Network issues. Our Engineering team have used OPERATE principles to reduce maintenance time and costs, thereby increasing fleet availability and service reliability. We have recently employed 3D printing techniques for certain parts to speed up processes. Our control centres have been enhanced to manage the excess passenger demand caused by the nationwide 9€ fare scheme.

In pursuit of our ambition to be the environmental leader are rolling out driver management training to minimise electricity consumption and are replacing traditional lighting with LED on our vehicles. Our trains all use regenerative braking. Our trains are inspected in service by external PTA assessors to ensure we monitor progress against our goal of having the most satisfied customers, and we have improved the customer facilities on our trains.

We have focussed heavily on recruitment and retention in the last year, ensuring all our staff feel valued. Our engagement survey results were encouraging and highlighted where NX could continue to differentiate ourselves from the rest of the industry. We are a leading member of FocusBahn which looks to promote Rail Careers to all members of society, as a result we are seeing an increase in applications from female candidates.

Germany continued

Looking forward

In early February 2023 we were informed that we had secured the RRX 1 Lot 1 tender, a contract worth €1bn in revenue over 10 years, due to start from mid December 2023 and running through to 2033.This new business win establishes us as the leading private operator in the region and provides us with long-term visibility and a platform for growth. As a result, we are well placed to consolidate and compound our existing contracts and continue to grow our market share in NRW through the selective bidding for asset-light rail franchises, with a pipeline of opportunities worth circa €315m over the next 18 months.

In addition, we expect to continue to benefit from backing from the German government to support modal shift. Following their very successful recent scheme allowing unlimited travel across the German rail network for a fare of €9 (in response to the rising cost of living and energy crisis) a successor initiative has been introduced at €49 per month for unlimited travel. Operators are compensated for this where they have revenue exposure, as we do on RME.

One of our main areas of focus for the year ahead will be to recruit, onboard and develop the necessary talent, and strengthen the leadership team, to support the significant growth trajectory we have delivered (with revenue growth of over 400% since 2019).

We expect that the delivery of stable revenue and cash flows from contracts, with price increases protecting against energy and labour-related cost inflation, will result in a relatively asset-light business with very attractive levels of return on capital.

Tom Stables
CEO: UK and Germany

Case Study

Using digital technology to drive operational transformation

Our strategic priorities in action

In Germany, we are using digital technology to drive operational transformation in the business. In 2022 we launched the NX Technology Lab. With this new facility we are able to showcase new technologies for use in the maintenance of our trains, allowing us to both test and undertake new projects.

A great example of this is the installation of a 3D printer which we are using to produce either urgently needed or obsolete parts. This 'additive manufacturing' is being used to design spare parts more quickly, saving time, improving efficiency and avoiding long periods of downtime for our train units – helping us to become 'the most reliable' partner to our local passenger transport authorities.

Saving time, improving efficiency and avoiding long periods of downtime

James Stamp

Record revenue of £2.8bn, exceeding 2019 levels

£197.3m Underlying Operating Profit

After separately disclosed items, a statutory loss after tax of £220.7m

£160.5m of free cash flow, representing 81% conversion

£0.8bn in cash and undrawn committed facilities

CFO's Review

Summary Income Statement

	Underlying result[1] 2022 £m	**Separately disclosed items[1] 2022 £m**	**Total 2022 £m**
Revenue	**2,807.5**	**–**	**2,807.5**
Operating costs	**(2,610.2)**	**(355.8)**	**(2,966.0)**
Operating profit/(loss)	**197.3**	**(355.8)**	**(158.5)**
Share of results from associates	**(0.4)**	**–**	**(0.4)**
Net finance costs	**(51.0)**	**–**	**(51.0)**
Profit/(loss) before tax	**145.9**	**(355.8)**	**(209.9)**
Tax	**(30.3)**	**19.5**	**(10.8)**
Profit/(loss) for the year	**115.6**	**(336.3)**	**(220.7)**

	Restated[2] Underlying result[1] 2021 £m	Separately disclosed items[1] 2021 £m	Restated[2] Total 2021 £m
Revenue	2,170.3	–	2,170.3
Operating costs	(2,083.3)	(123.2)	(2,206.5)
Operating profit/(loss)	87.0	(123.2)	(36.2)
Share of results from associates	(1.0)	–	(1.0)
Net finance costs	(46.3)	(1.4)	(47.7)
Profit/(loss) before tax	39.7	(124.6)	(84.9)
Tax	(12.0)	19.8	7.8
Profit/(loss) for the year	27.7	(104.8)	(77.1)

1 To supplement IFRS reporting, we also present our results on an Underlying basis which shows the performance of the business before separately disclosed items. These principally comprise intangible amortisation for acquired businesses, impairment of goodwill, certain costs arising as a direct consequence of the pandemic and onerous contract charges in respect of driver shortages in North America. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on pages 291 to 293.

2 Restated for correction to deferred tax assets and liabilities. Please see note 2 to the Financial Statements.

The year began with the Omicron variant of covid causing disruption across the business, particularly in the UK division. However, despite this, passenger numbers and revenue grew strongly resulting in revenue of £2,807.5m for the year; a record for the Group and an increase of 29.4% (24.3% on a constant currency basis) year-on-year.

Revenue growth was underpinned by a strong and sustained recovery, building in the second half of the year, in our coach, bus, and shuttle services as shown below:

	2022 vs 2021 passenger growth %	H2 vs H1 2022 passenger growth %
UK bus	**39%**	6%
ALSA urban bus	**15%**	4%
UK scheduled coach	**151%**	37%
ALSA long haul	**64%**	31%
Shuttle	**96%**	6%

Revenue growth has been achieved despite a net £106.2m year-on-year reduction in Covid-related revenue support from governments and transport authorities as passenger fares replace Covid grants. As set out in the table below, grants received in the year totalled £56.7m (2021: £162.9m), falling from 7.5% of Group revenue in 2021 to 2.0% in 2022 as passenger numbers and service levels recovered.

	Revenue support £m	Cost support £m	Total £m
ALSA	22.0	–	22.0
North America	–	55.9	55.9
UK	19.6	19.1	38.7
German Rail	15.1	–	15.1
Total – full year 2022	**56.7**	**75.0**	**131.7**
Total – full year 2021	162.9	64.5	227.4
Total – full year 2020	115.6	45.6	161.2

The Group recorded an Underlying Operating Profit for the year of £197.3m (2021: £87.0m), representing a strong recovery from H1 which was impacted by Omicron particularly in the UK.

The year-on-year improvement in an Underlying Operating Profit of £110.3m reflected the increase in revenue described above, combined with continued cost control, which more than offset significantly reduced support from governments and transport authorities. The combined Covid-related revenue and cost support from governments and transport authorities of £131.7m is a reduction of £95.7m from the £227.4m recognised in the prior year. We anticipate little or no further Covid-related support going forward.

After £355.8m (2021: £123.2m) of separately disclosed items, of which £260.6m related to the non-cash impairment of goodwill in ALSA, the statutory operating loss was £158.5m (2021: £36.2m loss). The impairment of goodwill in ALSA was caused by a rise in risk free interest rates used to discount cash flows. The trading prospects for our ALSA business are unchanged.

Underlying net finance costs increased by £4.7m to £51.0m (2021: £46.3m) reflecting the increase in interest rates during the year, which impacted the 20% of the Group's Net Debt that is at floating rates of interest. After finance costs and a loss of £0.4m from the share of results from associates (2021: £1.0m loss), the Group recorded an Underlying Profit Before Tax of £145.9m (2021: £39.7m).

The Underlying tax charge was £30.3m (2021: £12.0m credit) representing an Underlying effective tax rate of 20.8% (2021: 30.2%). The statutory tax charge was £10.8m (2021: £7.8m credit). Tax losses in most jurisdictions have been recognised as deferred tax assets with forecasts of future profits supporting their utilisation.

The Statutory Loss for the year, after the separately disclosed items explained below, was £220.7m (2021: £77.1m loss).

CFO's Review continued

Separately disclosed items

£355.8m (2021: £124.6m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £49.3m (2021: £44.4m) resulted in cash outflows in the year.

	Income Statement 2022 £m	Income Statement 2021 £m	**Cash 2022 £m**	Cash 2021 £m
Intangible amortisation for acquired businesses	**(37.2)**	(38.8)	**–**	–
Goodwill impairment	**(260.6)**	–	**–**	–
	(297.8)	(38.8)	**–**	–
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(7.6)**	(41.0)	**(17.0)**	(31.5)
Onerous contract charges and impairments in respect of North America driver shortages	**(31.4)**	–	**(11.7)**	–
Re-measurement of the Rhine-Ruhr onerous contract provision	**(9.3)**	(27.9)	**(9.6)**	(1.5)
Restructuring and other separately disclosed items	**(9.7)**	(15.5)	**(10.9)**	(10.3)
Separately disclosed operating items	**(355.8)**	(123.2)	**(49.3)**	(43.3)
Interest charges directly resulting from the Covid-19 pandemic	**–**	(1.4)	**–**	(1.1)
Total (before tax)	**(355.8)**	(124.6)	**(49.3)**	(44.4)

Consistent with previous periods the Group classifies the £37.2m (2021: £38.8m) amortisation for acquired intangibles as a separately disclosed item.

A non-cash impairment of £260.6m in respect of goodwill in the ALSA division has been recorded. This is as a result of significantly increased discount rates, reflecting increases in government bond yields and the cost of debt, and does not reflect any change in management's assessment of the long-term prospects for the ALSA division, which continued to perform strongly during 2022.

£7.6m (2021: £41.0m) of directly attributable losses due to Covid-19 reflected the remeasurement of previously recognised onerous contracts; with some contracts performing better than previously expected and some performing worse. This charge does not include any new onerous contract provisions in 2022. The cash outflow of £17.0m was higher than the income statement expense as it related to the utilisation of onerous contract provisions booked in previous years. This cash outflow is expected to materially reduce going forwards. Going forward, we do not expect further separately disclosed items in respect of onerous contracts other than re-measurements of items previously recorded.

A £31.4m charge was recorded in respect of a number of new onerous contracts and associated impairments directly attributable to the post-covid market wide issue of driver shortages, in the school bus market in particular. This has resulted in both an increase in wages (to retain and recruit) and a reduction in service levels, and hence a reduction in profitability of certain contracts. The total £31.4m expense comprises £16.6m of onerous contract provisions, a £7.4m non-cash expense for the impairment of dedicated right-of-use assets on these contracts, and a further non-cash net impairment of intangible assets of £7.4m.

A £9.3m (2021: £27.9m) expense was incurred following the re-assessment of the Rhine-Ruhr Express (RRX) onerous contract in Germany; the charge reflected the impact of increased energy prices. Whilst there is short-term protection from the price cap that has been implemented by the German government until April 2024, it is anticipated that energy prices thereafter will be higher than previously assumed due to ongoing changes in the energy markets as a result of the war in Ukraine.

Restructuring and other costs of £9.7m (2021: £15.5m) principally comprise restructuring costs, fees in relation to the aborted Stagecoach acquisition and other costs in respect of implementation of strategic initiatives.

Further detail is set out in the notes to the Financial Statements.

Segmental performance

	Underlying Operating Profit/(Loss) 2022 £m	Separately disclosed items 2022 £m	Segment result 2022 £m	Underlying Operating Profit/(Loss) 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m
ALSA	**103.9**	**(274.1)**	**(170.2)**	56.6	(26.4)	30.2
North America	**68.4**	**(55.7)**	**12.7**	74.4	(27.9)	46.5
UK	**25.6**	**(7.5)**	**18.1**	(22.6)	(23.8)	(46.4)
German Rail	**17.6**	**(10.4)**	**7.2**	5.0	(29.1)	(24.1)
Central functions	**(18.2)**	**(8.1)**	**(26.3)**	(26.4)	(16.0)	(42.4)
Operating profit/(loss)	**197.3**	**(355.8)**	**(158.5)**	87.0	(123.2)	(36.2)

ALSA's Underlying Operating Profit increased to £103.9m (2021: £56.6m) on the back of a revenue increase of 35% as a result of a strong recovery in Long Haul mobility, growth in Morocco, mobilisation in Portugal, and sustained growth in Urban and Regional. The segment result for ALSA has been impacted by the non-cash impairment of goodwill, as described above.

North America delivered an Underlying Operating Profit of £68.4m (2021: £74.4m). School Bus was impacted by Omicron in H1 of 2022, but the impact was partly offset by the final tranche of CERTS funding of £40.6m (which was an offset against costs). In the second half of the year, the business was impacted by industry-wide driver shortages, with a gap (at the end of school year 2021/2022) of over 2,600 drivers. This is discussed further in the North America divisional update.

The UK's Underlying Operating Profit increased to £25.6m (2021: loss of £22.6m). The UK Coach division has limited contracted revenue and was the most impacted by Covid. The return to profit in 2022 was despite a first quarter that was impacted by Omicron (and delivered an Underlying Operating loss of £12.8m for the first half). Our bus operations were less significantly impacted by Omicron, and seen a continuing recovery in demand, with commercial passenger journeys up 39% year-on-year. The segment result for the UK was impacted by £7.5m of separately disclosed items relating to the re-measurement of existing, Covid-related onerous contract provisions.

German Rail delivered an Underlying Operating profit of £17.6m (2021: £5.0m) as a result of the successful mobilisation and delivery of the Rhine-Ruhr Express ("RRX") Lot 1 and existing RME operations. Our existing RRX Lots 2 and 3 contributed £nil to Underlying Operating profit as they are covered by an onerous contract provision. The Underlying Operating profit uplift reflects the benefits of scale and operational maturity of the business. The Segment Result was impacted by a £9.3m charge to increase the onerous contract provision as a result of higher expected future electricity prices.

Movement in Net Debt

Funds Flow	2022 £m	2021 £m
Underlying Operating Profit	**197.3**	87.0
Depreciation and other non-cash items	**220.8**	213.0
EBITDA	**418.1**	300.0
Net maintenance capital expenditure*	**(184.5)**	(142.1)
Working capital movement	**(1.1)**	33.0
Pension contributions above normal charge	**(7.4)**	(7.2)
Operating cash flow	**225.1**	183.7
Net interest paid	**(47.0)**	(41.1)
Tax paid	**(17.6)**	(19.2)
Free cash flow	**160.5**	123.4
Growth capital expenditure*	**(93.1)**	(134.4)
Acquisitions and disposals (net of cash acquired/disposed)	**(29.5)**	(54.3)
Separately disclosed items	**(49.3)**	(44.4)
Payment on hybrid instrument	**(21.3)**	(5.3)
Other, including foreign exchange	**(105.4)**	65.1
Net funds flow	**(138.1)**	(49.9)
Net Debt	**(1,207.9)**	(1,069.8)

* Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on page 291.

The Group generated EBITDA of £418.1m in the year (2021: £300.0m).

Net maintenance capital expenditure of £184.5m (2021: £142.1m) increased due to the benefit in the previous year of the capital expenditure freeze implemented during the period of peak pandemic impact on the Group. Nevertheless, at a ratio of 0.8 of depreciation, it represented a lower proportionate capital cost than the long-term average, reflecting the utilisation of ‘availability contracts’ (rather than outright purchase) for the operation of electric buses in the UK as well as additional asset-light contracts, such as the new operations in Portugal. At the year-end there was £87.3m (2021: £104.3m) owing to vehicle suppliers in respect of either maintenance or growth capex; this is a material reduction on the £263.3m capital creditor at the end of 2019, reflecting the completion of investments in fleet for the large Morocco contracts won in recent years, combined with the early impact of pivoting towards more asset-light business.

The Group recorded a working capital outflow of £1.1m for the year (2021: £33.0m inflow), with a £40.6m outflow from the CERTS grant in North America (due to the cash being all received in 2021 but the income being recognised over both 2021 and 2022) offset by a combination of strong cash collection across the Group and the close-out of a proportion of the Group’s fuel hedges.

Consistent with previous periods, the Group makes use of non-recourse factoring arrangements. These take two forms:

a. typical factoring of receivables existing at the balance sheet date (principally utilised for School Bus in North America), for which there was £62.5m (2021: £48.5m) drawn down on 31 December 2022 and recognised as a reduction in receivables; and
b. advance payments for factoring of divisional subsidies, for which £50.2m (2021: £77.9m) was drawn down at the end of the year, all in respect of Germany where the cash flow profile of the RME contract is such that it creates a working capital requirement over the first half of the 15 year contract, and we factor certain of the subsidies due in order to ensure that the contract has a cash neutral impact on the Group. The amounts drawn down on these arrangements are classified as borrowings.

Net interest paid increased by £5.9m to £47.0m (2021: £41.1m), reflecting the increase in central bank base rates during the year on the floating component of our debt, whilst cash tax payments were broadly flat year-on-year.

The net impact of the factors outlined above was a free cash inflow of £160.5m in the year (2021: £123.4m), representing conversion (from Underlying Operating Profit) of 81%, significantly above the long-term pre-pandemic average of 65%.

Growth capital expenditure of £93.1m (2021: £134.4m) principally comprised vehicles to service new contracts in ALSA and North America. The year-on-year decrease reflected the significant investment in the Rabat and Casablanca fleets, which had been delivered in the previous year. A £29.5m outflow for acquisitions and disposals includes £19.1m for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor) and £4.8m for the acquisitions in ALSA. £11.8m was outstanding at the end of the year in respect of deferred consideration on acquisitions (2021: £13.4m; 2020: £28.8m), and the remaining put option liability, which is recorded on the Balance sheet, of £45.0m is expected to be paid within the next 12 months.

A cash outflow of £49.3m (2021: £44.4m) was recorded in respect of the items excluded from Underlying results as explained above.

Coupon payments of £21.3m (2021: £5.3m) were made in the year on the hybrid instrument, which was issued in November 2020, raising £495.5m net of costs, and which is accounted for as equity under IFRS. The 4.25% coupon, paid annually in February, is effectively treated as an equity dividend, albeit it is also deducted from earnings for the calculation of earnings per share when calculating dividend cover.

Other movements of £105.4m (increase to Net Debt) principally reflect the movement in exchange rates and settlement of foreign exchange derivatives as a result of the weakening in the value of the pound which increased the value of debt denominated in foreign currencies. In the previous year the pound had strengthened, which had the opposite impact.

Net funds outflow for the period of £138.1m (2021: £49.9m outflow) resulted in Net Debt of £1,207.9 million (2021: £1,069.8m). For covenant purposes a number of adjustments are made, as explained in the glossary of Alternative Performance Measures on page 26, resulting in Covenant Net Debt of £985.8 million (2021: £866.6m).

Dividend

After careful consideration, the Board is pleased to reinstate a dividend, reflecting the strong outlook for the business and recognising it needs to be done prudently and alongside a continued focus on the pace of deleveraging and maintaining sufficient investment capacity for growth.

As a result, a full year 2022 dividend of 5.0p per share is recommended for approval at the AGM. This equates to a dividend cover of approximately 3.0x (after adjusting for the coupon on the hybrid bond).

Our policy is to maintain a dividend cover ratio of at least two times. Reinstating at a higher level of cover represents a prudent approach to balancing deleveraging, investment and shareholder returns, and allows room for future growth. In future, the Board intends to pay an interim dividend of approximately one third of the prior full year dividend.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating.

In light of the impact of the pandemic on EBITDA generation, the Group renegotiated its covenants in previous years. The Gearing covenant (Net Debt to EBITDA, measured on a "frozen GAAP" basis excluding the impact of IFR16) had been waived by the lenders throughout 2020 and 2021 and amended during 2022 (with an amended Gearing covenant of 5.0x applying on 31 December 2022). In future periods the Gearing covenant reverts to the pre-amended level of 3.5x. Similarly, the interest cover covenant was amended to a minimum of 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively and returned to its pre-amended level of 3.5x from 30 June 2022 onwards. In return for these waivers and amendments to the covenants the Group agreed to a quarterly £250m minimum liquidity test and a bi-annual £1.6bn maximum Net Debt test during the amendment period; these additional tests drop away after 31 December 2022. In addition, the Group agreed to pay no dividend during the period of the amendments if Gearing exceeded 3.5x or interest cover is below 3.5x. On 31 December 2022, Gearing was 2.8x (31 December 2021: 3.6x); well within the pre-amended level. Interest cover at the end of the year was 8.6x (31 December 2021: 6.3x); also, well within the covenant level. All covenants are on a pre-IFRS 16 basis.

On 31 December 2022, the Group had £1.9bn (31 December 2021: £1.9bn) of debt capital and committed facilities, with an average maturity of 3.7 years. On 31 December 2022, the Group's RCFs were undrawn, and the Group had £0.8bn (31 December 2021: £0.9bn) available in cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	**Facility £m**	**Utilised at 31 December 2022 £m**	**Headroom at 31 December 2022 £m**	**Maturity year**
Core RCFs	527	**–**	**527**	2023-2025
2023 bond	400	**400**	**–**	2023
2028 bond	221	**221**	**–**	2028
Private placement	412	**412**	**–**	2027-2032
Divisional bank loans	146	**146**	**–**	various
Leases	197	**197**	**–**	various
Funding facilities excluding cash	1,900	**1,376**	**527**	
Net cash and cash equivalents		**(233)**	**233**	
Total		**1,143**	**760**	

CFO's Review continued

The utilisation of funding facilities (excluding cash) of £1,376m presented above reconciles to the £1,488m of borrowings listed in note 29 to the financial statements after: adding back £59m of bank overdrafts, which are shown net in the cash and cash equivalents number in the table above; adding £50m of advance factoring liabilities, which are excluded from the above as these are not recognised as borrowings from a lender or covenant perspective; and adding £3m of accrued interest.

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

On 31 December 2022, 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, on 31 December 2022, the proportion of Group debt at floating rates was 19% (2021: 18%).

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. ROCE for the year was 7.7% (2021: 3.4%), which is below our targeted level of returns whilst profitability recovers but represents a significant year-on-year improvement.

Group tax policy

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

Pensions

The Group's principal defined benefit pension scheme is in the UK. The combined deficit under IAS 19 on 31 December 2022 was £42.1m (2021: £95.4m), with the decrease being principally driven by an increase in discount rates.

The principal plan is the West Midlands Bus plan, which remains open to accrual for existing active members only. The deficit repayments on the West Midlands Bus plan will be around £7m per annum, rising with inflation, until 2026. The UK Group scheme was wound up during the year.

The IAS 19 valuations for the principal schemes on 31 December 2022 were as follows:

- WM Bus: £39.7m deficit (2021: £96.1m deficit); and
- UK Group scheme: £nil (2021: £3.8m surplus).

Fuel costs

Fuel cost represents approximately 8% of revenue. The Group is fully hedged for 2023 at an average price of 49.3p per litre; around 56.3% hedged for 2024 at an average price of 50.6p; and around 22.9% hedged for 2025 at an average price of 55.9p. This compares to an average hedged price in 2020, 2021 and 2022 of 37.2p, 37.8p and 37.5p respectively.

Going concern

The Board continues to believe that the Group's prospects are positive. We are diversified geographically, by mode of transport and by contract type and no single contract contributes more than 4% to revenue. Furthermore, a large proportion of the Group's contracts have some form of protection from volatility in passenger numbers. The Group is well positioned to benefit from the future trends in transportation. Public transport is key to increasing social mobility as well as being fundamental to addressing the challenges of congestion and poor air quality.

The Financial Statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. Details of the Board's assessment of the Group's 'base case', 'reasonable worse case', and 'reverse stress tests' are detailed in note 1 to the Financial Statements.

J. Stamp

James Stamp
Group Chief Financial Officer

1 March 2023


National Express
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DISABLED

Risk Management

Committed to managing risk effectively

The Board recognises that the appropriate management of risk is key to the delivery of the Group's strategic objectives. As a leading international transport company, the Group is exposed to an evolving landscape of risks, whether industry-wide or more specific to the Group, which could potentially impact performance or reputation negatively as well as positively. The Board remains ultimately responsible for the effective management of risk in the Group, and is committed to driving continuous improvement and adopting best practice in this crucial area. In addition to the broad strategic responsibilities, the Board:

a. approves the Group Risk Appetite Statement;

b. reviews and approves the Group Emerging Risks;

c. reviews the principal risks faced by the Group and approves the Group Risk Register.

The Audit Committee reinforces the process further by conducting 'deep dive' reviews, either on specific risks or through discussions with divisional leadership teams to challenge their divisional risk registers.

a. Group Risk Appetite Statement

The Board recognises that in continuing to deliver National Express's strategy and achieve our objectives we need to take some calculated risks. However National Express will tolerate a level of risk where it is consistent with our core purpose and values, can be managed effectively and be in line with the expectations of our shareholders and other stakeholders to offer superior returns. The acceptable level of risk is reviewed on an annual basis which defines the tolerance level against key risks by analysing the mitigation actions in place and what additional measures might be needed. This ensures alignment between our view of acceptable risk exposure and the strategic priorities of the Group.

The sectors in which National Express operates are subject to a high degree of political, economic and regulatory risk as well as risks arising from other developments and change including climate, technology, market dynamics and customers' evolving expectations. National Express has different levels of exposure to the risks depending on the geographically very diverse operations. For example, when considering climate change risk, it is highly unlikely that across all our countries extreme weather events will have the same impact or happen simultaneously.

National Express's strategy and objectives, including the focus on the Evolve strategy outcomes are reflective of its risk appetite. National Express has:

- A strategy to create value for shareholders and society in a sustainable way;
- A clear understanding of its risks and opportunities in the transport industry across all geographic regions the business operates in with any future expansion into new regions being subject to deep and rigorous country risk reviews ensuring that the appropriate governance arrangements are in place aligned with the Group's strategy and values; and
- No appetite for risks impacting the safety of our employees, customers or general public, brought on by unsafe vehicles or actions.

National Express is exposed to a universe of risks for which it has a varying degree of appetite and tolerance. In determining its appetite and tolerance for specific risks, the Board and Audit Committee ensures that:

1. Risks are consistent with National Express's core purpose and values, strategy and financial objectives;
2. Risks are tolerated only when high standards of control and mitigation have been implemented and appropriate review and approval has been attained through the Risk Management Framework and improvement and reward is achievable;
3. Risks are actively reviewed and monitored through the appropriate allocation of resources.

The Board remains ultimately responsible for determining the nature and extent of the risk it is willing to take to achieve strategic objectives, ensuring an effective management of those risks in the Group, and is committed to driving continuous improvement and adopting best practice in this important area.

b. Group Emerging Risks

Emerging Risks are reviewed and approved by the Board. The Group considers an emerging risk to be one that cannot yet be fully assessed and is not currently having a material impact on the business, but has a reasonable likelihood of impacting future strategy or operations. The Group's approach to managing emerging risk exposure is to:

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

As part of the process to identify emerging risks, Group businesses continue to monitor events that may develop anywhere in the world which have the potential to become global (e.g. a health pandemic, political conflict, climate/ weather catastrophes) or to impact specific local markets where the Group operates. From a very wide universe of potential emerging risks, the Group has, through the above process, identified a number of risks that warrant closer review. These have been further segregated into those requiring only a monitoring approach at present, and those where actions are being developed alongside the principal risks. Some of the key emerging risks identified relate to disruptive new technology and use of AI, and integrator or aggregators with disruptive operating models. In addition, we are closely monitoring the macroeconomic and geopolitical developments, and the varying impact to our geographical regions. It should be noted that the Group considers some of these areas to bring risks as well as opportunities.

c. Group Principal 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 derived from a combination of a 'top-down' and 'bottom up' approach, and either from the divisional risk registers, because the risk either affects multiple divisions, or is of a materiality in itself that is considered of Group significance. Each of these Group-level risks is then assessed by the Board in terms of its potential impact on the Group and its key stakeholders. The Group prioritises risk mitigation actions by considering risk likelihood and impact.

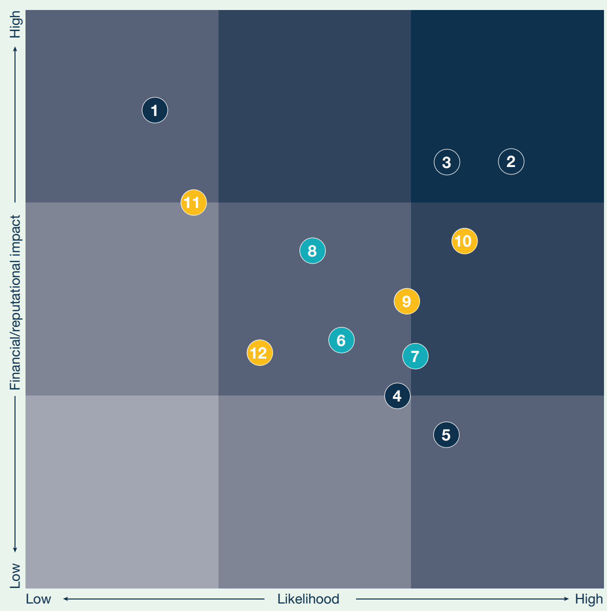
Risk Management Framework and Lines of Assurance

Risk Management Framework

The effective management of risk is embedded in many ways in day-to-day management activities, for example the use of very granular, detailed KPI tracking in monthly divisional reports, or robust due diligence on acquisitions. This is the 'first line' of the Group's risk management structure where internal control and risk management processes are based on the 'Three Lines Model', summarised below.

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

Group Principal Risks



Macro/external risks

1. Unprecedented external factors threatening the resillience of the business
2. Economic conditions
3. Political and geopolitical environment
4. Regulatory landscape and ability to comply
5. Climate changes (physical)

Strategic risks

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

Operational risks

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

Principal risks and uncertainties

Macro/external risks

1 Unprecedented external factors threatening the resilience of the business

Risk movement: N
Risk appetite: ◯

Potential impact
The resilience of the business can be challenged from a number of major incidents such as a future pandemic, a financial crisis, a natural disaster (climate change) and if Group is not able to identify, prepare and test appropriately, it will not be able to act and manage the situation which might lead to significant financial, reputational damages.

Management/mitigation
- Refresh business continuity procedures for different types of incident scenarios
- Review of resources needed (material and human resources)
- Lessons learned and root cause analysis to continuously lean and improve resilience
- Review contracts to ensure they have appropriate exemptions for events of such scale and nature

Opportunity
- Being well prepared, agile and quickly adaptable to manage unpredicted situations enabled us to successfully mobilise and in a short timeframe win an emergency contract in our German rail business, which led to a contract worth €1bn until 2033

Change in risk in the year
- The risk is higher in times of macroeconomic and market volatility where events are unfolding and changing rapidly.

2 Economic conditions

Risk movement: ▲
Risk appetite: ◯

Potential impact
Declining economic conditions, very high inflation rates, high energy prices and cost pressures (particularly following the pandemic) potentially impact demand for travel. Higher inflation rates and labour scarcity have put pressure on labour costs.

Management/mitigation
- Geographical diversification of the Group provides a natural hedge to some economic risk
- Strategic plans are stress tested for differing economic scenarios
- Strong strategic focus on people/talent management and recruitment/retention
- OPERATE applied to key processes to drive efficiencies and improve recruitment
- Ability to receive post-Covid recovery grants

Opportunity
- Despite a generally unsettled economic outlook, demand for public transport continues to be strong
- Due to high fuel prices globally (and rail strikes in the UK) an increasing number of passengers are shifting from the use of personal cars and rail to coaches and buses.

Change in risk in the year
- Economic and market velocity has been a feature of 2022 although there are signs that inflationary pressures are beginning to ease

3 Political and geopolitical environment

Risk movement: ▲
Risk appetite: M

Potential impact
Political instability driven by the war in Ukraine, the threat of recession, labour market disruptions followed by new elections in the UK and Spain, bringing potential policy or regulatory changes to the countries and cities where we operate. Those changes may impact government policy funding regimes which 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.

Management/mitigation
- Constant monitoring of the political landscape and focus on effective stakeholder management
- Political risk is specifically considered when considering bids or new market entry
- The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government
- Focus on operational excellence and delivering value in our franchises and contracts, and to our fare paying customers

Opportunity
- Political and social pressure continues to grow on congestion and clean air, which favours public transport
- Increasing city regulation and investment in public transport
- UK has a number of franchising opportunities

Change in risk in the year
- The risk is higher in times of political and geopolitical volatility where events are unfolding and changing rapidly

Risk appetite

- H High risk
- M Medium risk
- L Low risk
- Not applicable

Change from previous year

- Increase
- Decrease
- No change
- N New

Strategic risks

4 Regulatory landscape and ability to comply

Risk movement: N
Risk appetite: M

Potential impact

In our industry and highly regulated environment, we need to ensure that we are compliant with existing regulations and able to comply with newly introduced ones.

- Changes to the legal and regulatory requirements may impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency
- Financial or reputational cost of failure to comply with changing regulations or legislation
- Approval of the new Sustainable Mobility Act will establish a new framework and concession map in Spain
- Continued intensification and tightening of environmental regulation are creating changes in emissions regulations, restricting operations through clean air zones in various areas
- Introduction of significantly more sanctions and the ability to perform due diligence to our supplier base
- More scrutiny and more and more requirements on companies' compliance programmes such as UK 'SOX'.

Management/mitigation

- Perform regulatory horizon scanning to proactively identify new coming regulations or when considering new market entry
- Appropriate lobbying and communication supporting the Group's position in key regulatory changes
- Comprehensive third party due diligence process to help us identify, manage and mitigate risks
- Continuously improve our compliance programme with the right governance structures in place to ensure oversight and progress in achieving our environmental targets and a good quality reporting.

Opportunity

- Significant sums of money committed to drive public transport projects and modal shift in the UK, the USA and the EU to combat pollution and congestion

Change in risk in the year

- More scrutiny and more requirements on companies' compliance programmes is seen across all geographic regions in which we operate

5 Climate changes (physical)

Risk movement: Increase
Risk appetite: Not applicable

Potential impact

- Loss of a key location to fire or natural catastrophe can result in asset loss and lost revenue
- Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged

Management/mitigation

- Geographical diversification of the Group provides a natural hedge to this risk
- Established emergency and continuity plans in each division
- Insurance coverage is available and in place for some hazard-related risks

Opportunity

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

Change in risk in the year

- Continued increase in extreme weather events around the globe, including hurricanes, storms, floods and wildfires

6 Changing customer expectations in a digital world

Risk movement: No change
Risk appetite: M

Potential impact

- Increasing expectations of customers to be able to buy tickets and manage their travel plans through a variety of digital platforms
- Failure to develop applications and digital channels that meet these increasing expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives

Management/mitigation

- Increasing the proportion of our revenue underpinned by contract (rather than pure retail exposure)
- Developing our technology strategy to allow us to use and surface data via internal and third party customer facing digital channels.
- Developing demand responsive services
- Divisional 'digital scorecards' are reviewed monthly by the Group Executive Committee to monitor the effectiveness of various digital channels

Opportunity

- Millennials are an increasingly important target market and more inclined to use public transportation if the service is right

Change in risk in the year

- Continued increases in bookings through online and digital mobile platforms

Principal risks and uncertainties continued

Strategic risks continued

7 Climate changes and transition to ZEV

Risk movement ▲ | Risk appetite H

Potential impact
- Increasing political and customer demand for ZEVs
- Transition to ZEV involves changes impacting the financing, contracting, maintaining and operating of the assets, creating execution risk
- Requires significant change to infrastructure

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

Opportunity
- ZEVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment
- Clear opportunities to fulfil our vehicle requirements through 'availability contracts', which require no capital expenditure and reduce technology risk, enabling a faster transition
- In the USA, the school bus electrification programme has a remaining funding of $4bn to be distributed which we will have access to.

Change in risk in the year
- Increased ZEV fleet to more than 300
- UK made the first fully commercial order for electric vehicles
- Lead development of prototype FCEV Coach
- School boards in North America are investing in ZEV adoption

8 Competition and market dynamics

Risk movement – | Risk appetite M

Potential impact
- Competition arises from direct price competition; inter-modal (e.g. coach versus rail); and emerging threats such as new market entrants or disruptive technologies
- Changes in customer demographics impact demand and the nature of services required
- Potential 'disintermediation' risk created by aggregators seeking to 'own' the customer relationship
- Active M&A environment creating new or stronger competition

Management/mitigation
- Commitment to service excellence, providing the best solutions to our customers
- Price leadership and value for money
- Revenue trends are closely monitored and RMS deployed
- Investment in technology
- Focus on operational excellence – even with an aggregator model, service delivery is critical
- Targeted acquisitions and growth in the most attractive markets

Opportunity
- Ageing population in major markets creates additional paratransit opportunities
- Continuing urbanisation drives cities to partner with high quality transportation operators
- Weaker transport operators become targets for acquisition or contracts being re-tendered.

Change in risk in the year
- An active M&A environment creating change and new dynamics.

Operational risks

9 Attraction/retention of talent/HR/labour relations

Risk movement ▲ | Risk appetite M

Potential impact
- Increased unionisation, industrial action and/or poor labour relation presents increased risk of strike or operational disruption
- Increased wage costs.
- Lack of available management talent/ leadership skills can inhibit growth
- Shortages in drivers and other key roles can disrupt operations and lead to wage and benefits cost inflation

Management/mitigation
- The Group is committed to employee engagement and invests in a number of retention programmes
- Appropriate training is provided for managers and supervisors
- Reward and recognition programmes are established to further enhance employee engagement
- Focus on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary
- Focus on improving core recruitment and retention process

Opportunity
- Minimising labour related disruption improves our reliability relative to other operators which can drive modal shift or contract change

Change in risk in the year
- Driver shortages in North America school bus expected to last for the entire 2022/23 school year
- Lower unemployment levels in key markets have led to higher pressures on recruitment, retention and cost inflation

Risk appetite

- H High risk
- M Medium risk
- L Low risk
- Not applicable

Change from previous year

- Increase
- Decrease
- No change
- N New

10 Cyber/ IT failure/ Data Protection

Risk movement: No change

Risk appetite: L

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

Management/mitigation
- Continuous investment in organisational and technical measures to protect data assets
- A cyber security strategy aligned with the threat landscape
- Regulatory compliance plans in place, tailored to each division's exposure (DPA, GDPR or CCPA)
- A cyber insurance policy in place
- Continuously improve our compliance programme with reviews from the second and third line, supported by external experts

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

Change in risk in the year
- Increase in prevalence and sophistication of ransomware attacks across the globe targeting all industries
- Cyber security investment continuously supporting further resilience and risk management

11 Safety incidents, litigation and claims

Risk movement: No change

Risk appetite: L

Potential impact
- Major safety-related incident could impact the Group both financially and reputationally
- Higher than planned claims or cash settlements could adversely affect profit and cash outflow
- Non-compliance with regulations can create legal and financial risk
- A security incident (e.g. terrorism) would have a direct impact through asset damage, disruption to operations and revenue loss
- Potential indirect impact from a general reduction in the public's appetite to travel reducing demand and revenue

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

Opportunity
- Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering
- Moving to ZEV is further improving safety

Change in risk in the year
- Two consecutive years of zero preventable fatalities at a time of an increasingly challenging and riskier urban environment.

12 Credit/financing

Risk movement: No change

Risk appetite: L

Potential impact
- A material increase in interest rates would increase the Group's cost of borrowing
- Material tightening in investment grade credit markets could impact the Group's liquidity

Management/mitigation
- Strong relationships with a number of key relationship banks
- Continued monitoring and scenario analysis over covenants
- Appropriate liquidity maintained through committed bank facilities, finance lease programmes and debt capital market issuances
- Close monitoring of receivables and appropriate provisions made for possible non-collection

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

Change in risk in the year
- High interest rates, potential tightening of the credit markets

Viability statement

Assessment of prospects

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

We are diversified:

- No one contract contributes more than 4% to revenue
- Other than during the Covid-19 pandemic, the Group receives only 4% of its revenue in the form of grants and subsidies
- The Group operates in more than 50 cities across 11 countries and across multiple modes or usages of transport

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

- Transport demand continues to grow
- Public transport is fundamental to the long-term solution for the urban challenges of congestion and poor air quality; our ambition to be an environmental leader places us at the forefront of this opportunity

We invest in the business to secure its future:

- We invest in technology to allow customers to access our products at competitive prices and to deliver our services safely and efficiently
- We continue to selectively bid for and win new business, including the recent award of the 15-year RRX Lot 1 contract in Germany, and new wins in School Bus and Shuttle.
- We also continue to invest in inorganic opportunities, such as the acquisition of Vitalia in 2022, facilitating the entry in the paratransit market in Spain.

The Group has strong liquidity, with £0.8 billion of cash and undrawn facilities available as at 31 December 2022. The Group's credit rating is investment grade.

Principal risks and assessment period

The Board reviewed the Group's principal risks (pages 58 to 61), looking at each risk's impact, likelihood and the timeframe over which the risk was likely to reduce Group cash flows. On this basis, the highest impact and highest likelihood risks were considered in modelling a severe but plausible downside to assess the Group's future viability: the specific risks modelled are outlined below. While there are other principal risks included in the Group's risk matrix, these are not considered to have a material financial impact over the assessment period.

The Board concluded that three years continues to be an appropriate timeframe over which to assess the Group's ongoing viability on the basis that the impact and/or likelihood of a number of risks was expected to reduce during that period, including the following:

- **Regulatory:** after repeated delays to the process, the majority of the Spanish long haul coach concession renewals that we intend to participate in are expected to have been concluded within three years
- **Financing:** the Group's next major financing activity will be the replacement of the £400 million bond In November 2023 (for which a bride-to-bond facility has already been secured). This will be followed by the renegotiation of the revolving credit facility ahead of the expiration of the current arrangements in 2025, and the first call date on the hybrid instrument, also in 2025.

Assessment of viability

In assessing viability, the Directors have considered the Group's long-term financial projections (the base case) and have then applied stress tests.

These stress tests have been derived from the Group's principal risks and uncertainties, including the Group's estimates of the impact of climate change (informed by the climate change scenario modelling), using external forecasts (such as those published by the IMF and OECD) to help inform the shape of these assumptions.

Pandemic assumptions

We have not modelled a new 'black swan' event whereby a brand new pandemic surfaces with little to no notice and for which there is no vaccine. In addition we have not assumed any re-imposition of lockdowns or material restrictions to mobility in respect of Covid-19. The Board acknowledged, however, that the Covid-19 pandemic proved that the Group was able to withstand such a shock, albeit with the support of governments and transport authorities and the support of lenders agreeing to waive or amend covenants. The Board considers it highly probable that lenders support to amend covenants would be achieved should such a scenario occur again in the future.

Having been in receipt of Covid-19-related government support in 2020, 2021 and 2022, no further such support is assumed beyond 2022 in either the base case or downside scenario.

Climate change

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

More detail on the Group's assessment of risks and opportunities from climate change is contained in our TCFD disclosures on pages 81 to 94. The key conclusions pertaining to the viability assessment were as follows:

- Given the Group's geographic diversity, operating from hundreds of depots in more than 50 cities across 11 countries, the financial impact of extreme weather events over the five-year viability period was not likely to be material. Nonetheless, for stress test purposes, the financial projections include some level of impact from disruption caused by extreme weather events.
- Risks arising from governments taking concerted action to accelerate reduced emissions were unlikely to cause any material adverse impact over the viability period given that, whilst the vast majority of the Group's emissions are from vehicles, the Group is already targeting industry-leading timescales for transitioning its vehicles to zero emission. Furthermore, the Group is rapidly increasing its expertise in procuring and operating zero emission alternatives to diesel vehicles, and is gaining further operational evidence that such vehicles are economically viable.

All other stress tests

The following downsides were evaluated and modelled as occurring simultaneously.

Economic conditions/driver shortages:

Driver shortages take longer to resolve; cost inflation is more persistent and prolonged, with lower pass-through to customers than assumed in the base case; and customer demand is negatively impacted as a result of reduced disposable income, without any corresponding upside from customers swapping cars for public transport.

Competition and market dynamics:

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

Political/geopolitical/regulatory landscape:

Funding for UK Bus is also reduced as a result of government budget cuts and industrial action by engineers and drivers reduces service levels and profitability.

Cyber/IT failure/data protection:

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

Safety, security incident, litigation and claims:

Following a major safety/terrorism-related incident, either on board our vehicles or in the wider markets in which we operate, there is a reduction in demand for discretionary travel.

Financing

During the viability assessment period a number of borrowing facilities mature, including a £400m bond in November 2023, the £527m revolving credit facility (in stages, but principally in 2025) and £237m of private placement borrowings in 2027. Furthermore, the Group's projections assume a growing business with EBITDA and net debt both growing in absolute terms, whilst maintaining Gearing in the Group's target range of 1.5 to 2.0. If the growth assumed in the base case is achieved, additional borrowing facilities would be required in 2027 in order to maintain liquidity headroom comfortably above the Group's minimum headroom policy. In making the viability assessment the Board has assumed that these facilities can all be replaced or added on appropriate, market-rate terms.

The first call date on the £500m hybrid instrument is November 2025. This is at the Group's option only and the instrument could be rolled over indefinitely unless the Group decides to call it. The second call date is November 2030.

Conclusion

In the unlikely event of a concurrence of events set out above, the Board would mitigate through reduced operating costs (through headcount reductions, rationalisation of the property footprint and cuts in discretionary spending) and capital expenditure (through freezing non-committed, non-fleet expenditure and/or through disposal of assets). During assessment, the Group's continued cash generation, access to liquidity and funding, and mitigation actions demonstrated that it could tolerate the impact of the risk scenarios without exhausting liquidity or breaching covenants.

Viability Statement

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

Non-financial information statement

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

Requirement	Policies which govern our approach	Further information
Environment	– Group Environmental Policy – Health & Safety Policy	• Sustainability Committee Report page 136 • We move people page 76 • Environmental performance data pages 285 to 288 • www.nationalexpress.com/sustainability
Employees	– Equal Opportunities & Diversity Policy – Workplace Rights Policy	• We connect places page 79 • For more information see www.nationalexpressgroup.com/sustainability/policies/
Human rights	– Human Rights Policy – Modern Slavery Policy – Whistleblowing Policy – Privacy Policy	• We act responsibly page 80 • Audit Committee Report pages 128 to 135
Social matters	– Rather than a specific policy, our approach to social matters is framed by our Sustainability and ESG framework	• Sustainability at National Express page 68 and pages 75 to 80
Anti-corruption and anti-bribery	– Anti-bribery and Corruption Policy – Purchasing Policy	• We act responsibly page 80 • Audit Committee Report pages 128 to 135
Policy implementation, due diligence and outcomes	– Anti-bribery and Corruption Policy – Purchasing Policy	• Corporate Governance pages 96 to 171 (including Board activity during the year pages 102 to 104 and Audit Committee Report pages 128 to 135)
Principal risks and impact on business activity		• Risk management pages 56 to 63 • Audit Committee Report pages 128 to 135
Description of business model		• Our business model pages 18 to 23
Non-financial key performance indicators		• Key performance indicators pages 25 to 27

Our 2022 Strategic Report, from the inside front cover to page 294, has been reviewed and approved by the Board.

Ignacio Garat

Ignacio Garat
Chief Executive Officer
National Express Group
1 March 2023


national express

Engaging Our Stakeholders

Colleagues	Passengers and customers	Suppliers
Why they are important to strategy Our people are the heart of our business. They are at the front line of executing strategy, ensuring that our services are the safest and most reliable and that our customers are the most satisfied	**Why they are important to strategy** Our ability to win passenger and customer loyalty and satisfaction in both our B2B and B2C businesses by the provision of safe and reliable services is central to our continued growth	**Why they are important to strategy** Our suppliers partner with us to supply the resources we need to deliver our services, and innovative solutions to continuously improve those services, in furtherance of our strategy. Their success is important to our success
How we engage • Open lines of communication with both Group and divisional management including regular updates and newsletters • Two-way dialogue with the Board through employee engagement forums • Constructive dialogue with trade unions • Employee engagement surveys, including the 'Your Voice' global engagement survey undertaken in 2022	**How we engage** • Local relationships guided by standards set across the Group • Intuitive and highly rated websites, apps and social media, and easily accessible customer service centres • Direct dialogue with transport authorities, school boards and corporate customers • Passenger feedback and customer satisfaction surveys • Through high quality bidding and engagement through the bid process	**How we engage** • Local divisional relationships supplemented by oversight from the Group procurement team • Regular discussions with suppliers about evolving market places, opportunities and collaborating with them to innovate as necessary • Considering suppliers importance to our strategic success when tendering contracts and engaging in contract negotiations • Governing contracts including by formal contract reviews and working with suppliers to ensure compliance with our standards
What they value Our colleagues expect us to look after their safety, health, and wellbeing. They expect a workplace that values diversity and champions inclusion, and an employer that respects their rights. Fair reward and recognition for their work and opportunities for progression are important to them and they value regular and clear communication	**What they value** Our customers and passengers want safe and reliable services. They value consistent service delivery that generates trust. They expect prompt and pragmatic responses to changing demands, and open and honest communication. Increasingly they also want to do engage with socially responsible and sustainable companies	**What they value** Our suppliers want to work in partnership and collaborate with us, investing in relationships over the long-term to achieve mutual benefits. They value good line of sight on placement of orders and fair engagement and payment terms
Delivering for them • We maintain the highest safety standards to protect our colleagues' health and wellbeing • We were the first transport company to adopt the real Living Wage or equivalent • We have increased investment in development programmes • We actively promote diversity and inclusion **Links to KPIs:** FWI, eNPS	**Delivering for them** • Safety is a cornerstone of our culture, and we invest heavily in our safety programme to ensure it remains a priority • We train our employees to offer great service • We adapt our services, develop operational initiatives and invest in technology, to best meet our passengers' and customers' needs **Links to KPIs:** Passenger journeys and FWI	**Delivering for them** • We invest in long-term supply relationships and provide good visibility on orders wherever we can. We have a particular focus on long-term relationships with suppliers of zero emission vehicles and alternative energy supplies • We contract on mutually acceptable commercial terms and meet our payment obligations **Links to KPIs:** ROCE
Market and regulatory factors • Labour laws can impact working conditions and cost of employment • Qualification and training regulations can impact recruitment time • Macro economic conditions and immigration laws can impact access to labour pools • Competitor pay and working conditions can impact recruitment and retention • Flexible working conditions and benefits can attract and retain a more diverse workforce	**Market and regulatory factors** • Macro political and economic events can change travel behaviours and funding, which may result in new opportunities and risks • Regulation to achieve better air quality in cities can increase the relative attractiveness of shared mobility for passengers and prompt B2C customers to seek shared mobility solutions • The de-regulation or re-regulation of certain markets can create new opportunities and risks	**Market and regulatory factors** • Component shortages and labour shortages can disrupt the supply chain • Increased regulation affecting suppliers, such as changes in import/export rules and charges, can impact the cost and speed of the supply chain
Opportunities • An engaged workforce will better support delivery of strategic goals • Knowledgeable and well-trained colleagues can help us innovate and identify new opportunities • Favourable workplace conditions can attract and retain talent	**Opportunities** • More optimised transport networks, and greener fleets, can attract more passengers • Increased corporate and university client shuttle requirements can create new customer opportunities • Increased congestion and clean air charging, as well as rise in fuel costs, may increase the relative attractiveness of shared mobility	**Opportunities** • Our relationships can give us access to more competitive pricing and shortened delivery times • Investing in long-term relationships can aid our transition to a zero emission fleet by giving suppliers confidence to invest in developing innovative solutions with us
Risks • Labour shortages hinder our ability to deliver reliable services • Discontent can lead to strikes or attrition	**Risks** • Increased competition can erode market share and reduce our profitability	**Risks** • Poor quality control or financial difficulties faced by suppliers can compromise their ability to support us

Our section 172(1) statement

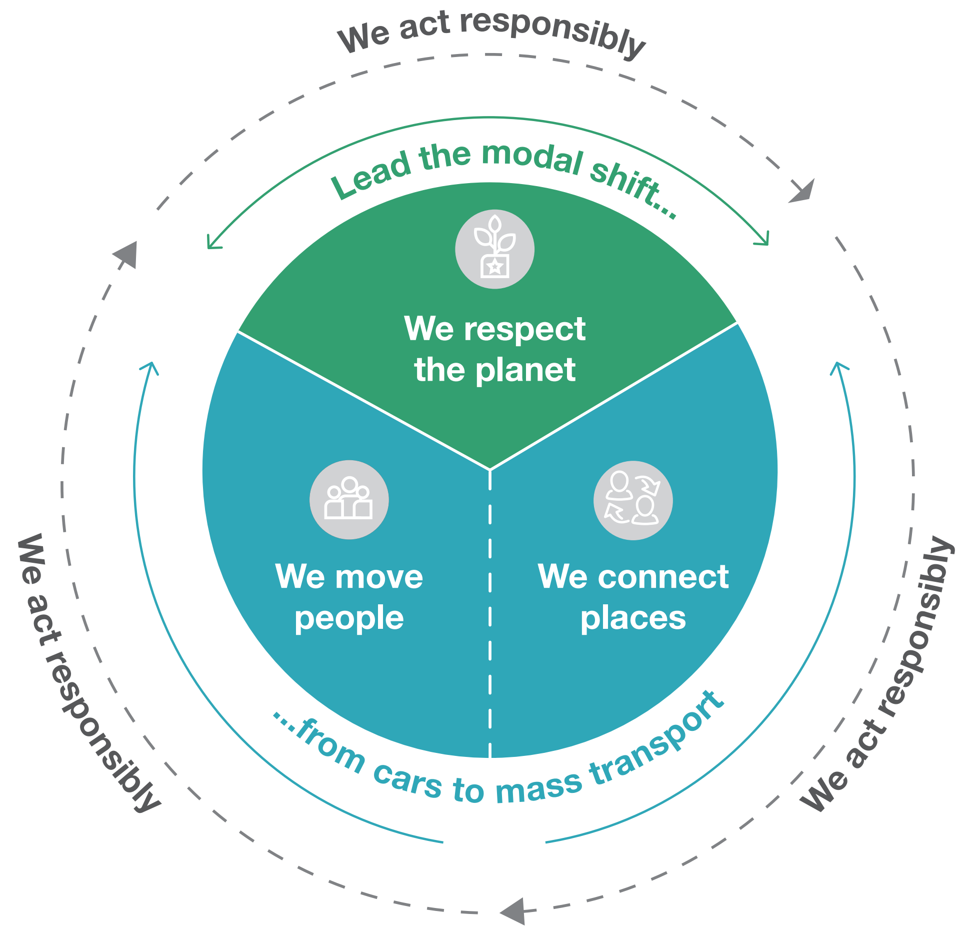
The Board of Directors has had regard to the stakeholders' interests as described on these pages, and the other matters set out in Section 172(1) (a) to (f) of the Companies Act 2006, when making decisions on behalf of the Company during the year under review. Examples of this are set out on pages 109 to 110 of the Corporate Governance Report, and are incorporated into this statement by reference.

Equity and debt investors	Governments	Communities
Why they are important to strategy Our equity and debt investors provide access to the capital necessary to fund the delivery of our strategy	**Why they are important to strategy** Central and local government authorities set transport policies and provide funding for transport initiatives, which can create favourable conditions for the delivery of our strategy	**Why they are important to strategy** The communities in which we operate drive the demand for transport services that underpins our strategy as well as being where our colleagues live and work
How we engage • Market announcements, financial results presentations and investor roadshows • Direct engagement by the CEO, CFO, Chair and our Investor Relations function (see page 113 for some of the engagement undertaken this year and page 141 for details of specific engagement on remuneration matters) • Ongoing indirect engagement with our brokers and other advisers	**How we engage** • The Board engages directly through inviting key government stakeholders into the Board room, as further described on page 117 of the Corporate Governance Report • Local relationships guided by Group standards • Formal alliances, such as the Bus Alliance in the West Midlands and the American Public Transportation Association in North America • Direct bilateral discussions • Industry groups and associations	**How we engage** • Each division has well established community support programmes under the umbrella of the National Express Foundation • The Youth Promise in the UK • Partners Beyond the Bus in North America • The Integra Foundation Partnership in ALSA
What they value Investors value clarity of strategy and business model and consistent financial performance and returns. They expect strong risk management and internal controls, and compliance with listing obligations and debt terms. They increasingly expect commitment to sustainability and environment, social and governance matters	**What they value** Governments want safe, reliable, and good value passenger transport services for the benefit of the communities they serve. They seek partners who will work with them to solve the challenges of clean air and traffic congestion	**What they value** The communities in which we operate look to us for safe, clean, reliable, and affordable transport services and opportunities for rewarding employment. They also value companies which give back to their communities, and which keep people connected
Delivering for them • A full year 2022 dividend of 5.0p per share is recommended for approval at the 2023 AGM • We maintain an investment grade debt rating • We were recognised in the Financial Times' Europe's Climate Leaders 2022 special report **Links to KPIs:** Underlying Operating Profit, free cash flow, ROCE	**Delivering for them** • We invest consistently in the safety and operational reliability of our services • We keep service standards high while keeping prices low on services that generally serve communities • We are working towards ambitious fleet decarbonisation targets across our markets **Links to KPIs:** Underlying Operating Profit, free cash flow, ROCE	**Delivering for them** • We offer attractive employment opportunities by investing in colleague health and wellbeing, paying a fair wage, investing in training and development, and promoting diversity and inclusion • We support our communities through making donations to community charities **Links to KPIs:** Passenger journeys and FWI
Market and regulatory factors • Macro political and economic events (including greater inflation, increasing interest rates and changing customer behaviour) can impact our operations and financial performance, which can affect our share price • Regulation relating to our equity listing can increase our costs • Regulation of debt providers and macro political and economic events can impact access to and/or cost of capital	**Market and regulatory factors** • Governments can provide or reduce funding for transport • Laws and regulations on driver licensing and training, vehicle condition and testing, directly impact our economics • Increased regulation to reduce carbon emissions can create demand for green technologies but make older technologies obsolete	**Market and regulatory factors** • Macro political and economic events can change travel behaviours of local communities • Increasing regulation such as Low Emission Zones and Clean Air Zones will help drive modal shift to public transport
Opportunities • Investors' increased focus on ESG should increase the demand for quality public transport stocks • Cost and access to debt capital should favour purpose-led companies with positive environmental impact	**Opportunities** • Bus franchising and re-regulation of certain markets present new opportunities in markets we are not yet in • Increased grant funding to support transition to zero emission fleet can improve our economics	**Opportunities** • Increased congestion and clean air charging, in addition to the rise in fuel prices, increases the relative attractiveness of shared mobility • Increasing awareness of global warming and air quality issues creates demand for alternatives to the car
Risks • Constrained equity and/or debt markets increase the costs of capital and debt financing • Capital is diverted towards 'moon shot' disruptors impacting fundamental valuations	**Risks** • Spanish concession re-tendering and de-regulation of certain markets can reduce margins or increase competition • Reduction or withdrawal of government support for bus transport can worsen our economics	**Risks** • Community confidence in using public transport may not return, and/or travel behaviours by members of the community may not revert to pre-pandemic norms

Sustainability at National Express

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

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



We respect the planet

- **Environmental leadership**
  - Zero emission fleet target p.72
  - Innovation and development p.73
  - Our commitment to ZEV introduction is only the start p.73
  - We are pleased our work has been recognised p.73

We move people

- **Most satisfied customers** p.75
- **Most reliable service** p.75
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We connect places

- Connecting communities for the future p.77

We act responsibly

- **Employer of choice**
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Environmental

Our purpose, to drive modal shift, is at the heart of the Evolve strategy and is a key differentiator with our customers.

Social

The Evolve strategy commits us to having the most satisfied customers, the most reliable service and being the safest.

Governance

We are committed to staying at the forefront of financial and non-financial reporting and have plans in place to have our non-financial data audit ready by the end of 2023.

Sustainability Overview

Roll out of ZEVs to continue at pace
1,500
ZEVs by 2024; UK Bus 50% ZEV by 2025

$30m
of funding secured in North America for 80 electric School Buses

Employer of Choice
eNPS+7

First global employee engagement survey in 2022
77%
response rate exceeding target of 68%

Year on year Scope 1 & 2 emissions / mpkm reduction of
5.9%
(excluding business units reporting emissions for first time in 2022)

Safety performance at record level in 2022
FWI 1.638

Driving the modal shift and decarbonising the shared mobility sector

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

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

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

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

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

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

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

Modal shift is already happening

1% **modal shift from a car =**

23% **increase in bus passenger mileage.**

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

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

Key Targets and Metrics

We respect the planet

Be the environmental leader

SDG

SASB
Air Quality/GHG Emissions

Selected targets

Sustainable Cities and Communities SDG 11

11.2 – as Most reliable

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

Responsible Production and Consumption SDG 12

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Climate Action SDG 13:

13.2 Integrate climate change measures into national policies, strategies and planning.

Key metrics

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

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

We move people

Have the most satisfied customers

SDG

SASB
Access & Affordability/Quality & Safety

Selected targets

Sustainable Cities and Communities SDG 11

11.2 – as Most reliable

Key metrics

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

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

We move people

Be the most reliable

SDG

SASB
Access & Affordability

Selected targets

Sustainable Cities and Communities SDG 11

11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.

Key metrics

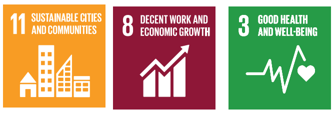
- Passenger numbers
- On-time performance
- Breakdowns

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

We move people

Be the safest

SDG



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

Selected targets

Good Health and Wellbeing SDG 3

3.6 By 2020 halve the number of global deaths and injuries from road traffic accidents.

Decent Work and Economic Growth SDG 8

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

Sustainable Cities and Communities SDG 11

11.2 – as Most reliable

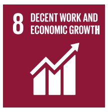
Key metrics
- Zero responsible fatalities
- FWI/million miles
- Leading safety credential in each market
- Passenger numbers

For more information see
We move people on page 76

We act responsibly

Be the employer of choice

SDG



SASB
Labour Practices/Employee H&S

Selected targets

Decent Work and Economic Growth SDG 8

8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

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

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

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

We respect the planet

Environmental leadership

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

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

Zero emission fleet target

- **2030** North America Shuttle/Transit
- **2030** UK Bus
- **2035** Spain Bus
- **2035** UK Coach
- **2040** North America School bus
- **2040** Spain Coach
- **2040** Morocco

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

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

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

Fleet transition highlights during 2022 include:

- UK-Coventry EV rollout: 130 electric double decker buses are being delivered. The first 61 buses are in service with deliveries continuing for the remainder of the year and Q1 2023.
- UK Birmingham: The first commercial (non-grant) electric vehicles are being progressed in the UK Bus Division. 300 buses will be procured across four depots.
- North America School Bus Grants: $30m of fully funded grants have been secured under an EPA award. This will be spread over four contracts. Further grants have been applied for in Canada.
- ALSA First Hydrogen Bus entered operation in Madrid

Other initiatives adding to our environmental leadership position in 2022.

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

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

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

Innovation and development

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

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

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

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

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

Our commitment to ZEV introduction is only the start

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

1. Battery life management and second life usage

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

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

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

2. Operational excellence

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

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

We are pleased that our work has been recognised:

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

MSCI ESG RATINGS AA — MSCI*: December 2022, MSCI rated AA, the second possible highest rating, with an industry adjusted score of 8.5 out of 10

FTSE4Good — National Express is a constituent of the FTSE4Good Index Series

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

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Case Study

Perry Barr Depot

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

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

Environment and Sustainability

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

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

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

Safety and Efficiency

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

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

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

People

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

The Local Community

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

We move people

Most satisfied customers

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

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

National Express is proud of the role it plays in local communities and encourages colleagues to participate in a wide range of community activities that have a positive impact on the diverse communities that we serve.

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

At the Group level, National Express has been a proud corporate partner to Transaid for over a decade. Transaid's mission, to transform lives through safe, available transport, sits at the heart of our purpose, to drive modal shift and key outcomes of the Evolve strategy. In particular, Transaid's focus on road safety and the aim to build employability and professional skills in local communities. National Express has contributed over £100,000 towards the charity since becoming a corporate partner. In addition to the financial contribution, we provide the opportunity for colleagues to participate in train the trainer opportunities around the world where they can contribute their professional skills. We also facilitate graduate placements and this year one of our graduates undertook a three month placement.

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

Most reliable service

Most Reliable

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

We move people continued

Safety

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

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

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

Safety is in our DNA

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

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

We connect places and we act responsibly

Employer of choice

People Strategy

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

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

It is organised around three pillars.

Connecting communities for the future
Being part of the future today

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

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

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

- Recognition
- Policies
- Benchmarking
- Data

- Induction
- HR Admin
- Systems
- MI/Reporting

- Payroll
- Channels
- ER
- Reward

Data driven | **Externally researched**

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

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

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

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

We connect places and we act responsibly continued

Employer of choice

We are proud to have achieved a 77% response rate to our first global engagement survey

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

The survey provided us with a benchmark against which we will drive future action. Key results included: 80% of colleagues recognised our commitment to safety; 76% of colleagues agreed that the organisation promoted DE&I; 65% indicated they were proud of our brands and 69% recognised our commitment to our customers.

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

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

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

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

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

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

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

Connecting communities

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

Diversity

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

1. Reflecting the communities we serve by increasing those in underrepresented groups at all levels of the workforce, with a key emphasis on those in management roles, in order that we better reflect the communities we operate in.
2. Creating inclusive and accessible working environments, free of racism or any other form of discrimination, where people respect and value each other's diversity and the contribution they make.
3. Driving a culture of empowerment by empowering leaders at all levels to take effective ownership of diversity and inclusion and deliver demonstrable change.

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

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

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

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

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

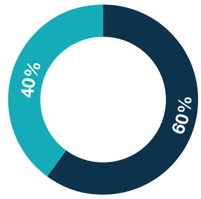
The initiative earned an external recognition in the form of a Diversity Badge.

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

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

Diversity at National Express

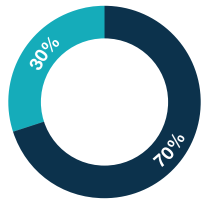
Gender – Board



- Men
- Women

as at 31 December 2022

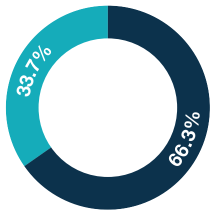
Gender – GEC



- Men
- Women

as at 31 December 2022

Gender – All



- Men
- Women

as at 31 December 2022

We act responsibly

Responsible Governance Principles

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

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

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

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

Policy	Actions
Ethical behaviour	• Ethical Board behaviour – Code of Conduct • Anti-bribery policy • Whistleblowing policy • Tax • Procurement For more information see www.nationalexpressgroup.com
Human Rights	• Modern Slavery • Workplace Rights • Health and Safety
Equality	• Gender pay gap reporting • Disability statement
Digital Security	• Appointment of new Chief Information Officer • Providing customers with digital channels to meet their expectations • Safeguarding customer data

For more information see our **Policies at www.nationalexpressgroup.com**

TCFD Disclosure

The Task Force on Climate-Related Financial Disclosures

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

Governance

Board's oversight of climate-related risks and opportunities

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

Key activities

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

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

Reporting

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

Review of climate-related issues

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

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

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

Training and Development

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

TCFD Disclosure continued

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

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

Board of Directors

Responsible for reviewing the Group's strategy and its management of risk and ensuring that there is a robust system of internal control in place, including for climate risks.

Sustainability Committee

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

Nominations Committee

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

Remuneration Committee

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

Audit Committee

Reviewed the annual report including TCFD disclosures

Company Executive Management (Group CEO & CFO)

- Delivery of the Group's overall strategy, including its ZEV fleet transition strategy and management of other climate-related risks and opportunities
- Ensure effectiveness of the Group's risk management system, including for climate-related risks
- Management of the functional managers and divisional executive managers, and being members of the Company ZEV Steering Group

Group

Group Sustainability Director

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

Group Head of Compliance & Risk

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

Functional Managers

Managers and their climate-related responsibilities:

- Group General Counsel: assists with the identification of climate-related risks e.g. by advising on regulatory changes driving transitional risks
- Group Insurance Manager: assists with managing climate-related risks e.g. by securing insurance coverage for physical risks
- Group Safety Director: assists with managing climate-related risks e.g. by devising new safety policies and procedures to mitigate physical risks
- Group Procurement Director: identifies, negotiates and builds partnerships with vehicle manufacturers for the supply of ZEVs on the best obtainable terms
- Group Head of Internal Audit: provides independent assessment of the effectiveness of climate-related risk management activities and of other functions' climate-related activities
- Group Financial Controller: assists with the quantification of climate-related risks and scenario modelling

Company ZEV Steering Group

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

Climate-related activities:

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

Global Sustainability Steering Group (GSSG)

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

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

Divisional

Divisional Executive Management (Divisional CEOs & CFOs)

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

Divisional Commercial & Operations/Service Delivery Managers

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

Divisional ZEV Steering Groups (x3)

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

Climate-related activities:

- Develop and track progress against divisional ZEV transition plans
- Track financial impact of ZEV initiatives
- Review customer (passenger and contract counterparty) demand for ZEVs
- Review ZEV supply chain relationships
- Review ZEV funding options
- Track ZEV technological advancements

TCFD Disclosure continued

Risk Assessment

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

Identifying and Assessing

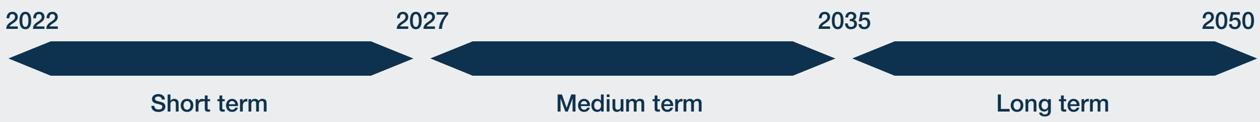
We apply a two-pronged approach to identifying and assessing climate-related risks. Firstly, they are considered as part of the Group's risk management system to identify, assess and report on all business risks (see pages 56 to 61 for more detail), which is presented to the Board annually. Secondly,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

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

- The risk assessment has two components: physical risks (such as extreme weather events); and risks related to the transition to a lower carbon society (such as the cost and operational challenges with transitioning rapidly to a ZEV fleet). This transition risk includes the need to comply with new regulations or laws related to climate change (e.g. a ban on use of diesel vehicles).
- Divisional teams assigned a probability of occurrence and a financial impact score against each of the risks identified, enabling the Group to prioritise consideration of the higher climate-related risks we face.
- For each risk, divisional teams assessed the expected frequency of occurrence, the activities and controls in place to mitigate the risk, and the effectiveness of those controls.
- Each division has also assessed potential opportunities related to climate change.
- The risk assessments were reviewed by the Group Financial Controller, Group Head of Compliance and Group Sustainability Director.
- A summary is presented to the Board, who duly reviewed and challenged the conclusions, enabling an assessment of the relative significance of the risks posed by climate change compared to other risks.

Time horizons

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



Materiality

In assessing these risks, we have set materiality thresholds in line with TCFD guidance. For short to medium-term risks, we have applied a level of materiality consistent with the approach of how the Group has determined materiality for our Financial Statement audit (the higher of (i) 5% of the Group's Underlying Operating Profit in the respective year of the most recent long term strategic plan; or (ii) £10 million). For longer-term risks, we apply a higher materiality of 10% of a long-term estimate of the Group's Underlying Operating Profit, as the risks are less certain and the Group has longer to develop mitigation plans. We applied this assessment to the climate change scenario modelling analysis to determine material risks and opportunities arising from climate change.

Managing climate-related risks

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

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

Integration into overall risk management

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

Strategy

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

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

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

Our climate scenarios:

1. an **extreme physical climate change scenario** assuming a lack of coordinated governmental action and intervention to reduce emissions, ultimately resulting in more extreme weather events. This scenario assumes the current warming rate continues unabated; rising to circa +4°C by the end of the century, as forecast by the Intergovernmental Panel on Climate Change (IPCC) in its worst case 'RCP 8.5' scenario; and
2. an **extreme transition scenario** including an assumed ban on internal combustion engines to limit the global temperature increase to 1.5°C above pre-industrial levels, as projected by the IPCC's 'RCP 2.6' scenario.

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

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

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

TCFD Disclosure continued

1. Extreme physical climate change scenario

For this scenario, we assumed a range of extreme weather events occurring with increasing frequency through the time horizons under consideration, which included damage to depots from flooding or fires and business disruption from extreme heat or cold. We considered the impact of these before mitigations; in reality, we anticipate that mitigating actions will significantly reduce risk, for example, by relocating assets away from localised flood or wildfire risks.

We concluded that the financial impact of those risks would not be material. We arrived at this conclusion because of the geographical spread of the Group; operating from hundreds of depots across 50 cities in 11 countries. Any extreme weather event, whilst potentially very disruptive on a localised basis, is unlikely to affect more than a small number of Group locations, nor occur with sufficient annual frequency to cause a material financial impact, post mitigations. In any case, the Group's insurance policies cover many of the risks of physical damage, as well as the cost of business interruption.

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

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

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

Across the Group, we already operate vehicles in both the coldest large city in the USA (Fairbanks, Alaska, with a mean January temperature of -22oC), and Bahrain, which has an average high temperature of 38oC in the summer. This shows we are already used to operating in extreme weather conditions, and have the infrastructure to manage it. Nonetheless, weather events have historically had some impact on our operations; in 2022, the financial impact from extreme weather events was £5m, mostly being disruption from snow fall in North America, and this was broadly consistent with that experienced in prior years. This amount also included a number of extreme storm events during the year, including hurricane Fiona in Florida in September 2022. However, some events such as Storm Eunace and Storm Franklin in the UK had a minimal impact, demonstrating that there is variation in the extent to which each event has a financial or operational impact. The Group also has many mitigations in place. For example, Germany has adjustments built into its contracts, meaning we have access to reimbursement of infrastructure costs and penalty reductions, to reduce the financial impact of extreme weather events. We will continue to closely monitor the impact weather has on our operations as part of our future financial planning.

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

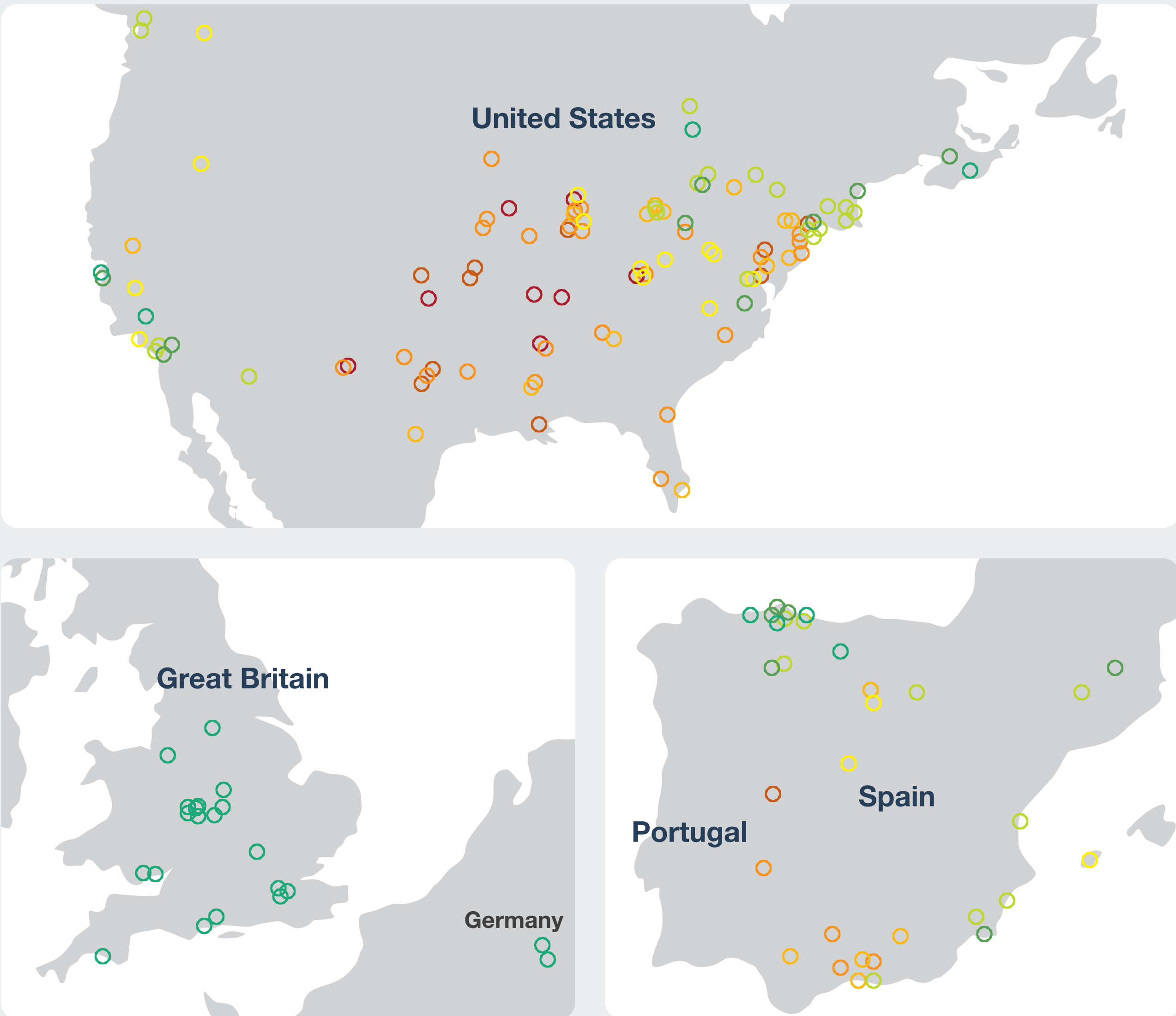
2. Extreme transition scenario, incorporating the Group's transition plans

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

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

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

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



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

TCFD Disclosure continued

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

i. impact on our existing fleet;

ii. the ability to manage the fleet transition, including:

    a. supply chain challenges to production of ZEVs in sufficient volumes;

    b. infrastructure availability (particularly with respect to power/fuel);

iii. maintaining the operation of the assets (particularly with regard to having sufficient skilled employees);

iv. rising costs of ZEVs (particularly in a supply constrained scenario); and

v. changing consumer behaviour (as attitudes towards flying and cruise travel impact on our associated services, e.g. airport transfers).

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

Impact on existing fleet

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

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

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

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

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

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

Managing the fleet transition

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

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

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

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

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

Urban Bus – UK

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

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

Urban Bus – Spain and Morocco

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

School Bus – North America

School bus operations are well suited to ZEVs given relatively short operating distances and ample time for mid-day recharging. However, the longer time frame for transition in North America reflects two key factors: (i) ZEVs for the school bus market are currently expensive, reflecting low production volumes; and (ii) contracted procurement practices at school board level will need to adapt to accommodate ZEV introduction (for example, to recoup the cost of infrastructure investment). However, we are seeing increased demand for ZEVs (particularly as parents embrace the clean air agenda), and funding is becoming increasingly available, such as the US government launching a $5bn Clean School Bus programme. The Group has already submitted applications, and to date has received $31m in grants. Additionally, our own assessment shows that the market capacity for ZEVs that we expect to consume is not notably larger than our proportionate market share.

Transit and Shuttle – North America

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

Long-Haul Coach – UK and ALSA

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

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

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

TCFD Disclosure continued

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

Modal shift opportunities

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

In the extreme physical climate change scenario, whilst it is assumed that central governments take no action to reduce emissions, it is likely that local government authorities or transport authorities would unilaterally impose measures to address congestion and pollution in cities (to help the drive for a cleaner air environment) and simultaneously meet their countries' own carbon reduction targets. These measures are likely to include increasing clean air zones or congestion zones that levy fees for cars, or ban them from city centres completely. This would force modal shift out of private car and into public transport.

In the extreme transition scenario, it is likely that as well as the above, central governments would bring about measures to either ban combustion engine cars or make them prohibitively expensive, as well as otherwise incentivising the transition to ZEVs. The UK's Climate Change Committee predicts that 9-12% of car journeys could be switched to bus by 2030, with 17-24% being switched by 2050. According to our analysis of the Department for Transport's 'Passenger transport by mode' 2019 statistics, a modal shift of 1% from car to bus would result in an increase of 23% bus passenger kilometres.

Resilience of the Group's strategy

A cornerstone of our Evolve strategy is to be an environmental leader, by leading the transition to zero emission vehicles, setting zero emission fleet targets for all areas of our business and fulfilling our purpose of leading the modal shift from cars to mass transit. Collectively, across Governments, employers and the public, there will be a desire and a need to reduce emissions to tackle the risks posed by climate change. We believe this will accelerate both modal shift into public transport and the need to transition away from diesel vehicles; and that this would happen more quickly under the extreme physical climate change scenario. Therefore, we believe our strategy is resilient to these likely changes, as whilst as we have set out above, physical risks from climate change will undoubtedly provide more challenges to the business, we see greater opportunities from the vehicle transition and modal shift which are both key to our strategy.

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

Impact on the strategy and financial planning

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

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

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

Conclusion on risks, opportunities and impacts

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

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

Metrics and Targets

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

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

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

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

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

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

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

In relation to the use of internal carbon pricing, the Group already has incentives in place across all divisions to lower our carbon footprint in our operations, for example being embedded within bonus targets and employee objectives. Please see page 149 for information on how our GHG reduction metrics and increase in zero emission vehicles are used as a remuneration metric in relation to the Executive Directors' and senior managers' LTIP scheme. In addition to this, capital investment requests and bid models are already scrutinised for their environmental impact. Given that the ZEV transition targets, which drive the majority of carbon reduction plans, already meet the aim of using a carbon price, we are not currently utilising one in our internal reporting at this stage; however this will be kept under review.

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

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

Reduction target description (metric)	Base year (2018)	2025 target	2021	2022	% change from base year	% change YOY (2021-2022)	Required % reduction to meet target
Traction Energy: (vehicle fuel and electricity) **MWh/mpkm**	66.92	58.72	86.19	83.82	25.3%	(2.7%)	(29.9%)
Traction Carbon Emissions (Scope 1 & 2) **tCO_2e/mpkm**	17.67	15.45	24.15	23.38	32.3%	(3.2%)	(33.9%)
Total Scope 1 & 2 Emissions **tCO_2e/mpkm**	19.26	16.45	25.26	24.17	29.6%	(4.3%)	(31.9%)
Site Scope 1 & 2 Emissions (building use only) **tCO_2e**	41,656	38,199	31,683	29,839	(28.4%)	(5.8%)	Met
Landfill Waste Disposal **tonnes**	7,711	5,783	4,491	4,215	(45.3%)	(6.1%)	Met
Water consumption **m^3**	478,956	439,209	424,347	429,170	(10.4%)	1.1%	Met

TCFD Disclosure continued

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

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

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

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

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

By reducing our absolute emissions, we believe we are reducing our exposure to risks of regulatory change, public policy and changing customer demands. Please see pages 58 to 61 for more information on our principal risks and uncertainties.

Reporting boundaries

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

tCO_2e emissions by scope	2016	2017	2018	2019	2020	2021	**2022**	% change YOY (2021-2022)
1	815,788	801,061	808,650	823,582	514,106	657,239	**830,287**	26.3%
2	95,107	60,682	48,583	49,938	67,879	73,649	**83.577**	13.5%
3	9,620	6,127	7,627	8,221	8,641	5,762	**600,400**[1]	n/a[1]
Total	920,516	867,870	864,859	881,741	590,626	736,650	**1,514,264**	n/a[1]

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

Scope 1 and 2

Scope 1 emissions (from combustion of fuels, and use of natural gas and refrigerant gases) represent the largest category for emissions, with vehicle emissions representing around 95% of Scope 1 emissions. Scope 2 emissions (from electricity usage) represent energy usage both in our buildings, in our German rail operations and electric vehicles in operation in other divisions.

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

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

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

Scope 3

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

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

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

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

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

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

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

TCFD Disclosure continued

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

Category	Absolute emissions (tCO_2e)	% of total Scope 3
1. Purchased goods and services	221,783	36.9%
2. Capital goods	92,680	15.4%
3. Upstream fuel and energy production and distribution	214,893	35.8%
4. Upstream transportation & distribution	n/a	n/a
5. Waste and water	1,967	0.3%
6. Business travel	2,349	0.4%
7. Employee commuting	41,819	7.0%
8. Upstream leased assets	10,543	1.8%
9. Downstream transportation and distribution	n/a	n/a
10. Processing of sold products	n/a	n/a
11. Use of sold products	n/a	n/a
12. End-of-life treatment of sold products	n/a	n/a
13. Downstream leased assets	1,118	0.2%
14. Franchises	n/a	n/a
15. Investments	13,248	2.2%
TOTAL	600,400	100.0%

Data assurance

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

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

Future developments

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

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

Governance

Helen Weir

"I am delighted and honoured to have joined the Board and am immensely grateful to my predecessor, Sir John Armitt, for assembling a Board with the depth of knowledge, skill, and experience to lead the Group through challenges and to capitalise on opportunities. Part of Sir John's legacy is the strong system of corporate governance in place at National Express."

Chair's Introduction to Corporate Governance

Governance at a glance

Effective decision-making, including in accordance with our s.172(1) duty – see the Board's activities on pages 102 to 104 and our s.172(1) statement on pages 109 to 110.

A focus on the appointments of a new Chair and Group CFO to the Board and Board and senior management succession planning, talent development and diversity – see our Nominations Committee Report on pages 118 to 127.

Robust and ever-evolving risk management and internal controls – see our Audit Committee Report on pages 128 to 135.

A drive to be an environmental leader and the employer of choice – see our Sustainability Committee Report on pages 136 to 139.

Carefully balanced Director pay decisions, having regard to all relevant considerations – see our Annual Statement by the Remuneration Committee Chair and Directors' Remuneration Report on pages 140 to 164.

Corporate Governance Compliance Statement

The Board is pleased to report that, with one limited exception which has now been resolved, the Company has applied the Principles and complied with the Provisions of the UK Corporate Governance Code issued by the FRC in July 2018 (which can be found at: www.frc.org.uk) for its financial year ended 31 December 2022.

The limited exception related to Provision 38 where the previous Group CFO's pension did not align with the UK majority workforce rate. While it had always been agreed that the pension would align from 1 January 2023, that alignment has been achieved earlier following the appointment of a new Group CFO, as further explained in the Directors' Remuneration Report.

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

Board leadership and Company purpose

Principles A, B, C, D and E

Pages 98 to 104 and pages 109 to 117

Division of responsibilities

Principles F, G and H

Pages 105 to 108

Composition, succession and evaluation

Principles I, J, K and L

Pages 118 to 127

Audit, risk and internal control

Principles M, N and O

Pages 128 to 135

Remuneration

Principles P, Q and R

Pages 140 to 164

Dear fellow shareholder

I am delighted and honoured to have joined the Board and am immensely grateful to my predecessor, Sir John Armitt, for assembling a Board with the depth of knowledge, skill, and experience to lead the Group through challenges and to capitalise on opportunities. Part of Sir John's legacy is the strong system of corporate governance in place at National Express. It gives me great pleasure, as a result, to present our 2022 Corporate Governance Report.

Strong corporate governance underpinning our purpose

In a year which started with Omicron and ended with high rates of inflation, interest rates and mounting wage and cost pressures, our well-established corporate governance system has helped the Board lead the Group through these challenges. More than ever, we can see that our corporate purpose, of leading the modal shift from cars to mass transit, remains critical to the customers and communities we serve. This Corporate Governance Report describes our governance practices. Our corporate governance framework within which those practices operate is set out on page 105.

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

The Board is responsible for reviewing the Group's strategy and its management of risk and ensuring that there is a robust system of internal control in place. The Board, supported by its Audit Committee, has been active during 2022 in discharging these responsibilities, by reviewing progress against the Evolve strategy, conducting 'deep dive' reviews of Group-wide and divisional risks, including climate-related risks, and monitoring the Group's overall compliance and safety programmes.

The Board's newly formed Sustainability Committee has reviewed the Group's progress against its environmental ambitions, which centres around our transition to zero emission vehicles, reinforced by the adoption of zero emission fleet targets by each division in the Group, and the Group's social ambitions, with a focus in 2022 on the Group's people.

Further details of these matters are set out throughout the Strategic Report and in the Audit and Sustainability Committee Reports.

Board and senior management composition, succession, talent and diversity

As mentioned in my introduction, I joined the Board in October 2022 and became Chair on 1 January 2023. I succeeded Sir John Armitt who had provided strong and effective leadership since his appointment as Chairman in February 2013. During that time the Group had faced a number of challenges and opportunities and Sir John had led effectively through those ensuring that good corporate governance was observed at all times. He leaves behind a strong legacy and has set high standards for us to uphold and improve on. On behalf of the Group and of the Board I want to thank Sir John and acknowledge his tremendous contribution to the success of National Express and wish him all the very best for the future.

We also said goodbye to Chris Davies as Group CFO who stepped down in October 2022 after five and a half years on the Board. We thank him for his valued contribution during his tenure and we wish him all the success with his next role. We were delighted to welcome James Stamp as the new Group CFO in December 2022, after his stepping in on an interim basis from November 2022. The Nominations Committee Report provides further detail on my and James' recruitment and the Q&A on pages 122 to 123 provides some of my initial insights since joining the Board.

The Board undertook an internal evaluation for the year in review, the outcome of which showed that we have made good progress on the actions arising from the external Board evaluation conducted in 2021 and highlighted areas for continued focus as noted in the Nominations Committee Report. I am pleased that the feedback received confirms our view that the Board works effectively and that we have a strong and stable Board composed of Directors with a wide range of relevant knowledge, skills and experience, all of which is more fully explained in our Nominations Committee Report.

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

Remuneration balance between reward and restraint

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

The Remuneration Committee has sought to achieve the right balance between rewarding the Executive Directors and incentivising them to continue their work on leading the Company's recovery and exercising restraint on their total pay. In doing so, the Remuneration Committee has taken regard of the wider stakeholder experience, particularly in respect of energy prices, interest rates and inflation, and further consultation undertaken with major shareholders in advance of this year's pay decisions.

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

Stakeholder relations

Considerations relating to stakeholders have remained high on the Board's agenda in 2022, including through: direct engagement with equity and debt investors on key matters; direct engagement with the workforce; and opportunities to hear other stakeholders' views either directly or via the Group's businesses, as described on pages 113 to 117 of this Report. The Board remains committed to open channels of communication with all stakeholders to be able to hear their views to aid its decision-making. Our s. 172 statement provides examples of how the Board has considered stakeholders in making Board decisions.

Annual General Meeting

Our Annual General Meeting ('AGM') will be held at 2pm on Wednesday, 10 May 2023 in the Bevan Suite at BMA House, British Medical Association, Tavistock Square, London WC1H 9JP. Further information will be in the Notice of AGM. As the AGM provides an opportunity for you to meet with and ask questions of your Directors regarding the Group, this Annual Report and the matters before the meeting, I would encourage you to attend and look forward to meeting you.

Conclusion

I am extremely impressed with what I have seen of the Group so far. I have been taken, in particular, with how everyone from our colleagues to our customers, suppliers and many of our other stakeholders have contributed to, and supported, the Group during 2022 enabling it to continue to grow despite the uncertainties caused by the current macro political and economic factors and any lingering effects from the pandemic. I thank them all and extend my thanks to the Group Executive and to my fellow Board members for continuing to provide strong leadership in such ever-changing times. I'm sure the coming year will bring its own share of challenges, but also many opportunities. We, as a Board, look forward to 2023 with confidence.

Helen Weir
Chair

1 March 2023

Board Leadership and Company Purpose

Board of Directors

The Company is led by its Board of Directors, comprised as follows:

Helen Weir
Non-Executive Chair

N S R

Appointed: October 2022 and Chair from January 2023

Experience: Helen has extensive financial and listed company experience, having been the former CFO of Marks & Spencer and previously held positions as Group Finance Director at John Lewis Partnership and Lloyds Banking Group, where she was also CEO of the retail bank. Helen also enjoyed successful and varied roles in leading businesses such as Kingfisher, B&Q and McKinsey and Co.

A Fellow of the Chartered Institute of Management Accounts, Helen was awarded a CBE for services to Finance in the 2008 honours list. Having previously served as a Non-Executive Director of Just Eat PLC, SABMiller PLC, Royal Mail Holdings PLC and Greencore Group PLC, Helen currently holds a number of other Non-Executive Director roles.

Key strengths in support of the Company's strategy:

- Provides effective leadership of the Board in its robust review and careful monitoring of the delivery of the Company's strategy and management of risk
- Promotes strong corporate governance, including by promoting the Board's understanding of stakeholders' views, aiding its assessment of whether the Company is achieving the six desired stakeholder outcomes of the Evolve strategy
- Contributes extensive executive and non-executive experience in supporting and challenging executive management in their delivery of the Company's Evolve strategy
- Provides added strength to oversight of the Company's financial reporting, risk management and controls, mitigating risks to the delivery of the Company's strategy
- Utilises her technology expertise to support the Company in the digital enablement of the five customer propositions on which the Evolve strategy is built

Current external appointments:

- Supervisory Board Member, Koninklijke Ahold Delhaize N.V.
- Senior Independent Director, Superdry PLC

Ignacio Garat
Group Chief Executive Officer

Appointed: November 2020

Experience: Ignacio has more than 27 years' strategic, commercial, operational and business transformation experience in the freight and logistics industry. Previous roles include CEO Spain & Portugal and CEO Brazil at TNT and Senior Vice President for Southern Europe, France and Benelux at FedEx. He has a track record of leading international, complex, operational businesses to achieve clear strategic purposes, adopting an inclusive management culture in doing so aided by his focus on people.

Ignacio has a degree in international business from the American University of Paris and a postgraduate diploma in management and business studies from the University of Warwick.

Key strengths in support of the Company's strategy:

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

Current external appointments:

- None

James Stamp
Group Chief Finance Officer

Appointed: November 2022 and Group CFO from December 2022

Experience: With over 25 years' experience, James comes from a background in finance with significant experience in strategy, M&A, advisory, audit and consulting.

James joined the Company in July 2017 from KPMG where he was a Partner and UK Head of Transport & Global Head of Aviation at KPMG LLP.

James initially served on the Group Executive as Group Commercial and Strategy Director, where James led work on the Evolve strategy and then in early 2022 he was appointed Chief Financial Officer of National Express UK & Germany Division.

James is a qualified chartered accountant.

Key strengths in support of the Company's strategy:

- Provides effective financial support for the development and delivery of Company strategy
- Maintains robust management of internal controls, including risk management, providing a sound control and risk environment within which strategy can be delivered
- Builds strong relationships with the Company's equity and debt investors helping to ensures their understanding of the Company's strategy and performance against it
- Alongside the CEO, champions the Company's sustainability ambitions which are linked to the stakeholder outcomes of the Evolve strategy, including the Group's focus on being an environmental leader

Current external appointments:

- None

Committee membership key (Committee membership is shown as at 1 March 2023)

Further details about Directors' independence, conflicts of interest and commitment are set out on pages 107 to 108 of this Corporate Governance Report.

Committee Chair | A Audit | N Nominations | R Remuneration | S Sustainability

Jorge Cosmen
Non-Independent Deputy Chair

N S

Appointed: December 2005

Experience: Jorge has accumulated a wealth of experience in international business. He currently serves as the Non-Executive Chair of the Group's ALSA holding company, having also held that role in an executive capacity until ALSA was acquired by National Express in 2005. Prior to that, he was Corporate Manager of the ALSA Group and worked in banking, sales and distribution. He also served for several years as a Non-Executive Director at Bankia prior to its merger with Caixabank.

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

Key strengths in support of the Company's strategy:

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

Current external appointments:

- None

Carolyn Flowers
Independent Non-Executive Director

A N S

Appointed: June 2021

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

Key strengths in support of the Company's strategy:

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

Current external appointments:

- Partner and Managing Principal at InfraStrategies LLC

Karen Geary
Independent Non-Executive Director

N R S

Appointed: October 2019

Experience: Karen is a former FTSE 100 HR Director with an extensive track record. She brings over 20 years' of leadership experience, including of international HR and business transformation, from across a variety of industries in the UK, US and Europe. She held an executive committee role as Group HR Director at The Sage Group PLC for more than 10 years. After this, she held executive roles with a US-based software business, followed by a FTSE 100 software company which she originally joined as a Non- Executive Director and Chair of its Remuneration Committee. Karen was a Non-Executive Director and Chair of the Remuneration Committee at ASOS PLC from 2019 until December 2022. Since 2019, Karen has pursued a Non-Executive portfolio career.

Key strengths in support of the Company's strategy:

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

Current external appointments:

- Non-Executive Director, Sabre Insurance Group PLC
- Non-Executive Director, PageGroup PLC

Board Leadership and Company Purpose continued

Board of Directors

Ana de Pro Gonzalo
Independent Non-Executive Director
A R

Appointed: October 2019

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

Key strengths in support of the Company's strategy:

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

Current external appointments:

- Non-Executive Director, Novartis AG
- Non-Executive Director, ST Microelectronics NV
- Independent Director, National Advisory Board representing Spain before the Global Steering Group for Impact Investment

Mike McKeon
Independent Non-Executive Director
A

Appointed: July 2015

Experience: Mike has wide-ranging international experience in financial and business management across a number of sectors, having previously served as Chief Financial Officer at Severn Trent and Chief Financial Officer at Novar. Earlier in his career, he held various senior management or advisory roles at Rolls-Royce, CarnaudMetalbox, Elf Atochem and PwC. He has also previously held non-executive roles, including as Senior Independent Director, at The Merchants Trust PLC.

Mike is a chartered accountant.

Key strengths in support of the Company's strategy:

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

Current external appointments:

- None

Matthew Crummack
Senior Independent Director
R N

Appointed: May 2015

Experience: Matthew has extensive international management experience across multiple functions in the consumer product and digital services industries, including online travel, financial services and consumer goods. He has held executive management roles including Group Chief Executive Officer at GoCo Group PLC and Chief Executive Officer at lastminute.com. Prior to those, he was Senior Vice President (Lodging, Europe and US) at Expedia and he held various senior roles at Nestlé UK and Procter & Gamble. He is currently CEO at Domestic & General Ltd.

Key strengths in support of the Company's strategy:

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

Current external appointments:

- Chief Executive Officer, Domestic & General Limited

Sir John Armitt CBE
Non-Executive Chairman

Appointed: January 2013 and as Chair February 2013

Resigned: December 2022

Experience: Sir John has extensive experience in the transport, engineering and construction sectors, including of working with government at ministerial level. He also has significant board-level experience both as a Chairman and Chief Executive, having held Chair roles at the Government Commission on the Thames Estuary, Olympic Delivery Authority and Engineering and Physical Science Research Council, and Chief Executive roles at Network Rail, Costain Group and Union Railways. Sir John was awarded a CBE in 1996 for his contribution to the rail industry and a knighthood in 2012 for services to engineering and construction.

Key strengths in support of the Company's strategy up to 31 December 2022:

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

External appointments as at 31 December 2022:

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

Chris Davies
Group Chief Finance Officer

Appointed: May 2017

Resigned: October 2022

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

Key strengths in support of the Company's strategy up to 31 October 2022:

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

External appointments as at 31 October 2022:

- Non-Executive Director, Motability Operations Group PLC

Board Activity in 2022

The Board's principal activities in 2022 are set out in the table below:

Strategy, business and operational performance	• Reviewed progress against the Group's Evolve strategy and assessed opportunities to accelerate Evolve • Reviewed the performance of each of the Group's divisional businesses, including receiving reports from the divisions on their performance versus strategy and their priorities and initiatives • Reviewed and approved bids for significant opportunities to provide transportation services • Monitored the performance of the OPERATE programme across the Group • Monitored trading performance and returns in the light of changing market conditions and evaluated strategic options • Carefully considered and approved the response to the DWS counter offer for Stagecoach
Financial performance	• Received reports from the Audit Committee on the integrity and reasonableness of, and reviewed and confirmed, the Company's and its Group's full year and half year financial results, the going concern basis on which they were prepared and the Company's viability • Approved the Group's annual budget and reviewed the Group's performance against both budget and forecasts in light of changing market conditions, particularly in respect of energy prices, labour costs and availability, interest rates and inflation • Reviewed and agreed the Group's financing requirements, including headroom against Board-set liquidity requirements and bank-set covenants, and approved the renewal of its £1.5 bn Euro Medium Term Note programme and a number of other debt facilities, including the bridge facility in respect of the £400m bond • Considered the Company's dividend policy and the potential for reinstatement and payment of a full year 2022 dividend
Risk management and internal control	• Reviewed the Group's risk appetite and its management of principal and emerging Group-wide risks • Received reports from the Audit Committee on its reviews of cyber risk and divisional risk management • Received reports from the Audit Committee on, and reached its own conclusion about, the effectiveness of the Group's system of internal control, including the findings and effectiveness of the internal audit function and the work of the auditor • Reviewed the Group's guarantees register and approved the annual renewal of the Group's insurances • Received regular updates on legal and regulatory matters, including material legal claims brought by and against the Group's companies
Sustainability	• Received reports from the Sustainability Committee on the progress against the Group's sustainability ambitions, including progress against the Group's environmental targets and strategy and the Group's people targets and strategy • Considered the Group's approach to climate change scenario modelling and reviewed the financial impact of the two chosen climate scenarios over different time periods • Discussed the results of the Group's first global engagement survey and received reports from the Sustainability Committee on action plans arising from the survey • Reviewed people reports for updates on driver shortages, trade union relations and other matters affecting the workforce • Participated in a number of workforce engagement activities, as further described on pages 114 to 116 of this Corporate Governance Report • Received reports from the Safety & Environment Committee on its reviews of the Group's safety performance and any major safety incidents until that Committee was disbanded in May 2022, following which the Board had direct oversight of the Group's safety performance[1].
Leadership and remuneration	• Received and approved recommendations from the Nominations Committee on the appointment of a new Non-Executive Director and Chair Designate and a new Group Chief Finance Officer, the proposed size and composition of the Board and each of its Committees and the annual re-election, or new election, of Directors at the next AGM • Received a report from the Nominations Committee on senior management succession plans, talent identification and development programmes • Received reports from the Remuneration Committee on its activities, including Chair, Executive and senior management pay awards, bonus awards, targets and out-turns, long-term incentive grants, performance conditions and vestings and overall pay conditions across the Group • Consulted with shareholders on Executive Directors' remuneration to ensure shareholder views were understood • Reviewed and approved Non-Executive Director fees
Governance	• Approved the Company's Annual Report, including its fair, balanced and understandable nature • Considered developments in corporate governance and reporting, and how best to implement such developments • Reviewed the results of the internal Board and Committee effectiveness evaluation • Reviewed the Board's terms of reference, its Committees' terms of reference and the Group's delegated authorities framework • Reviewed and approved the Group's modern slavery statement

Further details about the Board and Committee meetings held during 2022, Directors' attendance at those meetings and the Board and its Committees' processes are set out on pages 107 to 108 of this Corporate Governance Report.

1 See pages 103 to 104 of this Corporate Governance Report for a detailed review of the Board's activity during 2022 in relation to safety.

Safety

The Group CEO has overall responsibility for the Group's safety systems and performance, supported by the Group Safety Director, Divisional CEOs and Divisional Safety Directors.

The Safety & Environment Committee previously had responsibility for reviewing the effectiveness of the Group's safety system, but since May 2022 the Board has assumed direct oversight of the Group's safety system, receiving a safety report at each Board meeting, with 'deep dive' safety sessions scheduled throughout the year.

Safety system

The Company has a well-defined and developed safety system which operates across its global businesses. This system has its foundations in the Company's 'Driving Out Harm' programme which originated in 2011 and comprised the creation and implementation of a wide variety of driver and vehicle safety standards and constantly evolving safety initiatives. It was built upon in 2017 with the introduction of five new Global Safety Policies relating to speed management, driving evaluation, competence of driving evaluators, driver monitoring and driver performance management. These were fully implemented across the majority of the Group's operations by the end of 2020 but continue to be implemented in those cities and countries in which the Group has more recently commenced operations. The Board is pleased with the progress made to date in these locations where the safety programme is already transforming the safety of passenger transport for the citizens and visitors to such cities. Following a fatal accident in Tangiers at the end of 2021, the Group introduced a sixth Global Safety Policy on road vehicle shunting which is in the process of implementation across the Group.

Safety performance

The Board assesses the Group's safety performance by reference to a number of KPIs, the principal one being a FWI Index score which measures and weights, according to severity, all preventable major, minor and lost time injuries and any preventable fatalities and a preventable accident score which counts the number of vehicle accidents that should, by compliance with the safety system, have been capable of being prevented.

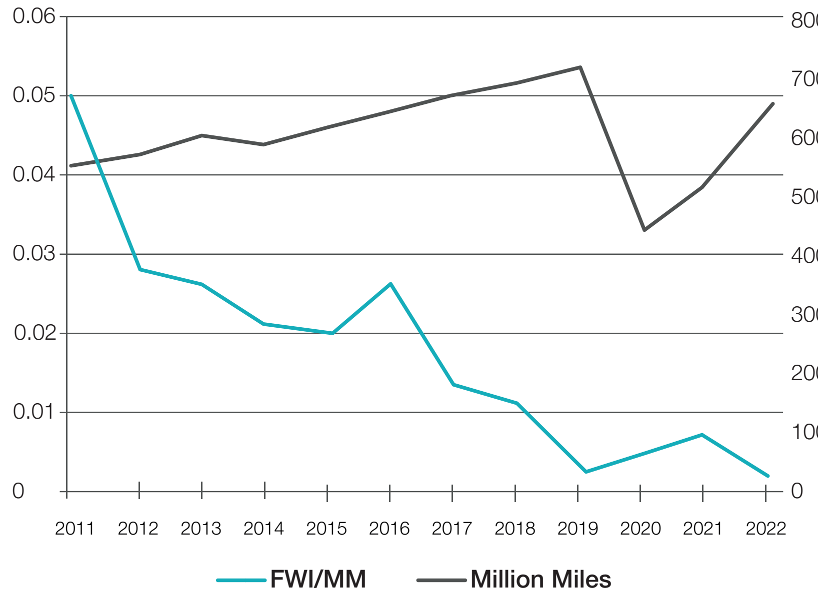
To ensure continued focus on the Group's safety performance, a portion of the bonuses for Executive Directors and members of the Group Executive Committee is based on the Group FWI Index score, with the threshold for pay-out only being met if there are no responsible fatalities during 2022. The on-target target was set by reference to the Group's average FWI score from the previous three years (excluding 2020 which was a year of unusually low operations due to the pandemic) and the maximum target by reference to the Group's best ever FWI score achieved in 2019. The actual score achieved for 2022 is set out in the table below:

KPI Target and 2022 Bonus Target	Bonus Weighting	Target Score	Actual Score
Group FWI Index score (per million miles)	15%	0.006	0.003

The Board was delighted in 2022 to match its best ever Group FWI Index score (previously achieved in 2019), which is a significant achievement, reflecting the Group's relentless focus, and continuous investment, in safety. The graph below illustrates the impressive impact of that focus and investment.

To demonstrate the Group's ongoing focus and commitment to safety, the Remuneration Committee of the Board will continue to include safety metrics within the Executive Directors and senior management bonus plans for 2023, as set out in the Directors' Remuneration Report.

FWI per million miles operated



Board Activity in 2022 continued

In addition to assessing safety performance by reference to KPIs, the Board also reviewed all major safety incidents affecting the Group, their root causes and any lessons to be learned, together with action plans implemented in response to them. It also received updates about a number of specific and new aspects of the Group's safety system, for example:

- the process of fitting Azimut systems to some of the buses in the ALSA division, on a pilot basis, to assess whether a technical solution could effectively alert drivers to the presence of pedestrians and cyclists. This followed an increase in incidents as the road layouts become more complex to navigate, alongside an increase in more vulnerable road users. This is also an example of how the Company continues to be alert to new and emerging risks and devises plans to mitigate their effects.
- the launch in 2022 of two new bus simulators within the UK division with the Board having an opportunity to experience one of the simulators in action during its visit to Birmingham (as described further in the box below).
- the Group's plan to achieve the Evolve outcome of being the safest, where the Board was interested to learn of the future ambitions aimed at achieving a safer vehicle, a safer workplace and lower driver risk, further demonstrating the Company's focus on continuous improvement.

The Group's safety excellence also continued to be recognised externally during 2022, for example the UK Coach and Bus divisions had 5* BSI safety audits, UK Bus was awarded the Sword of Honour in 2022 and ALSA was awarded the Golden Badge for Safety by Securitas Direct.

The Board believes that the Company's approach to safety, and commitment to continually learning and improving through innovation, ensures it meets and will continue to meet its overall strategic ambition of being the safest operator in the industry.

Bus Simulators

ALSA in certain of their Spanish and Moroccan operations, and more recently the UK Bus division, use bus simulators to train drivers on high-risk manoeuvres and situations, which often require a time critical response to keep themselves, customers and other road users safe. Prior to the introduction of simulators, there was no way of providing this training to drivers without importing significant operational and safety risk.

Helen Weir and Sir John Armitt had the opportunity to undertake training on one of the simulators. They, along with the rest of the Board, were impressed to hear the range of training scenarios and manoeuvres which the simulator offered, including driving in severe weather or at night as well as emergency situations, such as having to brake quickly in response to pedestrian or cyclist actions. A key benefit of these simulators is that drivers can be trained and coached on how to drive and how to respond to such situations from the safety of a simulator without putting anyone at risk of harm.

The simulators also had the unexpected benefit of improving employee engagement and assisting with recruitment efforts; the UK Bus division found that 100% of the drivers who have received training on the simulator recommended it and the mobile simulator has supported their recruitment efforts through easing anxiety of potential recruits at the thought of driving larger vehicles.

The simulators are being used alongside a new training programme to improve drivers non-technical skills to build our operational safety resilience into the ever-changing operating environment. Additionally, the Group continues to evaluate whether other operations would benefit from the introduction of simulators into their training programmes.

Corporate Governance Framework

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

Shareholders

The owners of the Company to whom the Board is ultimately responsible.

Chair

Responsible for the leadership of the Board and ensuring that it operates and governs effectively.

Board

Collectively responsible for the long-term sustainable success of the Company, by providing effective leadership, establishing the Company's purpose, values and commitment to safety, monitoring its culture, setting the Company's strategy and overseeing its delivery within a system of internal control, setting the Company's risk appetite and reviewing its principal and emerging risks and taking other decisions reserved to it. Responsible for taking into account the interests of a range of stakeholders and other factors in accordance with their duties, including under section 172(1) of the Companies Act 2006.

Further information about the Board's activities in the year under review can be found on pages 102 to 104

Board Committees

Committees operate under the delegated authority of the Board and within formal terms of reference. Their key responsibilities are set out below:

Nominations Committee	Reviews the structure, size, composition and effectiveness of the Board and its Committees. Oversees succession planning for the Board and senior management, the development of talent and the promotion of diversity, and makes recommendations to the Board for the nomination of new Directors.
Audit Committee	Reviews and monitors the Group's financial accounting and reporting processes and the integrity of published financial statements. Reviews the Group's system of internal control, including the effectiveness of its internal audit function and the independence and effectiveness of its external auditor.
Sustainability Committee	Reviews and monitors the Group's strategies, policies, standards and performance in relation to the Group's sustainability specifically by reference to environmental and social matters, and the governance thereof.
Remuneration Committee	Reviews and recommends to the Board the framework and policy for the remuneration of the Chair, Executive Directors and senior management. Makes decisions within that framework and implements that policy.

Further information about the activities of the Board's principal Committees can be found on pages 118 to 164

Disclosure Committee

Committee comprised of the Chair, the Group Chief Executive Officer and Group Chief Financial Officer operating under the delegated authority of the Board and within formal terms of reference. It acts to maintain procedures and controls for the identification, treatment and disclosure of inside information in accordance with applicable laws and compliance of disclosed information with the UK Listing Rules and DTRs.

Board Executive Committee

A Committee comprised of the Group Chief Executive Officer and Group Chief Financial Officer operating under the delegated authority of the Board and within formal terms of reference. It acts to review and approve various matters, including bids and contracts, acquisitions and disposals, financing arrangements, and capital and operating expenditure within the levels reserved to it.

Group Executive Committee

An advisory and reporting body to the Group Chief Executive Officer comprised of divisional management and Group heads of function.It acts to review and oversee the safety, operational and financial performance of the Group and discuss, formulate and approve proposals in respect of strategy and operational performance for onward consideration by the Board or its Committees.

Division of Responsibilities

Roles and responsibilities

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

Chair Helen Weir[1]	• Provides overall leadership to, and ensures the effectiveness, of the Board • Sets the agenda, character and tone of Board meetings and discussions • Maintains an effective working relationship with the Group Chief Executive Officer • Leads the annual performance evaluation of the Board and its Committees and ensures Non-Executive Directors make effective contributions • Assists the Board in understanding stakeholders', including shareholders', views
Deputy Chair Jorge Cosmen[2]	• Maintains a close dialogue with the Chair and the Group Chief Executive Officer • Supports and deputises for the Chair as required • Assists the Group Chief Executive Officer in developing strategy, in view of his deep knowledge of the Company and the passenger transport sector
Group Chief Executive Officer Ignacio Garat[3]	• Develops the Company's strategy for consideration and approval by the Board and provides effective leadership to the Group Executive Committee ('GEC') in the delivery of that strategy • Responsible for the management of the Group's operations, including the Group's safety and sustainability activities • Manages, with the GEC members, relationships with key stakeholders, from shareholders to key customers and suppliers • Communicates the Group's progress against strategy and operational performance to investors and analysts • Leads the workforce and sets the Company's culture 'from the top'
Group Chief Finance Officer James Stamp[3,4]	• Works closely with the Group Chief Executive Officer in the development and delivery of the Company's strategy • Responsible for the financial stewardship of the Company and management of its resources through appropriate accounting, financial and other internal controls • Directs and manages the Group's finance, risk management, internal audit, insurance, tax and treasury functions • Manages investor relations, including by communicating the Group's financial performance to investors and analysts
Senior Independent Non-Executive Director Matthew Crummack	• Acts as a sounding Board for the Chair and a trusted intermediary for other Directors • Available to investors to discuss any concerns that cannot be resolved through the normal Chair or Executive Director channels • Leads the Board in the annual performance evaluation of the Chair and in developing Chair succession plans
Independent Non-Executive Directors Mike McKeon, Karen Geary, Ana de Pro Gonzalo and Carolyn Flowers	• Monitor and scrutinise the Company's performance against its strategic goals and financial plans • Bring objective perspective to the Board's deliberations and decision-making, drawing on their collective experience and individual expertise and insights • Chair and otherwise play lead roles in the functioning of the Board's Committees • Monitor and assess the Company's culture, use appropriate and effective means to engage with the workforce and acquire an understanding of stakeholders' views • Monitor and assess the effectiveness of, and support and constructively challenge, the Executive Directors
Group General Counsel & Company Secretary Simon Callander[5]	• Provides advice and support to the Board, its Committees, the Chair and other Directors individually as required, primarily in relation to corporate governance matters • Responsible, with the Chair, for setting the agenda for Board meetings and for high quality and timely information and communication between the Board and its Committees, and between the Directors and senior management as required • Ensures that Board and Committee procedures are complied with

1 Independent on appointment. Helen Weir became Chair of the Board on 1 January 2023 (having been appointed to the Board on 1 October 2022), following Sir John Armitt standing down as Chair of the Board on 31 December 2022

2 Non-independent Non-Executive Director

3 Executive Director

4 Appointed to the Board on 1 November 2022 (as the interim Group CFO initially and then as Group CFO from 5 December 2022), following Chris Davies standing down from the Board as Group CFO on 31 October 2022

5 Appointed as Group General Counsel and Company Secretary on 13 June 2022

Board and Committee meeting attendance

The Board and its Committees conduct their business at scheduled meetings 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 attendance by Directors and Committee members at the scheduled meetings of the Board and its standing Committees in 2022:

Attendance at meetings	Board	Nominations Committee	Audit Committee	Remuneration Committee	Safety & Environment Committee[3]	Sustainability Committee[3]
Total meetings in 2022[1]	9	3	4	5	1	2
Executive Directors						
Ignacio Garat, Group Chief Executive Officer	9	–	–	–	–	–
James Stamp, Group Chief Financial Officer[2]	1	–	–	–	–	–
Chris Davies, Group Chief Financial Officer[2]	8	–	–	–	–	–
Chair and Non-Executive Directors						
Sir John Armitt	*9	3	–	–	*1	–
Jorge Cosmen	9	*3	–	–	1	2
Matthew Crummack	9	3	–	5	1	–
Carolyn Flowers	9	3	4	–	1	*2
Karen Geary	9	3	–	*5	1	2
Mike McKeon	9	–	*4	–	1	–
Ana de Pro Gonzalo	9	–	4	5	1	–
Helen Weir[4]	1	–	–	–	–	–

1 Some of the Board and Committee decisions were taken outside of scheduled meetings during the year and the Chair of the Board and the Executive Directors were also invited to attend certain meetings of the standing Committees of the Board where appropriate, neither of which are shown in the table above. The Disclosure Committee and Executive Committee of the Board met during 2022 as and when required, neither of which are reflected in the table above given the nature of these committees means that such meetings are not scheduled.

2 Chris Davies stood down from the Board as Group CFO on 31 October 2022 and attended all meetings of the Board held during the year prior to this. James Stamp was appointed to the Board on 1 November 2022 (as interim Group CFO initially, and then as Group CFO from 5 December 2022) and attended all the meetings of the Board held after he was appointed

3 The Safety & Environment Committee was disbanded in May 2022, following the creation of the Sustainability Committee on 11 May 2022

4 Helen Weir was appointed to the Board on 1 October 2022 as a Non-Executive Director and Chair Designate and attended all the meetings of the Board held after she was so appointed

* Board Chair or Committee Chair

Director independence

The Board reviews the independence of its Non-Executive Directors annually in advance of proposing Directors for election or re-election at the AGM. The Nominations Committee also considers Non-Executive Director independence on an ongoing basis as part of its consideration of the composition of the Board.

Both Sir John Armitt and Helen Weir were considered independent on appointment as Chair. Mr Cosmen, the Deputy Chairman, is not considered independent due to his long tenure on the Board (17 years), his close links with Group's business (especially the ALSA business) and the interests the Cosmen family hold in shares in the Company. However, Mr Cosmen's extensive experience in the passenger transport industry and deep understanding of the Group's business enables him to provide the Board with valuable support when reviewing strategic and operational matters.

On the advice of the Nominations Committee, the Board considers all other serving Non-Executive Directors to be independent.

Director conflicts of interest

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

A register of Directors' actual and potential conflicts of interest, together with authorisations previously given by the Board, is maintained by the Group General Counsel and Company Secretary. Following review by the Nominations Committee of the application of this policy during the year under review, the Board is satisfied that no Director conflict situation currently exists.

Director commitment and external appointments

The Directors ability to commit sufficient time and attention to the Company, including having regard to their external appointments, is reviewed by the Board annually in advance of Directors being proposed for election or re-election at the AGM, following recommendation from the Nominations Committee. All Directors are expected, and required by their appointment terms, to commit sufficient time to the Board and the Company in order to carry out their duties. They are also required, by their appointment terms, to seek the Board's approval to taking on significant new commitments.

In 2021, the Board introduced a policy on Directors' commitment and external appointments to give guidance on what constitutes a significant commitment outside the Company and the process to follow to seek approval for new external appointments. The policy guides that the Board will not normally approve Executive Directors holding more than one other significant commitment, such as a non-executive directorship in another publicly traded company and will not normally approve Non-Executive Directors holding more than five 'mandates' as defined in the policy.

Division of Responsibilities continued

A register of Directors' external appointments is maintained by the Group General Counsel and Company Secretary. Details of all Directors' current significant external appointments are included in their biographies on pages 98 to 101 of this Corporate Governance Report. Following recommendation by the Nominations Committee the Board considers, taking into account Directors' attendance at Board and Committee meetings, their contributions to the Company outside the Boardroom and their other current significant commitments, including external appointments, that all the Directors are able to devote sufficient time and attention to the Company.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which matters include: strategy review, risk appetite and Group-wide principal and emerging risk review; major acquisitions, disposals, bids and contracts; share capital changes and debt financing; review of financial results and approval of business plans and budgets; setting and changes to key corporate policies; Board and Committee membership; and corporate governance arrangements. Other responsibilities and authorities have been delegated by the Board to its standing Committees, comprising its Nominations, Audit, Remuneration, Sustainability, Executive and Disclosure Committees.

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

The Chair of the Board and Group General Counsel and Company Secretary, in consultation with the Chief Executive Officer and Chairs of the Committees, maintain a scheduled 12-month programme of business for the Board and its standing Committees. This incorporates flexibility for additional business to be discussed as required either at those scheduled or additional ad hoc meetings of the Board or its standing Committees or other Committees established for specific purposes. The scheduled programme of business and flexibility around it ensures that all necessary matters are covered and appropriate time is given for discussion and, if thought fit, approval of relevant business.

At each scheduled Board meeting, the Board rigorously reviews updates from the Executive Directors on the Company's safety, strategic, operating and financial performance, and from and other members of the Group Executive including the Group General Counsel and Company Secretary on legal compliance and corporate governance. Other regular Board agenda items include decisions relevant to strategy (such as those relating to acquisitions and disposals, major contract bids and capital allocation), risk management (including reviews of risk appetite and Group-level risks) and those relevant to stakeholders (such as decisions relating to investor relations, employee relations, talent development, diversity promotion and workforce and stakeholder engagement).

Committee Chairs provide summaries of the main decisions and recommendations arising from Committee meetings to ensure non-members are kept up to date with the work undertaken by each Committee. Senior management and external advisers regularly attend both Board and Committee meetings where detailed discussions on specific matters on which their input or advice is needed take place. The Board also seeks to bring external viewpoints into the Boardroom, including from customers, suppliers, government or regulatory officials and experts in areas relevant to the Company's delivery of strategy or management of risk.

In advance of each Board and Committee meeting, Directors receive, via a secure web portal, high quality papers on the agenda items to be discussed. The secure web portal also gives Directors access to a range of other resources, including previous meeting papers, minutes, financial reports, business presentations, investor reports, Company policies and governance guidelines, and details of Board and Committee procedures.

If a Director is unable to attend a meeting due to illness or exceptional circumstances, they will still receive all supporting papers in advance of the meeting and are invited to discuss with, and provide input to, the Chair of the Board, relevant Committee Chair or the Group General Counsel and Company Secretary on the business to be considered at that meeting. Feedback is provided to any absent Director on the key decisions taken at the meeting.

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

In addition to Board and Committee meetings, Non-Executive Directors hold private meetings without the Executive Directors present, including to discuss Executive Director performance. There are also opportunities during the year for Directors to have informal discussions outside the Boardroom, either between themselves or with senior management or external advisers.

Further, and as explained on pages 113 to 117 of this Corporate Governance Report, Non-Executive Directors participate in a number of stakeholder engagement activities during the year and they have the opportunity, throughout the year, to attend seminars and discussion groups on matters relevant to their roles and responsibilities or on topics of interest to the Company, including through the Deloitte Academy and Chapter Zero.

Section 172(1) Statement

The Board makes decisions after careful consideration of all relevant factors which include, but are not limited to, those specified in s.172(1) Companies Act 2006. Examples of some of the 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:

- long-term impact
- fostering business relationships
- reputation
- financial implications
- employees
- community and environment
- acting fairly between members
- advancing the purpose

Board decision	Directors' consideration of factors in accordance with s. 172(1)
Approved recommendations from the Nominations Committee on the appointments of a new Non-Executive Director and Chair Designate and a new Group Chief Finance Officer to the Board and the appointments of a new Group General Counsel and Company Secretary and Group Chief Information Officer ('Group CIO') to the Group Executive Committee	• the appointments support the long-term success of the Group, as suitably experienced and qualified individuals have been appointed to the Board and Group Executive, who have strong reputations for delivery of strategic ambitions and/or their area of expertise to help deliver stronger financial outcomes • the strengthening of the Group's digital expertise though the appointment of a new Group CIO will advance our strategy, as the customer propositions which will deliver our strategy are underpinned by technology
	• colleagues will benefit from a strong leadership team being in place, including through enhancements to culture
Approved the renewal of the Company's £1.5 bn Euro Medium Term Note ('EMTN') programme and the execution of a new bridge facility in respect of the Company's maturing £400m sterling bond	• the renewal of the EMTN programme facilitates the Group's access to the debt capital markets enabling it to execute its strategic plans and advancing the purpose
	• given the volatility of the debt markets, the bridge facility allows the Company flexibility as the maturity of the bond approaches to refinance at a time in future when markets should be more stable
	• the bridge facility enables to the Company to build on its relationships with debt investors, and once notes are issued under the EMTN programme, there is an opportunity to develop new, and build on existing, relationships with debt investors
	• the decision to renew the EMTN programme allows access to debt, rather than equity funding. This helps to ensure that shareholders, particularly small shareholders who may not be able to take up their rights in a rights issue and would therefore be diluted, are treated equally
Approved the decision on the dividend	• in determining whether or not to pay a dividend, the Board considered the financial implications and long term impact of recommencing such a dividend, acting fairly between members who had expressed different views as to the importance and quantum of any dividend payment, its obligations to the broader community (including the need to repay furlough monies to the UK government), alternative applications of those monies (including reinvestment and paying down debt) and previous indications that had been given and the impact on the Company's reputation

Section 172(1) Statement continued

Key of factors considered:

long-term impact · fostering business relationships · reputation · financial implications

employees · community and environment · acting fairly between members · advancing the purpose

Board decision	Directors' consideration of factors in accordance with s. 172(1)
Reviewed and approved the Group's five year strategic plan and opportunities to accelerate the Evolve strategy	• the achievement of our strategy through execution of our customer propositions and delivery of our outcomes will have positive outcomes for all; our colleagues will benefit from financial, career and development opportunities resulting from our growth; our business relationships will benefit through strengthening existing relationships and developing new relationships with our customers, suppliers, debt providers and our partnerships with local governments; the community and environment will benefit as we transition to zero emissions vehicles and seek to keep local communities well connected with safe and reliable transportation services; and all of our members will benefit from our growth and increased profitability through returns on their investment • the achievement of our strategy will improve our reputation in the long-term, because we will be: the safest, most reliable operator with the most satisfied customers; an employer of choice; and an environmental leader, with strong financial returns, which will advance our purpose
Approved bids for significant opportunities to provide transportation services	• the bids would, if successful, generate revenue and profit and contribute to the Group's growth strategy and align with its purpose, including through access to new markets and strengthening our presence in existing markets which could create further opportunities in the long-term. Our members will all benefit from our growth and increased profitability through returns on their investment as will our existing colleagues from the increased financial stability within the Group
	• additional colleagues would join the Group (either via new recruitment or through being the incumbent operator employees), if the bids are successful. They would benefit from our training programmes and application of our Group Safety Policies, which would teach them new skills and procedures aimed at reducing risk profiles • the local communities served could benefit from either a new or continued service operated to the exceptionally high standards set by the Group, particularly in terms of safety and in line with the Group's environmental ambitions to transition its global fleet to zero emissions vehicles
	• the Group chose to partner with others in some of its bid submissions, which enabled the Group to form new, or strengthen existing, stakeholder relationships
Approved the Group's modern slavery statement	• the statement confirms the Group's zero-tolerance approach to slavery and human trafficking and sets out the steps taken by the Group during the year to ensure there was no modern slavery or human trafficking in any part of its business or supply chain, and in approving such statement, consideration was given to the Group's reputation for conducting its business in an ethical manner and with integrity and the importance of working with trusted suppliers who operate to the same high standards with respect to conduct of their business and management of their social and ethical issues

Purpose, Value and Culture

Purpose, vision and strategy

The Company has a clear purpose and vision to be achieved through the execution of the Company's Evolve strategy. This strategy is built upon five customer propositions, each underpinned by the focused application of technology, to deliver six outcomes for stakeholders, all as more particularly explained on pages 16 to 17 of the Strategic Report.

Aligning our purpose, vision, values and strategy

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

Community & Environment

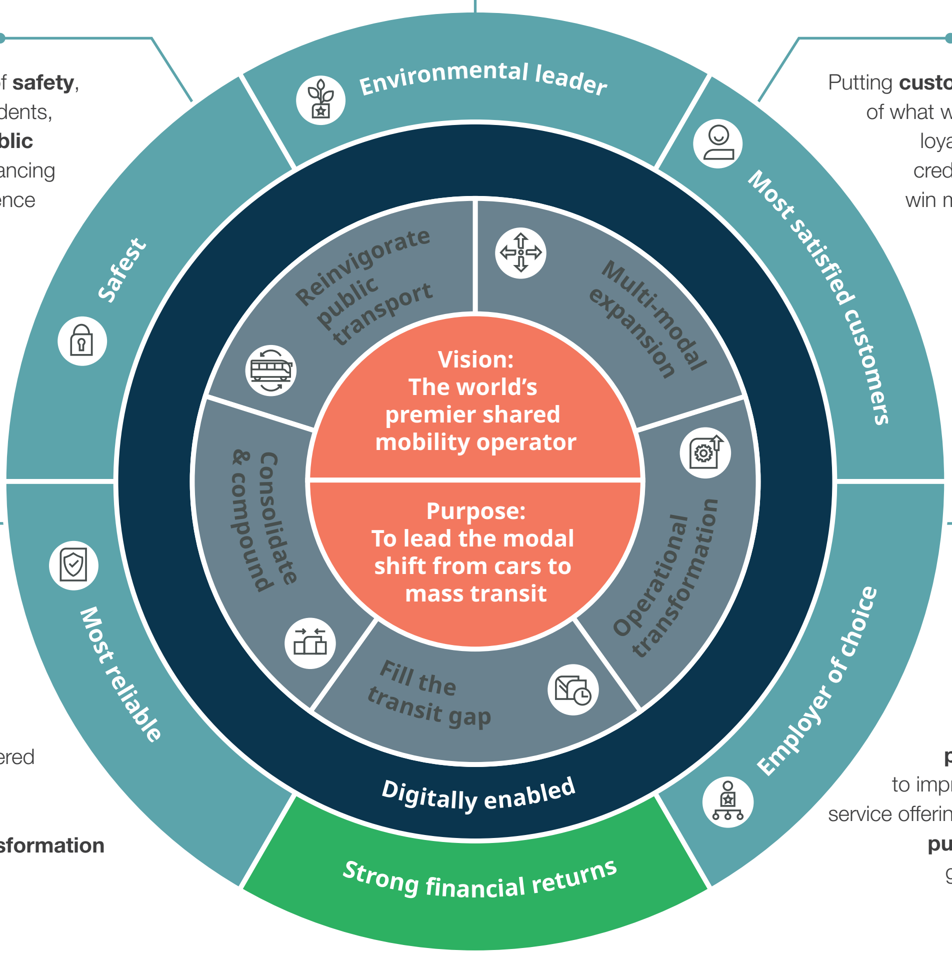
Our desire to ensure **communities** are better served by public transport, and our commitments to reducing our impact on the **environment**, encourage us to **fill the transit gap**

Safety

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

Customers

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



Excellence

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

People

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

Purpose, Value and Culture continued

Culture

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

Culture framework	Board methods of monitoring culture
Our safety priority The Company's prioritisation of safety, led from the top, ensures it remains central to all business decisions and operational practices. The Company's global safety policies and systems set high and consistent standards across our operations worldwide. The inclusion of stretching safety targets in short-term incentive arrangements maintains this continued focus.	• The Board monitors the development, implementation and compliance with the Company's global safety policies and reviews major safety incidents, their root causes and any lessons to be learned from them. • The Board performs or commissions safety tours to assess safety compliance and safety culture across different parts of the business and reports on them to the Board. • The Group CEO, supported by the Group Safety Director, constantly monitors the Group's safety performance, including by reference to a series of KPIs, including FWI and preventable accidents scores, and reports on such performance to the Board at every Board meeting.
Our environmental strategy and ambitions The Company's environmental strategy, centred on the transition of the Group's fleet to ZEVs, and its environmental ambition to achieve zero emission fleets within each of its current business divisions, is driving a focus on their achievement. Its seven-year environmental KPIs enable progress against ambitions to be tracked and the inclusion of carbon reduction targets in long-term incentive arrangements maintains focus.	• The Sustainability Committee monitors progress against the Group's environmental strategy and ambitions. • The Group CEO and Group CFO, assisted by the Group Sustainability Director, the Global Sustainability Steering Group and the Zero Emission Vehicle Steering Group, regularly assess the development and delivery of zero emission fleet and other environmental initiatives, track progress against the environmental KPIs and report on such performance to the Sustainability Committee of the Board.
Our people strategy and employee policies and practices The Company adopted a new people strategy during 2022 which is based around three key priorities: Embrace, Energise and Elevate further explained in the Strategic Report on page 77. The Company also adopted people KPIs focusing on employee engagement and eNPS as described on page 138. Fair and transparent employee policies and practices ensure that our colleagues' rights are respected in accordance with applicable laws, their contracts and recognised collective bargaining agreements. A number of programmes and initiatives also support their health and wellbeing, develop their talent, recognise their excellence, encourage innovation and promote diversity and inclusion among them.	• The Sustainability Committee monitors progress against the people strategy and ambitions, including tracking progress against the people KPIs. • The Sustainability Committee and the Board receive people reports, on all key people data and trends, including levels of establishment, levels of engagement, outcome of staff surveys and the progress of trade union relations. • The Nominations Committee performs 'deep dive' reviews into the effectiveness of senior management succession plans, talent identification and development plan and diversity & inclusion initiatives. • Directors engage directly with colleagues via engagement events as described on pages 114 to 116.
Our corporate policies The Company's corporate policies, including those on anti-bribery and corruption, anti-slavery and human trafficking, data protection and whistleblowing, set clear expectations, and mandates, for every member of the workforce to perform the Company's business with integrity and in accordance with applicable laws. The Group Compliance & Risk Officer champions compliance, and a compliance framework has been developed to bring greater alignment to corporate policies.	• The Company's compliance framework, and the corporate policies which form part of it, are reviewed and approved by Board or the Audit Committee. • The Group Compliance & Risk Officer sponsors the Company's compliance programme, manages its development and enforcement and reports to the Audit Committee of the Board on its effectiveness. • Any serious allegations of breach of corporate policy or other wrongdoing, whether identified through internal audits, the whistleblowing hotline (via which colleagues can raise concerns in confidence and anonymously if they wish) or otherwise, are duly investigated, acted upon and brought to the Board's attention.
Our supplier protocols and procedures Standard supplier protocols and procedures, standard contractual terms and audits of suppliers ensure that key suppliers operate their businesses and respect their workers' rights in the same way that we do. Building long-term, mutually beneficial, relationships with core suppliers also enables the Company and its suppliers to understand and assist in the achievement of what is important to the other.	• The Board receives stakeholder reports and presentations from core suppliers from time to time. • The Group Procurement team monitors compliance by key suppliers with the Company's policies, protocols and procedures, and the Board receives reports from the Group Procurement Director from time to time.
Our values The Company has an embedded set of values which all our colleagues are encouraged to live by. The identification in the Evolve strategy of the six stakeholder outcomes, by which the Company will measure whether it is delivering on its strategy and achieving its purpose, is serving to further reinforce the importance of the values. The alignment between the values and the outcomes is explained on page 111.	• The Board's engagement with our colleagues, through the means described on pages 114 to 116, enables the Board to assess first hand whether our colleagues are living by our values. • The Board also hears customer, supplier and other stakeholder views, through the means described on pages 113 and 117, facilitating a further assessment of whether our stakeholders consider we are living by our values

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

Stakeholder Relations

Board engagement with shareholders, analysts, potential investors and debt providers

The Board is committed to maintaining a two-way dialogue with its key financial stakeholders. The Chair, supported by the Senior Independent Director and the Executive Directors, has overall responsibility for ensuring this communication is effective.

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

Further, the Executive Directors, supported by the Company's brokers and financial advisers and treasury team, the Chair and members of the Remuneration Committee also undertook additional engagement throughout 2022 in connection with:

- communications and one-on-one discussions with major shareholders about the 2021 Directors' Remuneration Report in advance of the 2022 AGM, to ensure the Remuneration Committee and the Board understood the views of the shareholders before making decisions on Executive Directors' remuneration, as shown by the green text;
- a round of amendments to the Company's financial covenants in its major debt facilities and private placement note programmes, which involved discussions with equity and debt investors as shown by the purple text; and
- updates in relation to the potential all-share combination with Stagecoach prior to and following its lapse, as shown by the orange text.

The Board is kept fully informed of the views of shareholders via regular reports from the Executive Directors on their investor relations activities and via feedback from the Chair and other Non-Executive Directors on their engagement. The Company's brokers and investor relations advisers also provide regular confidential feedback on investor views, perceptions and opinions which are shared with the Board.

The AGM also gives shareholders the opportunity to engage with the Company and its Board regarding the matters before the meeting and the Company was pleased to welcome shareholders in-person at the 2022 AGM for the first time since the pandemic.

The Company's 2023 AGM is also being organised as an in-person meeting; further details are in the Notice of 2023 AGM.

During 2022, 11 analysts published equity research notes covering the Company, although only 10 analysts are currently providing coverage. Details of the analysts that currently provide coverage in relation to the Company appear on the investor section of the Company's website.

More information about the Company's investor relations approach can be found on the Company's website at www.nationalexpressgroup.com/investors.

2022 Investor Relations Programme:

Month	Activities
January	• Letters sent to major shareholders on executive remuneration matters in advance of the 2022 AGM
February	• Discussions with debt investors on sixth amendment to financial covenants • One-on-one discussions with major shareholders who wished to engage in discussion on executive remuneration matters in advance of the 2022 AGM
March	• 2021 full year results announcement and investor roadshow • Meetings with investment bank sales desks • Berenberg UK corporate investors conference • Fireside investors chat hosted by Berenberg • Further letters sent to major shareholders on executive remuneration matters in advance of 2022 AGM • Announcement in response to DWS bid for Stagecoach
April	• Ad hoc investor meetings • Q1 trading update
May	• 2022 AGM • Update on all-share combination with Stagecoach following lapse
June	• Trading update • Ad hoc meetings with investors and investment bank sales desks post trading update • Berenberg SDG investor conference
July	• 2022 half year results announcement
August	• 2022 half year investor roadshow
September	• 2022 half year results investor roadshow • UBS Business, Transport and Leisure investor conference • Citi Mid-cap and growth investor conference
October	• Q3 trading update • Ad hoc investor meetings
November	• Ad hoc investor meetings • Investec Best Ideas investor conference
December	• Jefferies ESG investor webinar

Stakeholder Relations continued

Board engagement with the workforce

The Board undertook two site visits during the year in review, the first in June 2022 to Madrid to hear how ALSA has been focusing on growth and then to Birmingham in November 2022 for a showcase on how technology is used as an enabler within the UK division. Further information on the site visits is shown below. As in recent years, this programme of site visits was supplemented by Directors participating in workforce engagement events, which for the year in review was undertaken through online listening forums and in-person engagement during site visits. Further details of these events can be found on page 116.

Madrid and Birmingham Site Tours

Madrid site tour

The Board visited Madrid in June 2022 and:

1

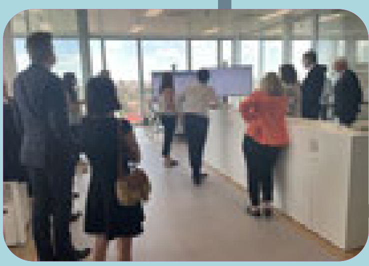
Received an update on ALSA's international growth strategy, including a review of the principal territories of interest

2

Learned about ALSA's long haul recovery and its return to growth through revenue management, marketing and operational initiatives

3

Was given a demonstration of how ALSA uses technology to provide connected mobility services, including ALSA's Mobi4U app, designed to drive patronage and revenue growth



4

Learned how the OPERATE programme was used to deliver efficiencies and cost savings to drive growth

5

Saw illustrations of the applicability of artificial intelligence and explored the benefits of GOAL as an optimisation tool

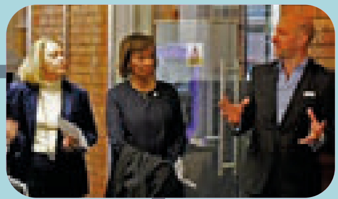
These touchpoints for the Board with the workforce are not just an important means of monitoring the Company's culture but they also serve to deepen Directors' understanding of how the Group's operations function in practice and allow them to hear directly from colleagues about matters that can either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

Birmingham site tour

The Board visited Birmingham in November 2022 for a digital showcase on how technology is used as an enabler throughout the customer journey in the UK division. During the visit, the Board:

1

Met with the digital team who spoke about using website optimisation to help customers find us and how we use our CRM system to better understand and build relationships with our customers



2

Spoke with the operations team about the use of technology within revenue management and yield maximisation when selling tickets

3

Saw how timetable and schedule optimisation allowed improved operational performance and provided a service which customers can rely on

4

Experienced one of our new driver simulator buses, where Helen Weir volunteered to take part in one of our simulator training exercises designed to improve driver skills and keep customers safe with us

5

Was given a briefing on other technology which is used to support the customer experience and how innovative technology and data may be used in the future to further improve the customer experience

Stakeholder Relations continued

Online listening forums

Online listening forums take the form of roundtable discussions between one or two Non-Executive Directors and 15-20 members of the workforce drawn from a variety of roles from bus drivers to middle managers. These forums have been positively received by those attending them who have commented, in particular, that the videocall format encourages a free-flowing dialogue.

Three online listening forums were held in 2022, one for colleagues from each of the Company's principal business divisions of UK & Germany, North America and ALSA. The UK event was attended by Karen Geary, the North American event by Carolyn Flowers and Matthew Crummack and the ALSA event by Jorge Cosmen and Ana de Pro Gonzalo.

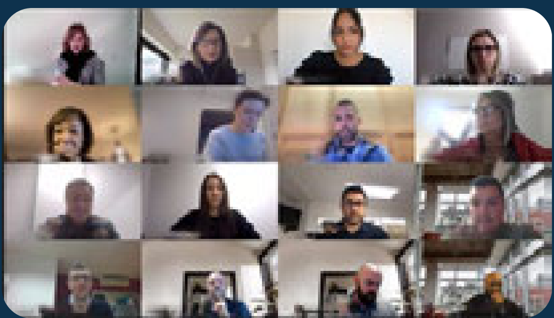
The topics of recognition, talent and career development emerged in all three forums as areas for consideration. These topics echo through the results of the global engagement survey, and are being addressed through the survey action plans, as further described on pages 78 and 138. Pleasingly, the other key theme that emerged from the forums was about the Company's culture, where the feedback was generally very positive.

Ms Flowers observed that:

"It was illuminating to hear from our colleagues, especially on how to incentivise and retain our key people and cultivate the culture we want to have."

Mr Cosmen noted that:

"There is a sense that the culture is good here" and he found it encouraging that "our people are very passionate and have a real sense of belonging; they really care about the Company."



In-person engagement during site visits

During Board site visits to ALSA and the UK division during 2022, the Non-Executive Directors hosted informal lunches with around 25 colleagues at different levels within their respective divisions. The colleagues in question were drawn from the Company's talent development programme and the lunches were an excellent opportunity for members of the Board to informally communicate directly with those colleagues to better understand their goals and aspirations, their views on the performance of their division and their proposed solutions to some of the challenges which are regularly discussed in the Boardroom. 'Growing our own' is a key feature of the Group's people strategy, and these lunches were well received particularly given the talent and career development themes emerging from the global engagement survey.

The Board also had the opportunity to engage with members of the senior leadership team from each of the ALSA and UK divisions over a dinner. The dinner enabled conversations, which had begun during the site visits or the divisional business presentations, to be continued in a more informal setting and for longer to be spent exploring and discussing individual issues.

Mr McKeon said that:

"The future looks bright – everyone I spoke to was very engaging and a real sense of pride shines through."

Ms de Pro Gonzalo was encouraged noting that:

"It is always very interesting to hear directly from our people; they bring some great ideas to the conversation that give us a different perspective".

Our Board workforce engagement methodology

The Company's workforce engagement events are a variant of the UK Corporate Governance Code recommended 'designated non-executive director' method of engaging with the workforce. Because they give more of the Directors and more colleagues the opportunity to speak directly with each other; they take due account of the size, geographic expanse, and cultural diversity of the Company's workforce; and the relative informality of their nature encourages open and honest discussion, they are considered by the Board to be more effective than that of the other Code recommended methods.

Understanding other stakeholder views

Most engagement the Company has with its other stakeholders, such as customers and passengers, suppliers, governments and regulators, takes place at the divisional level where a variety of well-established methods are used to ensure that divisional management understand their business' stakeholders' views. These views are passed to the Board through divisional business updates and dedicated stakeholder reports.

To supplement those updates and reports and to allow the Board more direct opportunities to understand stakeholder views, the Board also engages directly with wider stakeholders where there is appropriate opportunity to do so. In June 2022, the Board was pleased to meet with Jaime Moreno, the General Director of Land Transport from the Spanish Ministry of Transport, and Mr Khalid Alhogail, the president of UITP and CEO of SAPTCO, and in November 2022, the Board had the opportunity to speak with Andy Street, the Mayor for the West Midlands.

The key theme emerging from all three stakeholder meetings was the importance of partnerships, as further explained in the boxes below.

Further information about who the Company's key stakeholders, and how the Company engage with them, is set out on pages 66 and 67 of the Strategic Report. Further examples of how different stakeholders' interests have been taken into account by the Board in its decision-making are also set out on pages 109 to 110 of this Corporate Governance Report.

As Mayor for the West Midlands, Mr Street is a key stakeholder for the UK Bus division. He explained to the Board that he believes the success of the partnership between the West Midlands Combined Authority (WMCA) and National Express is rooted in their joint commitment to provide reliable, convenient, affordable and green services to the local residents. This joint commitment was evidenced by how the network was protected during and in the course of the recovery from the pandemic. And through partnership, significant funding was obtained to freeze fares and drive growth through increased patronage, and to purchase new zero emission vehicles, with Coventry set to become the UK's first electric city. Explaining that hundreds of millions would be available through the West Midlands Bus Service Improvement Plan and other funding streams, Mr Street observed that the WMCA will need their partnerships with operators to help them deliver on that plan and he sees National Express as one of those key partnerships.

Mr Alhogail is the president of UITP (Union Internationale des Transports Publics) and CEO of SAPTCO. UITP is the only worldwide network to bring together all public transport stakeholders and all sustainable transport modes. SAPTCO holds 85% of a stake in a joint venture with ALSA, which joint venture company is bidding for the Intercity Bus concession tender in the Kingdom of Saudi Arabia (KSA). Having given an overview of key global transport trends observed by UITP, Mr Alhogail lead a discussion with the Board on the importance of building partnerships when providing mobility solutions and noted that the success of ALSA in Morocco was a determining factor for SAPTCO in deciding ALSA was the right urban operator to partner with in bidding for the KSA Intercity Bus concession.

Mr Moreno is the General Director of Land Transport at the Spanish Ministry of Transport, one of ALSA's key stakeholders. He provided an update to the Board on the changes to the tendering process and the new map of public transport services in Spain as well as on the introduction of a new Spanish mobility law. When discussing the impact of these changes on operators, Mr Moreno emphasised that although price was important, it was not the only consideration with safety and quality also being key. In this respect, Mr Moreno concluded that ALSA's reputation in the industry was such that the Spanish Ministry could be confident when partnering with ALSA that these important service elements would be of a very high standard and that ALSA would be a very reliable partner.

"2022 was another busy year for the Nominations Committee as we progressed the succession plans in relation to our Chair and responded to the need to appoint a new Group Chief Financial Officer. We were delighted to announce the appointment of Helen Weir as Independent Non-Executive Director and Chair Designate on 8 September 2022 and to confirm James Stamp as the permanent Group Chief Financial Officer on 5 December 2022"

Composition, succession and evaluation

Nominations Committee Report

Primary role

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

The Committee's terms of reference, reviewed and approved annually, are available at www.nationalexpressgroup.com.

Key responsibilities

- Monitor the structure, size and composition (including the knowledge, experience, skills, independence and diversity) of the Board and its Committees and make recommendations to the Board regarding any changes to such matters
- Develop and implement effective succession plans for the Board, its Committees and senior management, having regard to the skills and expertise needed to ensure the long-term sustainable success of the Company, including by overseeing the development of a diverse talent pipeline and monitoring the Company's diversity policies and initiatives and their effectiveness
- Lead a rigorous and transparent process for identifying, interviewing and selecting candidates to serve as Directors on the Board and its Committees and making recommendations to the Board for their appointment
- Assist the Chair with the annual evaluation of the effectiveness of the Board, its Committees and the Directors

Activity highlights

- Kept the Board and Committee composition under review, re-commenced and concluded a Chair succession process and considered future Board and Committee succession planning in light of forthcoming Director term limits
- Considered the resignation of Chris Davies as Group Chief Financial Officer and put in place arrangements to identify and appoint his replacement, James Stamp, including appointing external search consultants to assist with those arrangements
- Continued to review updated and more detailed senior management succession plans and reviewed proposals for the enhancement of talent identification and development programmes across the Group
- Reviewed the diversity of the Group's senior leadership teams and the Group's broader workforce, and the diversity and inclusion initiatives taken across the Group

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meeting held
Jorge Cosmen (Chair)	01.12.05	–	3/3
Sir John Armitt	01.01.13	31.12.22	3/3
Karen Geary[1]	01.10.19	–	3/3
Matthew Crummack[1]	28.01.20	–	3/3
Carolyn Flowers[1]	30.11.21	–	3/3

1 Independent Non-Executive Director

Other attendees: Group General Counsel and Company Secretary, Group Chief Executive Officer and Group HR & Communications Director

Further information about the Committee members is set out on pages 98 and 101

Dear fellow shareholder

I am pleased to present the Nominations Committee Report for the year under review. 2022 was another busy year for the Nominations Committee as we progressed the succession plans in relation to our Chair and responded to the need to appoint a new Group Chief Financial Officer following Chris Davies' resignation. We also continued our work considering Board succession more broadly as a number of Directors approach their current term limits and continued our review of the Group's senior management succession and talent development plans, which are key to the Group's growth and success.

Board and Committee composition during the year under review

Throughout 2022, the Committee has kept the composition of the Board and its Committees under review.

Succession planning for Sir John Armitt, who reached his nine-year tenure as Company Chairman in February 2022, had commenced in early 2021 but was paused as a result of discussions with Stagecoach on the potential combination. Once it became clear that the potential combination would lapse, the Committee re-commenced a succession process engaging with independent consultancy Sam Allen Associates to assist it in that process.

Following a thorough review of the market place and an interview process that involved all of the Non-Executive Directors, the Executive Directors and a number of members of the Group Executive Committee, we were delighted to announce the appointment of Helen Weir as Independent Non-Executive Director and Chair Designate on 8 September 2022. Helen commenced her role on 1 October 2022 and stepped up to the role of Chair with effect from 1 January 2023. Sir John remained as Chairman until 31 December 2022 to provide continuity of leadership to the Company and the Board pending the selection of his successor.

Helen has undertaken a bespoke induction programme which has seen her make site visits to each of our major divisions, spend time with each Director and each member of the Group Executive team and also provided access to a number of key members of senior management within both the Group and each of our divisions. Introductions to, and briefings from, our key financial and other advisers have been provided and engagement with our most significant shareholders has commenced. Helen is also participating in The Board Advisory Partnership's 'Chairing in Practice' programme during the first half of 2023 where a small group of new or incoming Chairs have sessions on various topics from building relationships with stakeholders to leading the Board under adversity, each led by experienced Chairs. This programme will provide Helen with a network of fellow Chairs who have a wealth of experience for guidance and support. A Q&A with Helen, in which she shares her initial observations and views on modal shift, is set out in Appendix 1 to this Report.

In August 2022, Chris Davies informed the Board that he wished to resign from the business to take up another role. Chris had joined National Express in May 2017 as a member of the Board and Group Executive team, and played a key role in developing the Company's Evolve strategy, as well as its strong recovery post pandemic. Following Chris' resignation he remained with us until October 2022 working with Ignacio, James Stamp and the rest of the Group Executive to ensure a smooth hand over of responsibilities. We wish Chris all the best for the future.

Following Chris' resignation, we appointed independent search consultancy Russell Reynolds to assist us with the process for the selection of a permanent Group CFO. We also appointed James Stamp to the role of Interim Group Chief Financial Officer and he joined the Board on 1 November 2022. James joined the Company in July 2017 and had previously served on the Group Executive as Group Commercial and Strategy Director and as the CFO for the UK and Germany.

Having reviewed and interviewed a strong field of external and internal candidates and in light of his strong performance in the interim role, we were delighted to recommend to the Board that James be appointed as permanent Group Chief Financial Officer. His appointment was announced on 5 December 2022.

Following these changes, the Board is now comprised of nine Directors who, as described in their biographies on pages 98 to 101 and as shown by the table below, have, between them, a wide range of highly relevant knowledge, skills, and experience. This table is used by the Committee when considering for Board succession planning.

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

The Remuneration and Audit Committees are each composed of three independent Non-Executive Directors who between them have both the requisite disciplinary experience and wider relevant experience. The Nominations Committee remains composed of a majority of independent Non-Executive Directors who, between them, have a good balance of relevant skills and experience.

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

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

Composition, succession and evaluation

Nominations Committee Report continued

Board, Committee and Director effectiveness

To assess the effectiveness of the Board, its Committees and of individual Directors for the year in question, an internal evaluation was conducted by the Group General Counsel and Company Secretary by way of individual interviews with Directors.

The findings of that evaluation are summarised in Appendix 2 to this Report.

The focus areas for 2023 will be: 1. on Board succession and composition as some Directors approach their 9-year tenure, 2. to build a 12-month rolling agenda to ensure there are appropriate opportunities to 'deep-dive' into strategic topics, 3. on ensuring there is broader Board stakeholder engagement. Progress against these objectives will be reviewed on a regular basis through the year.

Senior management succession planning

During 2022, the Committee undertook its second 'deep dive' into senior management succession planning, undertaking a comprehensive assessment of the health of succession planning across the Group to assess how much progress had been made since the first 'deep-dive' conducted in 2021. This assessment covered 182 management roles and considered the succession pipeline for all such roles over four different time horizons. It also considered the diversity within the pipeline.

Following its second assessment, the Committee was pleased to see the progress made during 2022 noting that there are now succession plans and talented individuals in the pipeline for the majority of the roles over most of the time horizons. We observed that there is more work to do in developing our high potential candidates. A particular highlight was the improvement of the gender succession pipeline which at the time of the review was 31% female (versus 19% in the 2021 review). The Committee was also pleased to observe that a consistent and standard talent identification tool has been implemented during 2022, with all members of the senior leadership team having been assessed using the tool and trained on how to identify talent in their teams. The tool will now be rolled out to all levels of management to help identify long-term successors. The Committee will continue to conduct 'deep dives' in future years to assess progress.

Board and Company commitment to diversity and inclusion

The Board and Company remain committed to enhancing diversity at all levels of the Group's organisation, from the Board and senior management team to those working in front-line roles. The reasons for this commitment are those cited previously, as set out in the box below. They in turn help support the delivery of our Evolve strategy by contributing directly to our desired outcome to be the employer of choice.

They also contribute indirectly to other desired outcomes, such as to be the safest and most reliable operator and have the most satisfied customers.

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

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

The Board's own diversity policy is set out in the box below which has been updated this year as shown in italics and, following review, the Committee believes this remains the right policy by specifically promoting gender and ethnic diversity among Board members as well as diversity of thought while also ensuring all Board members have the right experience and skills. Committee members are drawn from the Board, and therefore these policy considerations have already been taken into account when considering Committee membership.

The Board's policy on diversity and inclusion is:

- to achieve and then maintain at least *40%* female representation on the Board;
- to achieve and then maintain ethnic minority representation on the Board;
- to ensure that its membership reflects the diversity of the geographies and customers that the Group serves *and takes into account wider diversity characteristics;* and
- to respect the differences of its members and value and encourage the diversity of thought that such differences can bring,

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

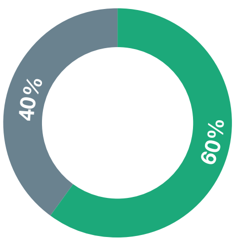
The Company is also pleased to report its progress on the new board diversity targets which were introduced in the Listing Rules in 2022. The chosen reference date is 31 December 2022 and, as at that date, the Company had met two board diversity targets of having 40% women on the Board and at least one ethnic minority director on the Board, and was on track to achieving the third target, of having a woman in at least one senior board role, through the appointment of Helen Weir in October 2022 as the Chair designate. Since the reference date, and as noted above, Sir John Armitt stepped down from the Board on 31 December 2022 and Helen Weir has taken over as Chair from 1 January 2023. As a result, and as at the date of this Report, the Company has met all three of the new board diversity targets.

The table set out in Appendix 3 to this report sets out the numerical data on diversity as at 31 December 2022 in the standardised table format as required by the Listing Rules. We engaged with the individual members of the Board and the Group Executive Committee ('GEC') to verify their diversity data which was collated for the purposes of making the disclosures and providing the numerical data required by the Listing Rules. The gender and ethnic diversity of the Board as at 31 December 2022 is also shown by the pie charts below.

Board

Gender

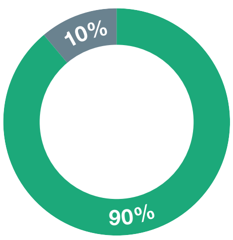
as at 31 December 2022



● Men
● Women

Ethnicity

as at 31 December 2022



● White
● Ethnic Minority

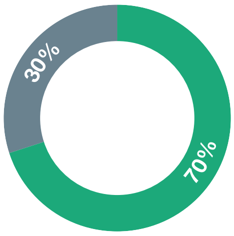
Diversity is also a key consideration in senior management succession planning and, as noted before, diversity within the current senior management team and the talent pipeline was considered as part of the 'deep dive' review.

The gender diversity of the GEC and GEC direct reports, as well as the gender diversity across our whole workforce, are illustrated by the pie charts shown at the top of the next column. As is shown by these pie charts, gender diversity remains strong from the senior management level across the entire workforce as a whole. We believe we have good ethnic diversity across the workforce as a whole given that we operate in many countries and ethnically diverse cities and our workforce is drawn from these vibrant communities.

Gender

GEC

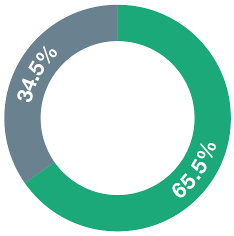
as at 31 December 2022



● Men
● Women

Direct reports to GEC

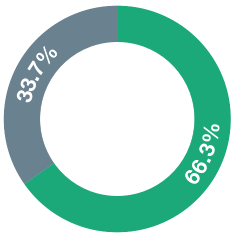
as at 31 October 2022



● Men
● Women

All colleagues

as at 31 December 2022



● Men
● Women

The Group launched its diversity and inclusion strategy in 2020. As part of this, there were three strategic ambitions:

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

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

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

Since 2020, progress has been made across all three strategic aims. Particular highlights include: in our North America division, a number of internal programmes have been developed to support commitment to diversity, equity and inclusion ('DE&I'), including 'Unidos for National Express' and 'Women's Inspiration Network ('WIN') both of which were launched in 2022; in ALSA, the focus has been on increasing the number of women in the workforce and in senior management roles, where it has set ambitious gender targets; and Morocco has set up an Equality Commission. Page 79 of the Strategic Report provides further information on all of these initiatives.

Composition, succession and evaluation

Nominations Committee Report continued

In 2022, the Group launched a new global people strategy with three key pillars – one of these, Embrace, is our approach to DE&I. The Group's Internal Audit function has been tasked with providing an objective review of progress against the strategic aims and wider progress of the 2020 DE&I strategy. Using the outputs from this audit, a new strategy will be launched to refresh our approach to DE&I as part of the Embrace pillar; this is a crucial enabler of the Evolve outcome of being an 'Employer of Choice'.

Proposed re-election and election of Directors

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

The Committee has also considered the independence of each individual Director and the overall independent balance of the Board and its Committees. The Board, on the Committee's advice, is satisfied that there is an appropriate balance of independence on the Board and all its Committees and that each Director who is identified as being independent on pages 98 to 100 is so independent.

The Committee further considered each individual Director's commitment to the Company, their external commitments and any actual and potential conflicts of interest in line with the refreshed policies adopted by the Board during the year, as referred to on page 107. The Board, on the Committee's advice, is also satisfied that each Director has dedicated, and is able to dedicate, sufficient time and attention to their duties to the Company.

Accordingly, the Board, on the Committee's advice, is recommending that shareholders re-elect, or elect, all the current Directors of the Company at the 2023 AGM.

Jorge Cosmen
Nominations Committee Chair

1 March 2023

Appendix 1

Q&A with
Helen Weir

Q. What are your first impressions of National Express?

A. I've been really impressed; there is a great strength in the Group's diverse global operations. Our core purpose of leading modal shift provides us with an opportunity to make a real difference to the customers and communities that we serve not just now, but also in the future.

It is also very clear to me that a relentless focus on safety is strongly embedded in our culture. With ever more vulnerable road users and complex road layouts, safety remains a top priority at every level of the business, from the Board where we receive a safety report at every meeting to colleagues on the ground implementing our action plans.

The Group's people have also stood out for me as another real strength. It is a very welcoming and open culture, and it has been very powerful for me to hear the sense of pride and positivity from our colleagues.

Q. In your first few months, what operations have you visited?

A. I am a great believer in getting out and about to really get to know a business, so I've been visiting a number of depots and sites right across our operations.

In November, we had a Board visit to Birmingham. Further details of this visit are on page 115. Since becoming Chair, I've also visited ALSA's Torrejon depot, the Coventry and Perry Barr depots and Victoria Coach Station in the UK, our school bus division and shuttle and transit offices across San Francisco and Chicago. These visits have given me the opportunity to speak to a good mix of our colleagues across our global operations and understand what matters to them, as well as providing opportunities to speak with a number of our customers.

Q. What will you bring to the Chair role?

A. I will bring depth of business experience and a customer focus; I've served on a number of UK listed Boards over the last 20 years in a variety of primarily customer facing sectors. I have a real understanding of solving business problems, meeting customer needs and doing so efficiently, while delivering for our colleagues, shareholders and other stakeholders.

I am a big believer in teamwork as the basis for success of any business. And I believe that a key role of the Board is to agree the direction of the business, and ensure that resources are appropriately allocated to deliver its objectives, working alongside and as a critical friend to our Group Executive Committee.

Q. What challenges and opportunities do you think are ahead?

A. The current macro political and economic backdrop is tough and presents a number of challenges. These include higher interest rates, rising costs, labour shortages and wage pressures. Like many other businesses, we are spending a significant amount of time responding to these external factors.

As a market leader, we have a significant and diverse pipeline of new territories and new cities within our existing territories, which provide opportunities for growth; the key will be positioning ourselves to take full advantage of these and addressing the current leverage on our balance sheet to provide headroom for the pursuit of those growth opportunities.

Q. What excites you about National Express' Evolve strategy?

A. One of the strengths of the Evolve strategy is that it sets out not only where we have opportunities for growth in our customer propositions but how we will deliver on them through the strategic outcomes. It is clear that we are very well positioned to benefit – and drive – modal shift in transportation which is essential to deliver on global emission reduction targets. To be successful in this, we need every person in the Group to be engaged with our purpose and to have a clear sense of the role they can play in delivering modal shift. The Evolve strategy achieves this.

Q. What are your views on modal shift?

A. Modal shift is a big opportunity for National Express. Getting more people out of their cars and into public transport will be vital to reducing climate change. The Confederation of Passenger Transport predicts that a 1% modal shift away from cars and onto buses would result in an increase of bus passenger journeys of 27%. For us to be at the forefront of this shift is very inspiring.

However, we mustn't take the opportunity for granted; to achieve our purpose of leading modal shift, we need to encourage people out of their cars and into mass transit by providing them with a great customer experience. That's why our Evolve focus on delivering the 'most satisfied customer' and providing services which are the 'most reliable' and the 'safest' is so important.

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

A. I'm a big believer in having a diverse Board and a diverse workforce. Not only will it ensure that we attract the best talent, but it is also reflective of the customers we serve so will allow us to better understand their needs.

I'm pleased that the Board now meets the new diversity criteria set out in the Listing Rules. More generally, and notwithstanding that we are in a sector which has traditionally been male dominated, we have reasonable female representation at senior management levels - although there is still more to be done.

I am encouraged that 76% of colleagues who responded to our Your Voice survey were positive about the Group's approach to diversity and inclusion. I'm a big believer in 'what gets measured gets done', so I'm keen that we find a way of improving our measurement of ethnic diversity data across the business so that we can be sure that we are providing opportunities for colleagues from all backgrounds to develop and progress in the business. That said, from my site visits and discussions with the senior management team, I've heard about the many diversity initiatives that are happening in each of our territories and know that this is something which is taken very seriously.

Nominations Committee Report continued

Appendix 2 – Board and Committee Evaluation

An internal evaluation of the Board and its Committees was undertaken in relation to 2022 with the evaluation being conducted by the Group General Counsel and Company Secretary. It focussed on how the Board (and its Committees) had operated in 2022 and the progress made in relation to the actions agreed with regard to the 2021 evaluation. The table below summarises the key findings of the 2021 evaluation, the actions to be taken to follow up on them and a measurement of progress in implementing those actions:

Key strengths	Areas for continued focus in 2021	Follow up actions from 2021	Progress in implementing those actions in 2022
A highly experienced, knowledgeable and diverse Board with, among its members, a broad range of skills and a collective deep understanding of passenger transport, benefitting also from strong diversity in both members' backgrounds and thoughts	– Ensure individual Directors' experience and knowledge is leveraged to the best benefit of the Company – Enhance the Board's skills and experience in areas such as digital, cyber and Environment, Social and Governance (ESG) – Ensure there are protocols and procedures to ensure Board decision-making is as efficient and effective as possible in view of the increasing Board agenda	– Continue to closely monitor Board and Committee composition to assess if Board members' collective experience and skills are continuing to meet the Company's needs, having particular regard to transformation in the industry, the Group's international reach and its entrepreneurial spirit	– The Nominations Committee managed the process of Chair succession and a new Group CFO. It also put in place plans for future Board succession as a number of Non-Executive Directors reach their term limits
		– Provide more Board training and bring in external advisers or specialist speakers to enhance Board skills and inspire thinking	– Both the Board and a number of its Committees have engaged with external speakers and advisers (see for example Sustainability Committee and Board discussions in Spain and with Andy Street)
		– Create Board meeting protocols to facilitate more efficient decision-making, and clarify the actions required of the Board in executive summaries in Board papers	– Board members believe there have been better quality discussions, leveraging individual Directors' experience and knowledge
Open and collegiate style of Board discussions, enabled by the Chair's and CEO's approach	Ensure all discussions are goal-orientated and achieve a better balance between key Board discussions on strategy, risks and opportunities versus all other business	– Follow new Board meeting protocols to ensure decision-making is as efficient as possible	– Time has been allocated in the rolling agenda for the Board to review the style and manner of Board operations
		– Dedicate more Board time to tracking progress against strategy and incorporate a strategy KPI dashboard into Board papers to facilitate this	– A new KPI dashboard will be launched in the first part of 2023

Key strengths	Areas for continued focus in 2021	Follow up actions from 2021	Progress in implementing those actions in 2022
Appropriate attention given to succession planning, with the focus in recent years on CEO and Chair succession planning	Focus more on below Board level succession planning, including by reviewing the talent pipeline deeper down in the organisation	– Nominations Committee 'deep dives' into senior management succession planning, initiated in 2021, to continue going forwards and to be expanded to cover more middle management roles and provide more detailed assessments of the Group's talent identification and development programmes	– The Nominations Committee has continued to monitor and focus on succession both at Board level, within senior management planning and looking further into the Group's talent identification and development programmes
Excellent established programme of Board visits to the Group's operations and workforce engagement opportunities for Board members	Strengthen other stakeholder relations, through more Chair and Non-Executive Director shareholder engagement and through new ways of hearing from other stakeholders	– Engage more with shareholders at appropriate opportunities – Identify new opportunities for the Board to hear directly from more customer, supplier, regulator and other key stakeholders	– The Chair of the Remuneration Committee has engaged on Executive Directors remuneration during 2022 – Opportunities have been taken to hear directly from joint venture partners, customers and national transport regulators in a number of markets within which the Group operates
Effective Board Committees discharging their extensive duties	Each Committee to dedicate appropriate time to both core and non-core matters within their remits and seek specialist management or external views where appropriate	– Ensure Committee meeting agendas dedicate sufficient time to both core and non-core matters – Bring more specialist and external views into Committee meetings	– Committee agendas are reviewed suitably far enough in advance to ensure the right topics are included for discussion – Specialist and external view points have been brought into meetings where appropriate, for example, BRODIE attended the November meeting of the Sustainability Committee in 2022. See page 139 of this Corporate Governance Report.

Nominations Committee Report continued

Key strengths	Areas for continued focus in 2021	Follow up actions from 2021	Progress in implementing those actions in 2022
Continued strong focus on the Group's health & safety agenda and increasing focus on the Group's wider ESG agenda and culture	Create more opportunity to monitor the continued development and delivery of the Group's environment strategy and the effectiveness of the Group's people initiatives, including particularly those that underpin and support the Group's culture	– Consider whether the existing Safety & Environment Committee should be restructured into a Committee with a wider ESG remit, ensuring sufficient time is given to these matters but that the focus on safety is also maintained.	– In May 2022 the decision was taken to establish a Sustainability Committee which has a wider ESG remit (see the Committee's Report on pages 136 to 139). Safety remains a priority for National Express and is at the heart of its culture - it is a standing Board agenda item with the Group Safety Director invited to attend every Board discussion on safety. See pages 103 to 104 of this Corporate Governance Report
		– Identify further ways to monitor the Group's culture, including by a review of the outcome of the first Group-wide staff engagement survey to be conducted in 2022	– The Board reviewed the outcome of the first Group-wide employee survey and the Sustainability Committee reviewed progress of implementing action plans. These Group-wide surveys will be used again in future as a useful tool for monitoring culture

Appendix 3 – Numerical Diversity Data as at 31 December 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number of executive management	Percentage of executive management
Men	6	60%	4	7	70%
Women	4	40%	–	3	30%
Other categories	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number of executive management	Percentage of executive management
White British or other White (including minority—White groups)	9	90%	4	10	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/ Caribbean/Black British	1	10%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–

"Whilst the impact of Covid-19 has significantly subsided compared to the previous two years, the macroeconomic and geopolitical backdrop has brought other challenges to be navigated and the Committee has monitored the impact of these closely during the year"

Audit Committee Report

Primary role

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

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com

Key responsibilities

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

Activity highlights

- Reviewed and satisfied itself as to the integrity and fairness of the Group's half and full year financial statements and the appropriateness of their being prepared on a going concern basis
- Assessed and challenged the appropriateness of the Company's viability statement
- Assessed and challenged management's approach to key accounting judgements and estimates including the impairment of goodwill in respect of the ALSA division
- Reviewed the findings and monitored the effectiveness of the internal audit function, and reviewed the programme of internal audits for the year ahead
- Review of effectiveness of risk management and internal control systems
- Reviewed the opinions and monitored the independence and effectiveness of the external auditor
- Supported the Board in its management of risk by its continued programme of 'deep dive' reviews into divisional risk and its ongoing review of cyber risk
- Reviewed the framework of the Group's compliance programme and the corporate policies comprised within it

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Mike McKeon (Chair)[1]	03.07.15	–	4/4
Ana de Pro Gonzalo[1]	01.10.19	–	4/4
Carolyn Flowers[1]	04.12.21	–	4/4

1 Independent Non-Executive Director

Other attendees: Group General Counsel and Company Secretary, the Chair of the Board, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit, Group Head of Compliance & Risk and representatives of the external auditor, Deloitte LLP

In addition to the 4 scheduled meetings recorded above, the Committee held additional dedicated meetings to review the divisions' principal and emerging risks and their management of such risks, as further explained on page 130

Further information about the Committee members is set out on pages 98 to 101

Dear fellow shareholder

I am pleased to present the Audit Committee Report for 2022. During the year under review, the Audit Committee's core duties remained unchanged. While the impact of Covid-19 has significantly subsided compared to the previous two years, the macroeconomic and geopolitical backdrop has brought other challenges to be navigated and the Committee has monitored the impact of these closely during the year. A total of four meetings were held during the year, as well as four deep dive divisional risk register reviews.

Financial reporting

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

Key accounting matters

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

Going concern assessment

As the Group emerged from the more significant impacts of Covid-19, the Committee reviewed and robustly challenged management's assessment that the Group's financial statements for the six-month period ended 30 June 2022 and for the financial year ended 31 December 2022 should be prepared on a going concern basis.

Management developed both base case and reasonable worst case financial scenarios over a 12-month look forward period using assumptions about trading drawn from the Group's strategic plan, budget and latest financial projections. They then applied stress tests to both those scenarios to determine whether the Company would be able to meet its liabilities as they fell due, having regard to the Group's liquidity and covenant tests; the latter reverting to pre-amended levels for all covenant tests from 2023 onwards. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group would have sufficient liquidity and be able to comply with its debt covenants and there was no more than a remote possibility that it would not be able to do so even after the application of the further stress tests. Accordingly, the Committee recommended to the Board that the Company's, and its Group's, financial statements at the half and full year be prepared on a going concern basis.

Viability assessment

The Committee also carefully considered management's view of the Company's viability for the three-year period ending 31 December 2025, including the rationale for assessing viability over a three-year period. The testing of viability involved the analysis of base case and reasonable worst case scenarios projected forwards over this three-year period by reference to trading assumptions drawn from the Group's strategic plan, and factored in the impact of risks including known and likely future climate risks that could materialise over this three-year period, offset by reasonable mitigations. The Committee satisfied itself that, in both the base case and reasonable worst case scenarios, the Group should be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Committee recommended to the Board that the Company make its viability statement as set out on pages 62 to 63 of the Strategic Report.

Risk management

The Board has overall responsibility for risk management. The Committee supports the Board by conducting 'deep dive' reviews into the Group's divisions' risk management activities (as explained in the section below on divisional risk reviews) as well as certain specific Group-wide risks, and by reviewing the Group's compliance programme.

Group risk appetite and principal and emerging risk review

The Board's risk appetite and assessment of the Group's principal and emerging risks, as well as a description of how the Group manages risk, are set out on pages 56 to 61 of the Strategic Report. The Group's climate-related risks and opportunities are considered in more detail in the TCFD disclosures on pages 81 to 94.

Audit Committee Report continued

Divisional risk reviews

During 2022, the Committee reviewed the Group's divisions' principal and emerging risks and their management of such risks. These were undertaken during additional dedicated meetings of the Committee at which risk and senior managers from each of the divisions presented their principal and emerging risk registers and explained how they were managing, and where possible, mitigating risk. Mirroring the Company's approved approach to Group-wide risk, the divisions record their risks in the form of heat maps which categorise both their likelihood and potential severity according to Group developed guidance. Each risk is then assigned a business owner who develops and oversees the delivery of mitigating actions, that are tracked at regular divisional management meetings.

The Committee observed that the Group's divisions had included both current and emerging strategic, compliance, financial, operational and reputational risks in their registers and had developed action plans to manage such risks over the different time profiles over which such risks could materialise. It was also pleased to note that certain matters identified as risks were also viewed as opportunities. Additionally, following the detailed exercise in 2021 to identify climate-related risks and opportunities, environmental risks had been identified and classified in all divisions' risk registers. Using insights gained from the Board's work on overseeing Group-wide risks and the Committee's work on reviewing divisional risks, the Committee was able to challenge each division on whether it had identified and appropriately classified its risks and whether it was adopting the most effective mitigation plans, and share best practices the Committee had observed within each division.

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

Cyber risk review

Cyber risk remained a standing item on the Committee's agenda in 2022, with the Group's ongoing cyber security programme, and the progress being made against the specific deliverables comprised in such programme, assessed at each of the regularly scheduled Committee meetings.

Compliance risk

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

In 2021 the Group engaged a new dedicated Group Head of Compliance and Risk. During 2022 the work of this role included developing a Policy Compliance Management Framework that: establishes a common approach globally for all policy owners to manage their policies; sets out the minimum requirements across all divisions; provides guidance on policy creation and review; and provides ongoing awareness and training against these. Additionally, the Group Head of Compliance and Risk has been managing the Risk Management Framework globally and continuously improving the second line of assurance. The Group Head of Compliance and Risk, working with the Group Chief Financial Officer and Group General Counsel and their teams, has also been keeping the proposed reforms on audit and corporate governance under review and has made recommendations to the Committee on how to comply with the new requirements and implement best practice recommendations. At the request of the Committee, the Group Head of Compliance and Risk attends all Committee meetings to both report on progress in her area and to have an understanding of other aspects of the Committee's work.

Internal control

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

System of internal control

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

The Committee assesses the performance of the three lines of defence model, as well as the operation of internal controls through the year and up to the date of approval of the annual report and accounts, through its review and challenge of the work performed by the internal audit function. In addition the Committee requests follow-up updates from management on controls in specific areas, for example in response to the findings frominternal audits or risk reviews.

In light of the BEIS white paper on restoring trust in audit and corporate governance, the Committee reviewed management's plans to prepare for what the eventual requirements may be. While the requirements are not yet certain, the Committee and management agreed that steps should be taken to further strengthen the Company's internal control environment.

Management's progress during the year, reviewed by the Committee, included:

- Conducting a scoping exercise, supported by EY, to determine the scope of internal controls framework that should apply to each entity, under an enhanced internal controls requirement.
- Engaging an internal controls and SOX specialist, on an interim basis, to review and document the internal controls in the UK division, including the outsourced shared services centre in India.
- Developing a roadmap for implementing a group-wide enhanced internal control environment.

The Committee will continue to evaluate future developments in this space.

Internal audit

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

The 2022 audit plan included: audits of standard divisional financial controls; audits of key safety and operational controls; reviews of newly acquired businesses, such as Gumidafe in the Canary Islands, Rober in Granada, and Dublin; audits of particular operational initiatives including the driver recruitment process in North America; and audits on core Group-wide controls and initiatives such as the delivery of the Group's cyber security programme and the ESG agenda.

Internal audit reported all the findings from its audits and recommendations for follow-up management actions to the Committee.

During the year, Internal Audit also conducted a review to confirm that, in a context of a global shortage of key goods and materials, increased supply chain disruptions, and increased logistical and shipping costs, the Group has reviewed its third party supply chain and taken appropriate steps to reduce the impact of those risks.

Internal audit effectiveness

The Committee is responsible for monitoring the effectiveness of the internal audit function. In respect of its work in 2022, the Committee monitored this effectiveness by reviewing the scores that colleagues, whose work or controls were subject to internal audit, awarded to the function on a 'value scorecard' and by making its own assessment of the quality of that work. The Committee is satisfied that the Company's internal audit function continues to be effective.

Significant weaknesses or control failures

Following its review of and conclusions from all elements of assurance, the Committee is satisfied that there are no significant weaknesses or control failures to report in respect of the Company's financial year ended 31 December 2022 other than in respect of deferred tax. During the year a couple of errors were identified in respect of previous periods that were collectively material and as such were corrected as a prior year adjustment. A review of the Group's controls over deferred tax has been initiated and will be concluded during the first half of 2023, with enhanced controls implemented and operating before the tax balances for the year ended 31 December 2023 are determined.

External audit

Deloitte LLP is the Company's auditor. Deloitte was first appointed as auditor in 2011 and, following its selection in the Company's audit tender conducted in 2020 and shareholders' approval given at the Company's 2022 AGM, was re-appointed in 2022. Deloitte's continued appointment will be subject to shareholders' annual approval at prospective Company AGMs. Jane Whitlock is the Company's audit partner, completing her second year in that role, following the mandatory rotation of the previous Deloitte audit partner in 2021. The Company has therefore complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External audit plan and fee

The 2022 external audit plan, which was prepared by Deloitte and reviewed and approved by the Committee, comprised full scope audit procedures for the Group's UK, ALSA and North America divisions and a limited scope audit on the German Rail division. It included: the review by Deloitte of the Consolidated Financial Statements; its challenge of management's significant judgements and estimates; its review of certain of the Group's key financial and fraud controls and of the risk of management override of controls; and its consideration of certain aspects of the Group's non-financial reporting, including the Group's TCFD disclosures. Deloitte's fee for undertaking the 2022 audit, of £2.45m, was also approved by the Committee.

As part of the external audit plan, Deloitte also presented to the Committee a proposed set of audit quality indicators. These were agreed by the Committee and the results will be reviewed following completion of the 2022 year-end audit process.

External audit effectiveness

The Committee is responsible for reviewing the effectiveness of the Company's external audit. The Committee did so by considering the outcome of colleagues' evaluation of the quality and efficiency of Deloitte's work, using an audit quality indicator framework developed in the year in line with the framework set out by the Financial Reporting Council, and is satisfied

Audit Committee Report continued

that Deloitte performed its work to a high standard. As noted above, Deloitte's performance against its audit quality indicators will be reviewed at the next Audit Committee meeting.

External auditor provision of non-audit services and independence

The Committee is also responsible for reviewing the auditor's independence and objectivity. The Company operates a non-audit services policy which sets out the permitted and prohibited non-audit services its auditor may be engaged to provide, for the purpose of safeguarding the auditor's objectivity. The Committee reviewed the policy during the year and determined it remained fit for purpose. It also reviewed the Company's compliance with the policy, which was confirmed as Deloitte performed only permitted non-audit services during 2022 for which its fees totalled £0.3 m, representing 12% of the total audit fee. The non-audit services during 2022 principally comprised the 2022 half year review and comfort letters in respect of the European Medium Term Note renewal. The Committee concurred with management that the auditor was best placed to undertake these services given that both services are aided by knowledge gained during the annual external audit.

Having regard to the operation of the non-audit services policy during 2022, together with Deloitte's reports to the Committee confirming its independence at the half and full year, the Committee assured itself of Deloitte's ongoing independence.

Board assessment of effectiveness

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

Fair, balanced and understandable

Having carefully reviewed the Company's 2022 Annual Report, and considered management's approach to its preparation, including in compliance with applicable laws and having regard to the UK Corporate Governance Code, the FRC's best practice guidance, and having heard the views of its auditor, the Committee recommended, and in turn the Board confirmed, that this Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

M McKeon

Mike McKeon
Audit Committee Chair
1 March 2023

Appendix 1 – Key accounting matters

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

	Key accounting matter	Committee action and conclusion
Impairment of goodwill (see note 14 to the Consolidated Financial Statements)	In determining whether assets are impaired or, in the case of ALSA, the quantum of impairment to be made, management is required to make a number of estimations and assumptions, including on future cash flow projections, discount rates and perpetual growth rates.	The Committee carefully considered management's work on the impairment analysis and testing of the value of the Group's goodwill balances, applying particular focus to the value of the impairment of the ALSA division's goodwill. These impairment assessments were based on modelled forecast cash flows, discounted using a country-specific weighted average cost of capital (WACC) and a terminal value based on a perpetual growth rate (PGR). The WACCs increased significantly in the year, principally due to increases in the risk-free rate and the cost of debt. After considering the assumptions made by management in forecasting cash flows, which remained largely unchanged, and its rationale for the WACCs and PGR, and taking into account the auditor's views on these matters, the Committee concurred with management's view that an impairment of £260.6m of ALSA's goodwill was required and that no impairment was required to goodwill attributable to other cash generating units. In arriving at the conclusion on the impairment of ALSA's goodwill, the Committee also reviewed management's assessment that its value-in-use calculation of the recoverable amount was not lower than the fair value less costs of disposal. A full explanation for the rationale behind why ALSA's goodwill was deemed to be impaired is set out in note 14.
Insurance and other claims provisions (see note 26 to the Consolidated Financial Statements)	The adequacy of the provisions associated with claims arising predominantly from traffic accidents and employee incidents in North America is subject to estimation based on an assessment of the expected settlement value of known claims together with an estimate of settlement values that could be made in respect of incidents that have occurred but not yet given rise to a claim at the balance sheet date. Given the level of uncertainty, complexity and judgement involved in making these estimations, there is a risk that the eventual outcome could be materially different from that estimated and provided for.	The Committee considered the information provided by management on the status of the North America and other material open claims5 made against the Group, together with advice from external actuaries and legal counsel on the likely outcome of such claims, as well as management's explanation of the methodology used to determine the value of provisions for such claims. After challenging whether management had considered all material open claims and incidents that could give rise to claims and the external advice given in connection with them, the Committee concluded that management's estimation of the value of such claims was within an acceptable range of the potential outcomes and accordingly was fairly stated.
WeDriveU put option liability (see note 24 to the Consolidated Financial Statements)	The value of the liability of the put option over the shares in WeDriveU Holdings Inc. not already owned by the Group is subject to estimation of future earnings performance.	The Committee considered management's valuation of the put option liability. This took account of the fact that options over a cumulative 20% of the shares had been exercised during 2021 and 2022, and the option over the remaining 20% shares is expected to be exercised in 2023. The valuation is based on WeDriveU Inc.'s 2022 EBITDA performance and net debt position, adjusted for certain items as agreed between the Group and the put option holders. Following this review, the Committee concluded that management's valuation was reasonable.

Audit Committee Report continued

	Key accounting matter	Committee action and conclusion
Separately disclosed items (see note 5 to the Consolidated Financial Statements)	The Group presents profits and earnings per share measures before separately disclosed items to provide more meaningful information to shareholders on the Group's underlying performance. The classification of separately disclosed items requires management judgement having regard to the nature and intention of the transactions to which they relate.	The Committee considered the nature and extent of the separately disclosed items identified by management and its rationale for why they did not form part of the Group's Underlying Operating Profit (a key APM). The Committee noted that this was the third year that certain Covid-19 related incremental costs were separately disclosed, but satisfied itself that these only represented the re-assessment of estimations in respect of items recorded as separately disclosed items in the prior year, and in any case were materially lower than the preceding two years. The Committee also noted that a charge of £31.4m had been made in respect of new onerous contract provisions and impairments directly attributable to the post-Covid market-wide issue of driver shortages in North America, and that this was material in nature and quantum, and hence was appropriate to be separately disclosed. After discussion with management and the external auditor, the Committee concurred with the approach taken.
Onerous contract provisions (see note 26 to the Consolidated Financial Statements)	The Committee reviewed the approach taken by management in retaining an onerous contract provision in respect of its RRX German rail concession, in re-assessing Covid-19-related onerous contract provisions recorded in previous years, and in recording new onerous contract provisions in respect of driver shortages in North America.	The Committee reviewed management's assessment and concurred with the onerous contract provisions recorded.
Recoverability of deferred tax assets (see note 27 to the Consolidated Financial Statements)	Over the last few years the Group's deferred tax assets in respect of tax losses have increased due to the impact of the pandemic on profitability. Furthermore, the impact of the pandemic has created consecutive periods of losses. In determining whether it is appropriate to recognise deferred tax assets management is required to consider whether there are sufficient deferred tax liabilities against which to offset these deferred tax assets and, where this is not the case, to satisfy itself both that the recent history of consecutive losses can be explained as being due to the temporary impact of the pandemic and its aftermath (and is therefore not expected to be recurring) and that there are sufficient taxable profits projected in order to utilise these losses in an appropriate timeframe.	The Committee considered management's assessment of the causes of the recent history of losses and its assessment of future profit projections, including ensuring that these projections were derived from the long-term financial planning projections reviewed as part of the Board's annual strategic plan review. After considering the above, the Committee concurred with management's view that it remained appropriate to recognise these deferred tax assets.
Pension liabilities (see note 33 to the Consolidated Financial Statements)	The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions. In particular, a key area of estimation uncertainty is in respect of the discount rate.	The Committee reviewed the assumptions made by management in determining the defined benefit obligation, including considering the advice from independent qualified actuaries, and concluded that they were appropriate.

Appendix 2 – System of internal control

Third line of defence

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

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

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

Second line of defence

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

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

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

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

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

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

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

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

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

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

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

First line of defence

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

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

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

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

Divisional Finance Teams
maintain the financial ledgers and prepare divisional accounts

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

Carolyn

Flowers

"The transport industry has a responsibility to reduce emissions which it can achieve by actions on its own fleet, but also by driving modal shift from private car to mass transit. When we provide the best and safest service for our passengers, we can ensure social mobility for the communities we serve."

Sustainability Committee Report

Primary role

To oversee and provide feedback and direction to the Board on matters relating to the Group's sustainability, specifically by reference to environmental and social matters, and the governance thereof

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com

Key responsibilities

- Review and assess the appropriateness of the Group's sustainability roadmaps, programmes, initiatives and targets
- Monitor the implementation and operation of the Group's sustainability strategies, policies and standards and review the Group's sustainability performance
- Consider the emergence of new risks or opportunities to the Group's sustainability approach and oversee the development and maintenance of new sustainability policies, standards or action plans designed to mitigate or capitalise on such sustainability risks or opportunities
- Assess the Group's reputation in relation to sustainability and the way it communicates and reports on its sustainability strategies, policies, initiatives and credentials

Activity highlights

- Assessed the Group's performance against its sustainability targets and reviewed the plans for achieving its sustainability ambitions, which included a review of the Group's Sustainability road map and the Group's ZEV transition road map
- Reviewed and approved the Group's first Group-wide Sustainability Report published in July 2022
- Monitored the Group's plans to align with the Paris Agreement target of limiting global warming to 1.5 degrees above pre-industrial levels
- Reviewed and approved the Group's sustainability disclosures reported in this Annual Report
- Considered the results of the Global Your Voice engagement survey and reviewed the key actions deriving from that survey

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meeting held[2]
Carolyn Flowers (Chair)[1]	11.05.22	–	2/2
Jorge Cosmen	11.05.22	–	2/2
Karen Geary[1]	11.05.22	–	2/2

1 Independent Non-Executive Director

2 The Committee was formed in May 2022 and had two Committee meetings during the remainder of 2022. In the future, the intention is to have three Committee meetings per year.

Other attendees: Group General Counsel and Company Secretary, Executive Directors, Group Sustainability Director, Group HR Director, Group Financial Controller and Head of ESG Reporting

Further information about the Committee members is set out on pages 98 and 101

Dear fellow shareholder

I am pleased to present our first Sustainability Committee Report following the creation of our dedicated Sustainability Committee in May 2022. The creation of this dedicated committee demonstrates how core sustainability is to National Express, permeating our purpose and our strategy in our drive to become the world's premier shared mobility operator and to lead the modal shift in mobility towards cleaner and greener forms of mass transit, with clear benefits for both society and the environment.

Sustainability overview

Governance

The Company's Executive Directors are the sponsors of the Group's sustainability ambitions and responsible for the delivery of the Group's strategies relating to sustainability, supported by the Group Sustainability Director, the Group Human Resources Director, divisional CEOs and divisional sustainability specialists.

The Committee's role is to review the appropriateness of the Group's sustainability ambitions and strategies in the context of its broader strategy, to monitor the Group's progress in achieving those ambitions and delivering those strategies and to report to the Board on the same. It also plays a key role in overseeing the Group's sustainability reporting, as referred to below.

Reporting and communication

The Group's external report on climate-related risks and opportunities in line with the recommendations of the Taskforce on Climate-related Disclosures (TCFD) for 2022 is set out on pages 81 to 94 of this Annual Report. Its mandatory disclosures on energy consumption and carbon emissions, including under the Streamlined Energy and Carbon Reporting Regulations (SECR) can be found on pages 285 to 288 of this Annual Report. In addition, the Group reports against the Sustainability Accounting Standards Board's (SASB's) Materiality Map® and the United Nations Sustainable Development Goals (SDGs) as set out on pages 70 to 71 of the Strategic Report. All of these disclosures have been reviewed and approved by the Committee.

During the year in review, the Group published its first group wide Sustainability Report outlining its sustainability strategies, the progress achieved so far and its sustainability ambitions for the future. It is available on the Company's website at: www.nationalexpressgroup.com/media/2w2hg3wi/national-express-sustainability-report-2022.pdf. This report was reviewed and approved by the Committee as part of its role in overseeing the way the Group communicates and reports on sustainability matters to its stakeholders. Following feedback from the Committee, the structure of future reports will be adapted to include case studies from around the business and progress in key areas so that stakeholders can track progress more easily.

There has been a lot of progress on sustainability internally during 2022, including the establishment of a Global Sustainability Steering Group to better coordinate sustainability initiatives across the Group and to share best practice. At its first meeting, the Committee requested that a sustainability dashboard be presented so it could monitor the progress of key sustainability KPIs and projects. This dashboard is, and will continue to be, reported on and reviewed by the Committee at each meeting. The Committee was also pleased to hear the Group continued to refine and enhance its internal data collection approach and verification processes, including in relation to Scope 3 emissions, ensuring these are streamlined Group-wide, as it moves towards external verification and assurance.

Environment

Environment ambitions

The Group's environment strategy is centred around transitioning its fleet of vehicles across its operating subsidiaries to zero emission vehicles (ZEVs). Building on the Group's commitment to never buy another diesel bus in the UK and its ambition to have zero carbon emission fleets in UK Bus by 2030 and UK Coach by 2035, in 2021 the Group adopted wider ambitions to have zero carbon emission fleets in Spain Bus by 2035 and in each of Spain Coach, Morocco Bus and North America School Bus and Transit by 2040. 95% of the Group's Scope 1 and 2 carbon emissions originate from its fleet so this transition to ZEVs will have the greatest effect in reducing the Group's impact on the environment and improving air quality in the communities we serve.

The Committee has monitored progress against these ambitions during 2022 through reviewing the Group's Sustainability road map which sets out the key priorities and the Group's ZEV transition road map which included an update on progress against the fleet ambitions. Given the scale and complexity of the transformational change programme which requires new capabilities to be developed and new partnerships formed, both with vehicle manufacturers and funders, the Committee is pleased to see the progress made during 2022 across all of the divisions in the Group, with the UK Bus division being on track to be the first 50% ZEV operation within the Group by 2025. See page 72 of the Strategic Report for more information on the Group's progress with its fleet transition ambitions.

Sustainability Committee Report continued

Environment performance

The Group monitors six key performance indicators (KPIs) with related targets to track the Group's progress in reducing its impact on the environment over the seven-year period 2019-2025, in terms of carbon emissions (which targets were set using the SDA approach), water consumption and waste to landfill production. These targets were chosen to meet the then-prevailing IPCC goal of controlling the increase in global warming to below 2 degrees, meaning that the existing targets are not yet aligned to the more ambitious Paris Agreement target of limiting annual average temperature increases to 1.5 degrees above pre-industrial levels. The Committee notes that the Group intends to set new targets aligned to this approach during 2023, using 2022 as the new baseline year and has been monitoring the Group's progress with this.

In the meantime, the Group will continue to report against the existing targets. The Committee has reviewed progress against the existing targets at the end of 2022 which is shown by the table on page 285.

Progress against traction energy, traction carbon and total (Scope 1 and 2) emissions – which were set as intensity measures – was subdued in 2020 and 2021, due to lower occupancy and changes in travel behaviour caused by the Covid-19 pandemic. 2022 was a year of getting back on track, and now that patronage is building back to pre-pandemic levels performance, the intensity metrics are now moving in the right direction (albeit there remains work to be done to reach the existing targets by 2025).

The Committee was pleased to note the progress on the absolute metrics relating to site emissions, water use and water to landfill given the increase in activity during 2022 compared to 2020 and 2021 (as the businesses returned to normal). In the absence of action, the expectation would have been for these metrics to have been significantly worse in 2022, however, both site emissions and waste to landfill improved year on year, with water usage only marginally increasing on 2021.

The Group is beginning to see some of the benefit arising from its fleet transition ambitions, with the expectation that this will continue to improve over the coming years as the transition to ZEVs continues and environmental management at depots improves. The completion of the Perry Barr depot which opened in December 2022 will showcase the Group's best-practice approach to environmental management and performance.

As also explained in previous Annual Reports, the Remuneration Committee has set environmental performance metrics in each of the last three annual long-term incentive plan (LTIP) awards made to Executive Directors and certain senior managers. The vesting level of the 2020 LTIP is as set out in the Directors' Remuneration Report, with the ZEVs performance metric achieved at maximum vesting and the carbon emission reduction metric not achieved as a result of the impact of Covid-19 on the Group's intensity metrics. The Committee notes that progress against the 2022 LTIP number of ZEVs performance metric is currently on-track to be achieved at maximum vesting level and the 2021 and 2022 carbon emission reduction metrics are currently behind 2019 levels at this time and therefore likely to result in zero vesting.

To demonstrate the Group's ongoing commitment to reducing carbon emissions and to increasing vehicle occupancy levels, as well as achieving its zero emission fleet transition strategy, the Remuneration Committee intends to include further carbon reduction and ZEV increase metrics in the 2023 LTIP award. Further details are in the Directors' Remuneration Report.

Social

Social ambitions

A number of the Group's social ambitions are intrinsically linked to our Evolve strategy; the employer of choice, the safest, the most reliable and the most satisfied customers. Further information is provided within the Strategic Report on pages 68 to 80 of this Annual Report and the Group Sustainability Report available on the Company's website.

The social focus for the Committee during 2022 has been on the Group's people, recognising them as a key asset which drives the Evolve outcome of being the employer of choice. A new people strategy called 'Being Part of the Future Today', was launched during 2022. This strategy is based around three key priorities: Embrace, Energise and Elevate and is further explained in the Strategic Report on page 77. The Committee has been monitoring progress of the people strategy, particularly on the Energise and Elevate pillars as further described below.

As part of the 'Your Voice Matters Campaign' (a key component of the Energise pillar of the people strategy), the Group carried out its first global employee survey in 2022. In reviewing the survey results, the Committee observed some key themes: (i) reward and recognition, where the focus was on recognition and feeling valued, (ii) talent and staffing, where it was felt that the Group needs to do more to retain the best people, and (iii) career development which featured strongly with a desire for more consistent career pathways. These same themes permeated the online discussion forums attended by the Board, as further explained on page 116 of this Annual Report. The Committee also reviewed the key actions derived from the survey results both at Group level and locally within the divisions.

The Group launched a new global talent and career development tool during 2022 as part of the Elevate pillar of the people strategy. This is being used to identify suitable candidates for the Group's talent programmes and initiatives. The Committee noted this initiative was a positive step forward, particularly given talent and career pathways were two key themes arising from the Your Voice survey.

In the future, the Group intends to develop a broader overarching sustainability strategy from which it can set wider sustainability ambitions, which will be reviewed and monitored by the Committee. See the Sustainability Peer Review in the box on page 139 for further information.

Sustainability Peer Review

Duncan Gray from BRODIE, an international sustainability and responsible business consultancy, attended the November Committee meeting to share his insights on the current sustainability landscape and provide an expert external assessment of how the Group's current sustainability commitments and activities sit within peer sustainability landscape.

The key takeaways for the Committee following that review were:

- validation of the Group's approach to decarbonisation with clear targets, performance metrics and activation; and
- the identification of opportunities for the Group to develop a more rounded approach to sustainability, accompanied by more detailed stakeholder communications.

The Committee welcomed the insights gained, with a key action arising from the review being a desire to establish a realistic but broader overarching Group sustainability strategy to be developed and presented to the Committee during 2023. The Committee will also consider what further actions can be taken to best progress opportunities identified during the review and will report on this in subsequent Committee Reports.

Social performance

In the first global employee survey undertaken in 2022, the Group was pleased to achieve a 77% response rate against a target of 65%, which equates to 35,574 employees responding to the survey. Our Group employee net promoter score (eNPS) was 7.

The 2022 survey results are the benchmark from which the Group will set future engagement targets and target eNPS. In relation to the planned 2023 Your Voice survey, the Group will be targeting an engagement score of 60 and an eNPS of 12, both of which represent a five point increase from 2022. The Committee will review progress against these new targets.

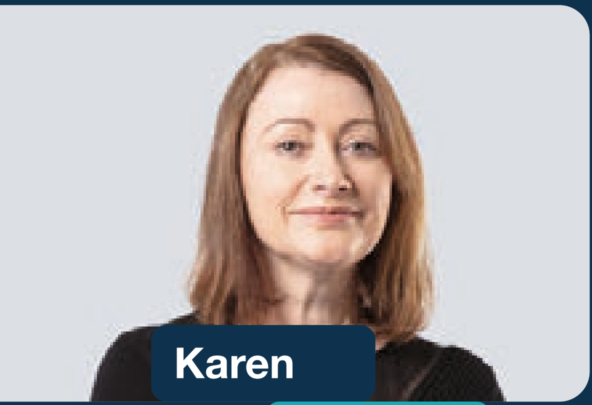
The key themes to improve the Group's engagement scores following the survey are discussed above. It is also important to highlight where the Group scored well on the survey; 80% of the respondents to the survey thought the Group was safe, 76% were positive about the Group's diversity and inclusion, 65% indicated they were proud of the Group's brands and 69% recognised the Group's commitment to customers.

To demonstrate the Group's ongoing commitment to its people, the Remuneration Committee has included a requirement for specific employee engagement targets based on eNPS to be part of the senior leaders' bonus schemes for 2023.

For more information on the Group's social performance, see pages 68 to 80 of the Strategic Report and pages 103 to 104 of the Corporate Governance Report.

Carolyn Flowers

Carolyn Flowers
Sustainability Committee Chair
1 March 2023



Karen

Geary

"With encouraging growth across our operations, along with decisive actions implemented to help deal with a challenging operating environment, the Committee was pleased that remuneration outcomes were fair, balanced and aligned to shareholder experience, and continue to align well with supporting the delivery of the Evolve strategy."

Remuneration Committee Report

Primary role

To recommend to the Board the remuneration strategy and framework for Executive Directors and senior management[1] and to determine and apply within that framework the remuneration policy and remuneration practices. In doing so, have regard to the Group's overall performance, wider workforce pay practices, the need to fairly reward individual contributions for past and future performance and align reward to sustainable success.

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com

Key responsibilities

- Determine the remuneration of Executive Directors in accordance with the Directors' Remuneration Policy and with due regard to workforce pay and related policies and practices across the Group
- Determine the remuneration of senior management, also having regard to workforce pay and related policies and practices across the Group and succession plans
- Determine the Chair's fees
- Oversee pay/related policies and practices across the Group's workforce

Activity highlights

- Engaged with the Company's stakeholders to understand the views of on executive remuneration matters.
- Tracked the Company's financial results and remuneration outcomes for Executive Directors and senior management.
- Reviewed and confirmed the 2022 annual bonus and 2020 LTIP award outturns for Executive Directors and Senior Management.
- Reviewed the Chairman's, Executive Directors' and senior managers' pay and benefits for 2022, in the context of their performance, the Company's performance and the Group's stakeholder experiences.
- Considered and set targets and performance conditions for the 2023 annual bonus and the 2023 LTIP awards, to be made to Executive Directors and senior management.
- Ongoing executive remuneration environment/best practice governance review.

1 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 Group CEO and/or Group CFO and who together form the Group Executive Committee.

Membership, meetings and attendance

Committee member	Appointed to Committee	Resigned	Meetings attended/ meeting held
Karen Geary (Chair)[1]	01.10.19	–	5/5
Matthew Crummack[1]	01.05.16	–	5/5
Ana de Pro Gonzalo[1]	04.12.21	–	5/5

1 Independent Non-Executive Director

Other attendees: Group General Counsel and Company Secretary, Group Chief Executive Officer, Group Chief Financial Officer, Chair of the Board, Group HR & Communications Director, Group Employee Experience Director and representatives from Korn Ferry (independent remuneration advisers)

Further information about the Committee members is set out on pages 98 to 101

Dear fellow shareholder

On behalf of the Board and as Chair of the Remuneration Committee, I am pleased to present the 2022 Annual Report on Remuneration. The report aims to set out simply and transparently how remuneration has operated across the Group in 2022, including the decisions made by the Committee on Chair, Executive Director and senior management remuneration, the associated rationale for these decisions, and how the Committee intends to operate the Directors' Remuneration Policy in the year ahead.

2022 AGM and engagement with shareholders

I would like to thank those shareholders who shared feedback on the 2021 Directors' Remuneration Report during the extensive shareholder consultation exercise ahead of the publication of the 2021 results and the 2022 AGM. I was pleased that 94.3% of votes were in favour of the report, reflecting ongoing support for the Group's remuneration structure and the Committee's approach to implementation of the Directors' Remuneration Policy in a challenging environment.

Those meetings held were invaluable in better understanding views and shaping the Committee's decision-making ahead of the 2022 AGM.

As Chair, I am always keen to maintain this productive and collaborative relationship regarding remuneration decisions. As such and ahead of the publication of this report, I once more wrote to our Top 20 shareholders to gather views and feedback.

Once again, I am extremely grateful for the responses I received and the level of engagement from shareholders, having had direct engagement with 17 of our Top 20 and received responses to my letter from two more, in total accounting for 62.7% of our share capital. Once again, these meetings have been invaluable in shaping the Committee's decision-making set out in this report (in particular in relation to 2022 implementation, as described later in this letter and in the report), as well as maintaining our productive relationship.

Board changes

Following the announcement in August that Chris Davies would be leaving the Group, James Stamp, the CFO of our UK and Germany Division, was appointed Interim Chief Financial Officer ('CFO') from 1 November 2022 at which point Chris stood down from the Board and left the Group.

Following a successful period as interim CFO, and an extensive search process which considered both internal and external candidates, the Board was pleased to appoint James as the Group's permanent CFO.

Full details of Chris' leaving arrangements, along with details of James' remuneration (both of which are in line with our Policy), can be found in this report.

2022 business performance

Before summarising 2022 performance, I confirmed in my letter last year that the Company intended to repay the Coronavirus Job Retention Scheme (CJRS) support received in respect of its financial year ended 31 December 2021 at the same time as it reinstates dividends. With the announcement of the reinstatement of a dividend for the 2022 financial year, I am pleased to confirm that the Board has approved repayment of the 2021 CJRS funds, which will be returned shortly.

Turning to 2022, it was a year of significant progress, building on the progress in 2021.

As you will have read earlier, we delivered strong growth across each of our businesses but particularly so in ALSA and the UK, as passenger demand rebounded strongly across both businesses. This continued recovery in demand led to growth in passenger numbers increasing 23% across the Group and Group revenue of £2.8bn, representing growth of 29% and above pre-pandemic levels.

We are seeing the benefits of our disciplined approach to operational leverage, cost controls and pricing power. Group Underlying Operating Profit of £197.3m was more than double the level in 2021 and this improved profit performance has converted to cash, with cash conversion increased to 81% and the Group delivering free cash flow of £160.5 million in the year.

This performance has been achieved amid a uniquely challenging operating environment in a number of our markets, not least the pressure of rising cost inflation and driver shortages in addition to the impact of the Omicron COVID-19 variant in the first part of 2022.

As you may have seen earlier, we are making further improvements in safety, and as a result of innovative approaches to driver training, drivers are able to enter in to service earlier than with traditional training. Encouragingly, we have seen a 15% reduction in risk profile. In the UK we have again been recognised with the award of a sixth Sword of Honour by the British Safety Council, and we also had the best ever year in North America with a 25% reduction in speeding events.

We have also made further progress towards our goal to become 'the environmental leader' with plans approved for 1,500 ZEVs across the Group by 2024. We are seeing early signs that electric buses are helping to drive modal shift, with both patronage and customer satisfaction higher on our ZEVs. Strong progress on electrification in the UK has been mirrored elsewhere. In North America where ZEV funding schemes are becoming more widely available, we have secured our first funding award of $30 million for nearly 80 electric school buses. We will continue to target further funding opportunities in the coming year.

Remuneration Committee Report continued

Wider workforce context

The Committee's responsibilities in respect of overseeing remuneration across the business has been a major part of the Committee's activities during the year. I, and a number of my Board colleagues, have taken part in listening forums with colleagues across our operations during 2022, which have provided incredibly valuable insights.

Whilst, there is an ongoing commitment of National Express to continue to be a real Living Wage accredited employer in the UK, the Committee is conscious that following the Covid-19 pandemic which caused significant issues for many of our colleagues in 2021 and the first half of 2022, the rising cost of living is posing fresh challenges.

Given the range of operations and geographies within the Group, there are differing salary increases that are being awarded. UK salary increases awarded to non-unionised colleagues up to the date of the Annual report have ranged between 3.75% and 6.75%.

For anyone earning under £35,000, the average salary increase was 6.75% with those earning over this level receiving between 3.75% and 4.75%. It was felt that targeting increases at the lowest earners was important given the rising cost of living. In addition, we have a number of different discussions ongoing with unions.

The Group also operates a number of support packages for colleagues such as access to hardship loans, employee discounts and financial education webinars, in addition to wider health and wellbeing support through the provision of apps and seminars.

We were pleased that despite the challenges, many of our colleagues recognise the progress made toward the 'Employer of Choice' Evolve outcome, with a positive group-wide ENPS score of +7. This followed the roll-out of a new people strategy in 2022, "Being part of the future today", with 3 pillars at its heart – 'Embrace' (our approach to Equality, Diversity and Inclusion), 'Energise' (our approach to creating an inspiring, energetic culture that our colleagues want to be part of) and 'Elevate' (our approach to career and self-development). The Committee was pleased that the efforts made during 2022 on people initiatives were recognised by the Workforce Disclosure Initiative in their Workforce Transparency Awards, winning the "Most Improved" category along with being specially mentioned in the "Workforce Action' category.

2022 activity and remuneration outcomes

In determining annual and long-term incentive outcomes, the Committee reviews not only the financial outcomes against targets set, but also considers wider performance. As an example, these factors include progress against Evolve outcomes, growth in passenger numbers, employee engagement, shareholder experience and wider stakeholder experience.

Following this review, the Committee concluded that the financial measure outcomes for both the annual and long-term incentives were fair reflections of overall performance in testing conditions during the relevant performance periods. Consequently, the Committee did not exercise discretion to alter the incentive outcomes.

The Committee believes that the incentive plans continue to drive the desired behaviours to support the company's values and strategy, are aligned with stakeholder experience and that the Directors' Remuneration Policy has operated as intended in 2022.

Annual bonus

The out-turn of the annual bonus was 69.0% of maximum for the CEO and 70.2% (before pro-rating) for the CFO. This outcome was driven by Profit Before Tax targets being partially met, Free Cash Flow and Safety target being at maximum, along with near maximum achievement on personal objectives.

It should be noted that following the increased deferral requirements, which included paying all of the bonus in shares, that were applied to the FY21 annual bonus, for FY22 the deferral requirements have reverted back to those within the shareholder approved Directors' Remuneration Policy (i.e. 50% of any bonus award to be deferred as shares for one year - see page 147).

LTIP vesting

The 2020 LTIP targets were set, and the plan granted, before the Covid-19 pandemic had really taken hold and therefore reflect the outlook at that time.

Based on performance against those targets, the vesting outcome of the 2020 LTIP was assessed as 10% of maximum.

Whilst there are many factors that could have been taken into account to adjust the formulaic outcome, the Committee did not feel it was right to make any such adjustments in light of the shareholder experience during this period. This approach is consistent with the approach to vesting the 2018 and 2019 LTIPs, where vesting was determined at 6.5% and 0% of maximum respectively.

2023 activity and remuneration outcomes

As noted above, the Committee is mindful that there is still significant uncertainty in the macroeconomic climate in 2023, however it is satisfied that the targets that have been set are robust and stretching, and recognise the potential performance that can be achieved.

Remuneration arrangements for the CEO

As highlighted in last year's report, the Committee is conscious that upon Ignacio Garat's appointment as CEO, his base salary and bonus opportunity were significantly below that of his predecessor and mid-market levels for comparable FTSE companies. The Committee set the initial remuneration mindful of the economic environment at the time and stated that it expected to increase remuneration over time reflecting Ignacio's development in role.

The Committee had originally committed to reviewing the CEO's remuneration from 1 January 2022 to better align it to market and his progress in the role, but felt it appropriate to postpone the review in recognition of the economic environment. As a result, base salaries for both the CEO and the then CFO remained unchanged.

The Committee remained mindful of its commitments and during 2022 undertook a review of remuneration arrangements for the CEO. Based on this review, the Committee feels that it is the correct time to start aligning the CEO's remuneration to the market rate for the role, and to better reflect his performance and experience.

The Committee is therefore proposing the following changes. It should be noted these changes are fully within the Directors' Remuneration Policy approved by shareholders at the 2021 AGM and results in remuneration that remains lower than his predecessor on departure.

Base salary – to be increased from the current level of £575,000 to between £625,000 and £650,000 by 1 January 2024. The increase will be made in two stages. An increase of £25,000 (4.3%) will be made for 2023 followed by a potentially larger increase for 2024 should appropriate levels of performance be maintained. The increase of 4.3% is below the increase for the wider workforce for 2023 as set out earlier.

Given the current economic environment, the CEO intends to voluntarily waive his increase in base salary for 2023 meaning his salary will remain the same as 2022 and 2021. This would include the calculation of his pension allowance but the new salary will apply to any bonus and LTIP awards in 2023.

Annual bonus – the opportunity is to return to 200% of salary for 2023, from 150%. The original bonus opportunity was implemented during the first year of the pandemic when Ignacio joined the business and was due to return to 200% in 2022. However, the Committee felt at the beginning of last year that delaying by one further year was warranted to take into account a number of factors associated with the wider stakeholder experience at the time, including the ongoing recovery from Covid-19.

Having delayed by a year, the Committee believes now is an appropriate time to restore the bonus level, which is in line with our Policy. The increase in bonus opportunity will also be set in the context of the Committee agreeing performance targets that continue to stretch and build on the targets that were set for 2022.

LTIP – the maximum LTIP opportunity for the CEO will remain unchanged for 2023 and will be 200% of salary.

Remuneration arrangements for the CFO

The CFO will receive a base salary of £425,000, and a workforce-aligned pension allowance of 3%. Both the annual bonus and maximum LTIP opportunity are unchanged from his predecessor at 150% of salary. This is below the policy maximum on LTIP of 200%, aligned to the reduction applied to his predecessor in 2022.

Annual bonus

As stated, above, the annual bonus opportunity will be 200% and 150% of salary for the CEO and CFO respectively.

The Committee has set stretching performance targets against which the annual bonus will be measured.

- 50% Group Underlying Profit Before Tax
- 25% Group free cash flow
- 15% Group Safety – Fatality and Weighted Injuries (FWI) Index score, including an underpin such that this element will not pay out if there are any responsible fatalities
- Specific strategic and risk management targets, with an aggregate weighting of 10%

LTIP

The LTIP opportunity for the CEO and CFO will remain unchanged for 2023 and will be 200% and 150% of salary respectively.

It is proposed that the measures used for the 2022 LTIP grant will be retained for 2023:

- an earnings per share measure, with a 25% weighting;
- a return on capital employed measure, with a 25% weighting;
- a single total shareholder return measure relative to the FTSE 250, with a 25% weighting; and
- an environmental measure with a 25% weighting, split equally between the Group's global carbon emissions per million passenger kilometres and the transition of our road fleet to carbon neutral vehicles (both consistent with the 2022 LTIP).

Full details of these performance criteria are set out on page 149.

In the event that the share price at the time of grant is less than 185p (a 23% reduction on the price at the time of the 2022 LTIP grant) the Committee will scale back grants to all recipients. The Committee will also include a provision that it will assess if there has been a windfall gain following the granting of awards.

Concluding thoughts

The Committee is keen to hear the views of shareholders and their representative bodies and values their ongoing engagement on remuneration matters.

Our Directors' Remuneration Policy is due for renewal at the 2024 AGM, in advance of which I look forward to engaging with shareholders and representative bodies.

Finally, as a Committee we wish to thank all of our colleagues throughout the business for their continued hard work and dedication.

Karen Geary

Karen Geary
Remuneration Committee Chair

1 March 2023

Remuneration Committee Report continued

Directors' Remuneration Policy

Alignment to strategy and culture, ensuring risk mitigation and supporting clarity, simplicity, proportionality, and predictability

Ensuring that our Directors' remuneration arrangements support the delivery of the Evolve strategy is important to the Committee, and this is achieved through aligning the performance measures and targets used in our incentive schemes with our key strategic priorities. The Committee also ensures that the right behaviours and actions are driven through the organisation by focussing on measures and targets that are balanced across financial and non-financial outcomes, for example the inclusion of employee, customer, and health, safety and environment metrics in both the personal element of the annual bonus and the LTIP. The Committee also takes into consideration the Group's financial and non-financial performance and environment when reviewing formulaic outcomes of metrics across all incentives, which is evidenced throughout this report.

The table below explains how the Directors' Remuneration Policy, and the Committee's practice in applying it over the year under review, address the factors set out in Provision 40 of the UK Corporate Governance Code, as well as how they are aligned with the Company's culture:

Clarity	Simplicity	Risk
• This report sets out a summary of the Remuneration Policy and how it has operated during the year. • Clarity and transparency are achieved through a combination of explanations for decisions taken and disclosure of the nature and weighting of Annual Bonus targets and LTIP performance measures. • The Remuneration Policy and its implementation looks to support the wider National Express business strategy.	• Achieved by directors' remuneration being composed of a limited number of elements designed to balance the retention and incentivisation of directors with the delivery of strategy and shareholder returns. • Executive Director remuneration is composed of only four elements: base salary, pension and other benefits, annual bonus and LTIP. • The annual bonus and LTIP structure operated are market typical and are well understood by shareholders and executives alike.	• A range of features of directors' remuneration assist in mitigating the risks of excessive rewards and inappropriate behaviour. • Executives are expected to build a material shareholding which must be maintained for a period following departure, which aligns themselves to the long-term interests of National Express. • Additionally, variable remuneration is subject to malus and clawback provisions ensuring that there is long-term alignment of the executives to any risks the business may have been exposed to during their period as an executive.

Predictability	Proportionality	Alignment to culture
• Some of the same features of directors' remuneration arrangements that mitigate risk also ensure that outcomes are within a predictable range. • Shareholders are provided with potential values which can be awarded to executive directors under the Annual Bonus and LTIP.	• Achieved through the use of variable remuneration arrangements which links remuneration outcomes and the financial and non-financial performance of National Express. • The Remuneration Committee has the ability to apply discretion to variable remuneration to ensure that they are proportionate and reflect the performance of the business.	• Achieved through strong links between directors' remuneration and the Company's values. • National Express' values are Safety, Excellence, Customers, People and Community & Environment. • Elements of the Remuneration Policy for executives are cascaded through the business.

Wider workforce context

Comparison with approach to remuneration across the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative requirements and labour market conditions that exist in each country.

We have a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards of employment in all our business divisions, offering pay and other terms and conditions that are appropriate to each labour market in which we operate. In particular, we are committed to adhering to the real Living Wage in the UK and to at least the national minimum wage in each of the other countries in which we operate. Base pay is set at a level that allows us to recruit and retain colleagues in each relevant labour market and performance-related pay arrangements are based on the achievement of business division and team or individual goals, objectively assessed. The Company believes in the value of continuous improvement, for both the individual and the Company.

Given the range of operations and geographies within the Group, there are differing salary increases that are being awarded. However overall, the average UK salary increase awarded up to the date of the annual report has been 4.5%. Within the UK Group business (i.e., excluding UK Bus & Coach) the average salary increase on this basis was 3.75%, although an increase of 6.75% was applied to those earning under £35,000, as it was felt that targeting increases at the lowest earners was important given the rising cost of living.

The Group offers pension and pension savings arrangements to its employees appropriate for the labour markets in which it operates. In the UK, in line with market practice, employees are offered membership of a defined contribution plan, with employer contributions for the majority of employees equal to 3% of base salary. The Group also has a legacy defined benefit scheme in its UK Bus division, with employer contributions of 35% of base salary. In the UK, employees also receive death-in-service benefits and free travel on the Company's transport services, and middle and senior managers may also receive car or travel allowances and/or private medical insurance, subject to their employee grade.

The Group's divisions operate various cash bonus incentive schemes for appropriate individuals, incentivising the delivery of particular divisional strategic, operational, safety and personal objectives. Senior management participates in a bonus scheme which is broadly aligned with Executive Directors' annual bonuses, where targets may relate to divisional rather than Group-wide performance and/or place more emphasis on divisional strategic or safety objectives and/or personal objectives. LTIP awards are also granted to selected senior managers to incentivise and reward them for delivering long-term value for the Company and its shareholders.

Measures for bonus arrangements across the Group are based on different measures depending on the nature of the business unit, and typically, outcomes were between target and maximum.

In addition to this, the Group operates a number of support packages for colleagues such as access to hardship loans, employee discounts and financial education webinars, in addition to wider health and wellbeing support through the provision of apps and seminars.

We were pleased, despite challenges, that many of our colleagues recognise the progress made toward the 'Employer of Choice' Evolve outcome, with a positive group-wide ENPS score of +7. This followed the roll-out of a new people strategy in 2022, "Being part of the future today", with 3 pillars at its heart – 'Embrace' (our approach to Equality, Diversity and Inclusion), 'Energise' (our approach to creating an inspiring, energetic culture that our colleagues want to be part of) and 'Elevate' (our approach to career and self-development). The Committee was pleased that the efforts made during 2022 on people initiatives were recognised by the Workforce Disclosure Initiative in their Workforce Transparency Awards, winning the "Most Improved" category along with being specially mentioned in the "Workforce Action' category.

Remuneration Committee Report continued

1. Remuneration Policy for Executive Directors

The table below sets out an abridged version of the Remuneration Policy for the Company which was approved by shareholders at the 2021 AGM. The Policy took effect from the date of approval and is intended to apply until the 2024 AGM.

The full Directors' Remuneration Policy can be found within the Governance section of the National Express website.

Element and link to strategy	Operation	Maximum opportunity and performance conditions
Base salary – To recruit, reward and retain Executive Directors of a suitable calibre for the role and duties.	Salaries for Executive Directors are reviewed annually by the Remuneration Committee with effect from 1 January. Reviews cover individual performance, experience, development in the role and market comparisons.	When reviewing Executive Directors' salaries, consideration will always be given to the general performance of the Company and the approach to employee pay across the Group. Therefore, salary increases will not normally exceed the general employee increase. Larger increases may be necessary in exceptional circumstances. No increase will exceed 10% above RPI in any one year, except for internal promotion or where the Executive Director's salary is below the market level.
Pension – To provide fair benefits, in line with the wider workforce, to allow individuals to work towards saving for retirement.	Executive Directors receive a cash allowance in lieu of a pension provision. Executive Directors' pensions are aligned with those of the majority of the UK workforce (which is currently 3% of salary).	From 1 November 2020, the annual cash allowance payable in lieu of a pension is equal to the wider workforce pension contribution rate.
Benefits – To provide competitive benefits as part of fixed remuneration to enable the Group to recruit and retain high performing Executive Directors.	Executive Directors receive a combination of family private healthcare, death-in-service and life assurance cover (4x base salary), long-term sickness and disability insurance, car allowance, free travel on the Company's services and professional membership subscriptions.	The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions. This will therefore determine the maximum amount that will be paid in the form of benefits to Executive Directors during the Policy period.

Element and link to strategy	Operation	Maximum opportunity and performance conditions
Annual Bonus – To incentivise delivery of near-term performance objectives which are directly linked to the financial, strategic delivery and risk management priorities of the Group.	Performance conditions are a combination of financial and non-financial (including strategic delivery, risk management and personal) objectives set at the beginning of each year. Performance conditions will not be disclosed in advance (except for any numerical safety performance conditions) as the Committee considers this information commercially sensitive. Performance outcomes will be reported retrospectively. 50% of the bonus earned is subject to mandatory deferral into shares for one year from award. The annual bonus includes the ability for the Committee to use its discretion to adjust the bonus outcome if outcomes are not reflective of overall corporate performance and/or individual performance. Malus and clawback provisions also apply during the two-year period post award, including following cessation of employment. Bonus payments are paid following announcement of the Company's audited year end results and are not pensionable.	The maximum bonus award is equal to 200% of base salary for the Group Chief Executive Officer and 150% of base salary for other Executive Directors. The financial performance conditions will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum. The non-financial performance conditions will be set annually based on objectives for the year. These may include safety, operational and business development objectives, customer-related developments or metrics, colleague related developments or metrics, and environmental, social and governance (ESG) developments or metrics, as determined by the Committee on an annual basis. Normally, the proportion of the bonus determined by non-financial performance conditions will only become payable when the Company achieves a threshold level of normalised profit but the Committee has discretion to vary this in appropriate circumstances.
Long-Term Incentive Plan ('LTIP') – to encourage strong and sustained improvements in financial performance, in line with the Company's strategy to align executives to the long-term interest of shareholders.	LTIP awards (in the form of conditional shares, nil cost options or forfeitable shares) are granted annually with vesting subject to the achievement of performance conditions measured over a three-year consecutive financial period commencing with the year of award. An additional two-year holding period for vested shares exists post vesting for the Executive Directors. Dividend equivalents and dividends can be paid on vested shares, in shares, in respect of both the performance and holding periods. Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances. The LTIP includes the ability for the Committee to use its discretion to adjust the LTIP outcomes if such outcome is not reflective of overall corporate performance and/or individual performance. Malus and clawback provisions also apply during the two-year period post vesting, including following cessation of employment.	The maximum LTIP award is equal to 200% of base salary, per annum, for all Executive Directors. For FY23 the LTIP awards will have performance conditions relating to EPS, ROCE, TSR and ESG measures. The threshold vesting level will be no more than 25% and may vary by performance condition and from year to year. There is no ability to retest any of the performance conditions. To the extent that legal, regulatory or other investigations or proceedings are ongoing in relation to such an event, the Committee has the discretion to delay the vesting of an LTIP award (in whole or in part) until those investigations or proceedings are completed. The Committee also retains discretion under the LTIP rules to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's performance over the measurement period.

Remuneration Committee Report continued

1.1 Shareholding requirement for Executive Directors

Executive Directors are required to build up a shareholding to a value equal to 200% of base salary over a five-year period commencing from the later of the 2021 AGM or their date of appointment. Compliance with this requirement is a condition of continued participation in the Company's LTIP and other equity incentive arrangements.

A shareholding requirement will continue to apply to an Executive Director after the cessation of employment.

Only shares derived from the 2021 LTIP awards and other share awards granted after the Policy comes into effect will be included in the post-cessation shareholding requirement. Shares held by an Executive Director prior to the Policy coming into effect or vesting under an award granted to an Executive Director prior to the Policy coming into effect (other than the 2021 LTIP award), and shares independently acquired by an Executive Director will not be included.

1.2 Performance conditions under the annual bonus and LTIP

Performance measures for the Annual Bonus are selected annually to align with the business goals for the year. 'Target' performance is typically set in line with the business plan for the year. If the Committee materially changes the LTIP performance conditions within the life of the Policy, it will consult with shareholders in advance on the changes to be made and the reasons for doing so.

1.3 Malus and clawback provisions

Executive Directors' annual bonus awards and LTIP awards are subject to malus and clawback provision and will be applied in the following circumstances:

- the discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company for a period that was wholly or partly before the end of the period over which the performance target applicable to an award was assessed (or was due to be assessed);
- the discovery that the assessment of any performance target, measure or condition in respect of an award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine any performance target, measure or condition in respect of an award (or to determine the number of shares over which an award was granted) was based on error, or inaccurate or misleading information;
- there is action, inaction or conduct of an award holder which, in the reasonable option of the Committee, amounts to fraud or gross misconduct;
- there is action, inaction or conduct of an award holder which has had a significant detrimental impact on the reputation of the Company; or
- the Company becomes insolvent or otherwise suffers a corporate failure in connection with which the value of the Company's shares is materially reduced, provided the Committee is satisfied after due investigation that the award holder should be held responsible (in whole or in part) for that insolvency or corporate failure.

1.4 Previous arrangements

For the avoidance of doubt the Committee holds the authority to honour any outstanding commitments (subject to existing terms, conditions and plan rules, as applicable) entered into with current or former Directors (as previously disclosed to shareholders) before this Policy took effect or before they became a Director.

1.5 Executive Directors' service agreements

The Executive Directors have service agreements with the Company and the table below shows the dates of those agreements and the relevant notice period to be provided by the parties to them in normal circumstances:

Executive Director	Date of service agreement	Date of appointment	Notice period from Company	Notice period from Director
Ignacio Garat	11.10.20	01.11.20	12 months	6 months
Chris Davies	17.01.17	10.05.17	12 months	6 months
James Stamp	27.10.22	01.11.22	12 months	6 months

As stated in previous Annual Reports, Ignacio Garat's notice was extended from 6 months to 12 months effective from 1 May 2021. The Committee regularly reviews its policies on executive remuneration and severance in the best interests of shareholders. Guidance on best practice expectations is taken into account prior to agreeing Executive Directors' contractual provisions.

Chris Davies departed on 1 November 2022, and was replaced by James Stamp.

1.6 Approach to the remuneration of newly appointed Executive Directors

When determining the remuneration arrangements for a newly appointed Executive Director, the Committee will take into consideration all relevant factors to ensure that arrangements made are in the best interests of both the Company and its shareholders.

The Committee will generally seek to align the remuneration of any new Executive Director following the same principles as for the current Executive Directors.

The Committee may also make awards on the appointment of an Executive Director to 'buy out' remuneration arrangements being forfeited by the individual on leaving a previous employer. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance conditions and achievements (or likely achievements), the proportion of the performance period remaining and the form of the award.

Annual Report on Remuneration

Statement of implementation of current Directors' Remuneration Policy in 2023

(a) Executive Directors' fixed remuneration

As set out in the Chair's letter, Ignacio Garat's salary increases by £25,000 for 2023 to £600,000, but he has declined to receive the cash value of this increase, including the associated impact on his pension allowance. As a result, base salary payments are to remain the same for the year commencing 1 January 2023.

Ignacio Garat, Group Chief Executive Officer	£575,000
James Stamp, Group Chief Financial Officer	£425,000

Pension and benefits will operate in line with the Directors' Remuneration Policy.

(b) Executive Directors' annual bonus

Executive Directors' annual bonuses for the 2023 financial year will provide a maximum opportunity of 200% and 150% of salary for the CEO (based on the new salary of £600,000) and CFO (£425,000) respectively.

Performance will be assessed by reference to the following performance measures, with weightings indicated in brackets:

- Financial, Group Profit before Tax (50%)
- Financial, Group Free Cash Flow (25%)
- Group Safety, Fatalities Weighed Injuries (FWI) Index score (15%)
- Personal Objectives, Strategic and Risk (10%)

A zero responsible fatality underpin will also apply to the full 15% safety element.

When considering the bonus structure and setting the bonus targets for 2023, the Committee has taken into account:

- The need to continue to set robust and stretching targets, especially in the context of the CEO's increased bonus opportunity.
- The need to ensure that annual bonus measures and targets fully align to the business strategy.
- That both profit before tax and free cash flow are key financial measures of the overall financial performance of the business and linked directly to our financial KPIs – see page 25. The Committee is keen to ensure that Executive Directors are focused on driving growth in profit in order to generate higher and sustainable returns for our shareholders and provide the platform for further growth for all our stakeholders including our employees, our customers and our partners.
- The importance of safety to the Group and all its stakeholders. On-target FWI performance has been set as equal to or better than the Group's normalised four-year average FWI score (excluding 2020), with maximum payout requiring performance that is equal to or better than the Group's best normalised FWI score in the last four years (excluding 2020).
- Personal objectives have been specifically selected in order to drive recovery following the impact of the pandemic, drive delivery of the Evolve strategy and position the business for future growth.

The Committee will disclose the exact targets, the threshold to maximum performance ranges and the strategic and risk management objectives (which are considered commercially sensitive), and the actual performance against these financial targets and the non-financial bonus objectives, in next year's report.

(c) Executive Directors' 2023 Long-Term Incentive Plan (LTIP) awards

Executive Directors' LTIP grants for the 2023 financial year will provide a maximum opportunity of 200% of salary for the CEO (£600,000)and 150% of salary for the CFO (£425,000). In the event that the share price at the time of grant is less than 185p (a 23% reduction on the price at the time of the 2022 grant) the Committee will scale back grants to all recipients. The Committee will also include a provision that it will assess if there has been a windfall gain following the granting of awards. Performance measures are unchanged from the 2022 LTIP awards. The targets are as follows:

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for others)	Target (50% vesting)	Maximum (100% vesting)
TSR[1] vs. FTSE 250 Index	25%	Median	–	Upper quintile
EPS[2,3]	25%	21.6p	24.0p	26.4p
ROCE[2,4]	25%	9.0%	10.5%	12.5%
tCO_2e / million passenger km[5]	12.5%	-5.0%	-5.5%	-6.0%
ZEV transition[6]	12.5%	2,000	2,200	2,400

1 For TSR measures, straight-line vesting will occur between threshold and the maximum level of performance
2 For EPS, ROCE and ESG measures, straight-line vesting will occur between threshold and target, and between target and maximum levels of performance
3 EPS is fully diluted underlying earnings per share in 2025
4 ROCE is return on capital employed in 2025
5 Calculated as reduction in measure as at the end of measurement period vs YE 2022 baseline
6 Measured as the absolute number of vehicles in service, or on order, at the end of the measurement period

Remuneration Committee Report continued

Following a review of the approach to the TSR peer group, the Committee determined that in line with the 2022 LTIP, the 2023 LTIP award will be subject to a single TSR condition, relative to the FTSE 250 Index only.

The 2023 LTIP EPS performance range has been set in accordance with long-term financial guidance set out by the Group, which includes a target to achieve significantly more than £100m EBIT in 2027 compared to 2022.

The 2022 LTIP ROCE performance range (threshold at 9%, 10.5%, maximum at 12%) increased from that of previous LTIP awards where both the 2020 and 2021 LTIP awards adopted a threshold of 8%, on-target of 9% and maximum at 11%. The 2023 LTIP is consistent with the 2022 LTIP at threshold and target but has a higher maximum at 12.5%. This reflects the ambitions of the Evolve strategy to grow profit and cash whilst also containing the balance sheet impact from the ambitious zero emission fleet transition targets.

Recognising the 'Environmental leader' outcome of Evolve, the Committee reviewed the ESG measures to ensure they are appropriate. During consultation with shareholders at the start of 2022 and 2023, many highlighted their desire for ESG measures to remain a key part of Executive Directors' overall remuneration but also emphasised a desire that any metrics remain objective, measurable and stretching. The Committee concluded that the overall weighting of the ESG element, 25% of the total award, along with the two constituent measures, was appropriate.

The Committee continues to review best practice in this area and evolve the incorporation of ESG measures into variable remuneration arrangements.

In the event that the share price at the time of grant is less than 185p (a 23% reduction on the price at the time of the 2022 LTIP grant) the Committee will scale back grants to all recipients. The Committee will also include a provision that it will assess if there has been a windfall gain following the granting of awards.

The performance conditions will be measured over the three-year financial period ending 31 December 2025, awards will be subject to a compulsory two-year holding period post vesting and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while options remain unexercised and will be satisfied in shares rather than cash.

(d) Chair's and Non-Executive Directors' 2023 fees

Non-Executive Director fees will operate in line with Directors' Remuneration Policy.

With effect from 1 January 2023, the Committee determined for the Chair, and the Board determined for the Non-Executive Directors, that there would be no change to fee levels, which would remain as follows:

Role	Fees (gross)
Chair	£259,32
Senior Independent Director (additional fee)	£11,000
Non-Executive Director (base fee)	£56,000
Committee Chair (additional fee)	£12,000

Non-Executive Directors' dates of appointment and notice periods

The current Chair's and Non-Executive Directors' dates of appointment and current notice periods are shown in the table below.

Director	Date of appointment	Notice period from either party (months)
Sir John Armitt (left)	01.01.13	3
Jorge Cosmen	01.12.05	1
Matthew Crummack	06.05.15	1
Mike McKeon	03.07.15	1
Karen Geary	01.10.19	1
Ana de Pro Gonzalo	01.10.19	1
Carolyn Flowers	01.06.21	1
Helen Weir	01.10.22	3

The letters of appointment for the Chair and the Non Executive Directors, together with the service agreements for the Executive Directors, are available for inspection at the Company's registered office.

Helen Weir's fee received during her period as Chair Designate from 1 October 2022 to 31 December 2022 was £56,000 per annum pro-rated.

Annual Report on Remuneration (Audited Information)

2. Single total figure of remuneration for Executive Directors

The table directly below sets out the single total figure of remuneration and breakdown for each Executive Director who served during the financial year ended 31 December 2022 (with comparative figures provided for 2021). The subsequent information and tables in this section 2 give more detail on various elements of the Executive Directors' remuneration.

£'000		Base salary[1]	Benefits[2]	Pension allowance	Total fixed remuneration	Annual bonus[3]	Vested LTIPs[4]	Total variable remuneration	Total
Ignacio Garat	**2022**	**575**	**31**	**17**	**623**	**595**	**0**	**0**	**1,218**
	2021	575	48	17	640	410	0	410	1050
Chris Davies[5]	**2022**	**354**	**11**	**89**	**454**	**0**	**0**	**0**	**454**
	2021	425	13	106	544	303	0	303	847
James Stamp[5]	**2022**	**71**	**2**	**2**	**75**	**75**	**23**	**0**	**173**
	2021	–	–	–	0	–	–	0	0

1 The 2022 base salaries of Mr Davies and Mr Stamp reflects the period served as a Director during 2022

2 Benefits comprise the gross of tax value of car allowance and private medical insurance. Benefits for Mr Garat also include the reimbursement of the cost of preparation of Mr Garat's UK and Spanish tax returns

3 Full disclosure of the annual bonus amounts and delivery mechanism are set out in section 2(a) Annual bonus below

4 Mr Garat did not receive a 2020 LTIP award as he joined the Company after grant. Vested LTIP for Mr Stamp reflects the 2020 LTIP grant made to him in the period prior to becoming CFO

5 Mr Stamp became an Executive Director from the date of appointment as interim CFO, 1 November 2022; on this date Mr Davies stood down from the Board and left the Group

(a) Annual bonus

The table below summarises the 2022 bonus potential for the Executive Directors that the Remuneration Committee set for 2022.

	Weighting	At threshold performance (% of salary)	At target performance (% of salary)	At maximum performance (% of salary)
Potential bonus in respect of financial objectives	75%	0%	56.25%	112.5%
Potential bonus in respect of safety objectives	15%	0%	11.25%	22.5%
Potential bonus in respect of personal objectives	10%	0%	7.5%	15%
Bonus potential for 2022	**100%**	**0%**	**75%**	**150%**

It was a pre-condition to the award of any element of the 2022 bonus, that the Committee was satisfied that a significant negative event had not occurred, and there was no material adverse impact on either the reputation of the Company or its share price as a result of the systematic failure of management to put in place and operate effective safety processes (the 'safety underpin'). The Committee determined that no significant negative event or material adverse impact had occurred.

In addition, 50% of the bonus earned is subject to mandatory deferral into shares for one year from award (as per the Remuneration Policy (see page 147).

Remuneration Committee Report continued

(i) 2022 bonus out-turn

The formulaic out-turn of Executive Directors' bonuses was 69.0% of maximum for the CEO and 70.2% of maximum (before pro-rating) for the CFO. As outlined in the Committee Chair's statement, the Committee was comfortable that the formulaic outcome provided an accurate reflection of financial and non-financial performance achieved during the year, and therefore no adjustments were applied to the formulaic bonus out-turn.

Mr Davies was not eligible to receive a bonus in respect of 2022 due to his departure from the business. In line with Mr Davies, Mr Stamp's bonus opportunity was 150% of salary, pro-rated for time spent on the Board. The measures on which this was based were the same as Mr Davies, other than personal objectives which are set out below.

	2022 salary	Bonus opportunity (% of salary)	Formulaic outcome (% of max)	Formulaic outcome (£'000)
CEO	£575,000	150%	69.0%	£594,940
CFO	£425,000	150%	70.2%[1]	£76,565

1 Reflects full-year equivalent - amount received after pro-rating, to reflect period since appointment, is 11.7%.

In line with the approved Remuneration Policy, 50% of all bonus payments will be deferred in to shares for one year (see page 147).

(ii) 2022 bonus performance conditions

The following table sets out performance conditions that were attached to Executive Directors' 2022 bonus and the associated outcomes.

Category	Measure	Threshold	Target	Max	Weighting	Outcome achieved	Bonus Achieved
Financial[1]	Group profit before tax (£m)	133.8	148.7	153.5	50%	145.9	20.2%
	Free cash flow (£m)	106.9	118.8	130.7	25%	160.5	25.0%
Safety	FWI	Zero Responsible Fatality	0.006	0.003	15%	0.003	15.0%
Personal (CEO)					10%	See below	8.8%
Personal (CFO)					10%	See below	10.0%
			CEO formulaic 2022 bonus outcome (% of maximum)				69.0%
			CFO formulaic 2022 bonus outcome (% of maximum)				70.2%

1 Consistent with previous years and associated disclosures, the Group Underlying Profit Before Tax and free cash flow targets are adjusted to align the method of calculation to the basis on which the performance outturn is calculated. The original Group Underlying Profit Before Tax target was set at £140.6m. After adjustment to reflect foreign exchange movements and variances in acquisition investment (compared to budgeted levels), the revised target was £148.7m, with the threshold and maximum amounts adjusted accordingly. The original Group free cash flow target was £114.0m. After adjustment to reflect foreign exchange movements and timing of capital expenditure payments (to align with the budgeted assumptions), the revised target was £118.8m, with the threshold and maximum amounts (set at -/+ 10% of the target) adjusted accordingly.

	Personal performance objectives (10% of maximum total weighting)	Performance against objective
CEO	**Embed & Execute Evolve Strategy** • Ensure purpose, outcomes & KPIS of our Evolve Strategy are cascaded and embedded throughout the Company. • Implement the first global engagement survey with 65% participation rate & build effective action plan to ensure our culture and environment supports Employer of Choice	**Fully Met** • Evolve launch event with Senior Leadership Team (SLT) followed by regular monthly cadence of SLT sessions to embed, in addition to divisional launch events with leaders completed in Q1 2022. • First global engagement survey completed with participation significantly ahead of target (completion 12% over and above) • 3 'E's People Strategy developed & launched to SLT.
	Drive North America Recovery • Improve the driver shortage in NA by reducing open vacancies & stabilising retention	**Partially Met** • Recruitment process re-engineered (including additional recruiters hire) to improve candidate time-to-apply. • Best year for recruitment in North America. • Strong progress made on driver shortage with retention levels returning to pre pandemic levels. • Overall encouraging base to continue progress in 2023
	Build a High Performing Executive Team • Review the Executive Team and develop skills to create a High Performing Team to drive business results.	**Fully Met** • Significant key hires in the format of Chief Information Officer and General Counsel/Company Secretary. • Team profiling completed with external 3rd party in addition to regular executive group development sessions, with associated roll-out of psychometric profiling from same 3rd party to top 200 leaders globally. • Refreshed approach to executive meetings infrastructure, cadence and structure.
CEO Bonus achieved (out of 10% of maximum)		**8.8%**
CFO	**Successfully Complete Induction & Transition Plan** • Successfully completed induction and transition plan with outgoing CFO – support the Q3 Trading Statement process and announcement. • Meet key shareholders to build engagement. • Meet key analysts to build engagement. • Build relationship & engagement with Audit Chair.	**Fully Met** • Induction & transition plan completed. • Led the Q3 trading process with the outgoing CFO supporting the process. • Met key shareholders. • Met key analysts • Induction meetings/time spent with Audit Chair to build relationship over important period
	Develop & Deliver 2023 Budget Process & Plan • Drive Budget Planning Process with Divisional & Functional Budgets • Set Budget Planning Principles • Present Plan to the Board & gain approval for 23 plan	**Fully Met** • Plan for 2023 completed and approved by the Board.
	Build High Performing Finance Function • Fill key vacancy gaps within Group Finance Team.	**Fully Met** • Significant recruitment activity completed with a number of key senior finance roles in place filled by experienced, credible candidates including Group Financial Controller/ Deputy CFO, Financial Planning & Analysis Director and Investor Relations Director
CFO Bonus achieved (out of 10% of maximum)		**10%**

Remuneration Committee Report continued

(b) Long-Term Incentive Plan (LTIP) vesting and awards
(i) LTIP awards vesting in 2023

The three-year LTIP awards granted to Executive Directors in 2020 are scheduled to vest in March 2023 as the measurement period relating to them ended on 31 December 2022. The formulaic out-turn was 10% of maximum. As outlined in the Committee Chair's statement, the Committee was comfortable that the formulaic outcome provided an accurate reflection of financial and non-financial performance achieved during the performance period. Whilst there are many factors that could have been taken into account to adjust the formulaic outcome, the Committee did not feel it was appropriate to make any such adjustments in light of the shareholder experience during this period.

All inflight awards held by Chris Davies, including the LTIP award granted in 2020, lapsed on his departure.

Details of the performance conditions attaching to the 2020 LTIP awards, which were granted as nil cost options, and the extent to which they have been met, are set out in the table below:

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for ROCE)	Target (50% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR[1] vs. FTSE 250 Index	12.5%	Median	–	Upper Quintile	Below Median 202 out of 221 companies	0%
TSR[1] vs. Bespoke Index[2]	12.5%	Equal to Index	–	≥ Index + 10% p.a.	Below Index	0%
EPS[3, 4]	25%	37.6p	39.8p	43.3p	15.0p	0%
ROCE[3, 5]	25%	8%	9%	11%	3.2%	0%
tCO_2e/million passenger km	15%	4.6% reduction in tCO_2e/ million passenger km by 2022 relative to 2019 base year	5.4% reduction in tCO_2e/ million passenger km by 2022 relative to 2019 base year	6.2% reduction in tCO_2e/ million passenger km by 2022 relative to 2019 base year	+40.3%	0%
UK zero emissions 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	324	100%
Total vesting						10%

1 For TSR performance measures, straight-line vesting occurs between threshold and maximum performance

2 The Bespoke Index comprised three other UK-based passenger transport groups: FirstGroup PLC; Stagecoach Group PLC; and Go-Ahead Group PLC

3 For EPS and ROCE performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance

4 Actual EPS is the fully diluted underlying earnings per share in the last year of the performance period

5 Actual ROCE is the average return on capital employed over the three-year performance period

(ii) Vesting details

The table below shows details of the 2020 LTIP nil cost option award:

Executive Director	Number of shares over which option was awarded	Number of shares scheduled to vest	Amount of award to vest	Amount of award to vest attributed to share price appreciation	Cash dividend payable on vesting
James Stamp	142,781	14,278	£23,299	(£25,043)	0

1 James Stamp received an LTIP grant during 2020 prior to joining the Board. The amount of the 2020 LTIP award to vest to Mr Stamp, 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 2022 (of 163.09p per share). The actual amount, which will be determined by reference to the Company's share price at the relevant vesting date in 2023, will be set out in next year's report

(iii) LTIP awards granted in 2022

Details of LTIP awards granted to Executive Directors in 2022 are set out in the table below:

Executive Director	Grant Date	Number of shares awarded[1]	Award type	Award amount	Face value of award £'000	Performance period	Performance conditions
Ignacio Garat	21.03.2022	478,369	Nil cost option	200% of base salary	1150	01.01.22–31.12.24	See below
Chris Davies[3]	21.03.2022	265,183	Nil cost option	150% of base salary	637.5	01.01.22–31.12.24	
James Stamp	21.03.2022	201,581	Nil cost option	150% of base salary	484.6	01.01.22–31.12.24	

1 The number of shares subject to the LTIP awards was determined by dividing the award amount, being the relevant multiple of the Executive Directors' base salaries, by the Company's MMQ share price on the last business day preceding the date of grant, being 240.4p on 18 March 2022

2 The face value of the LTIP awards is the number of (adjusted) Company shares over which awards were made multiplied by the Company's MMQ share price on the last business day preceding the date of grant, being 240.4p on 18 March 2022

3 Mr Davies' LTIP award granted in 2022, lapsed in full when he left the Company

(iv) Performance conditions attaching to 2022 LTIP awards

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for others)	Target (50% vesting)	Maximum (100% vesting)
TSR[1] vs. FTSE 250 Index	25%	Median	–	Upper quintile
EPS[2]	25%	21.7	24.9	26.5
ROCE[2]	25%	9%	10.5%	12%
tCO_2e / million passenger km[2]	12.5%	8.4% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year	9.0% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year	9.6% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year
Fleet transition[2]	12.5%	400 additional zero emission vehicles in service or on order by 31 December 2024	600 additional zero emission vehicles in service or on order by 31 December 2024	1,000 additional zero emission vehicles in service or on order by 31 December 2024

1 For TSR performance measures, straight-line vesting occurs between threshold and maximum performance

2 For EPS, ROCE and ESG performance measures, straight-line vesting occurs between threshold and target performance, and between target and maximum performance

Vested shares (except those granted to Mr Stamp's award which was granted before he was appointed to the Board) will be subject to a compulsory two-year holding period and malus and clawback will apply for two years from the date of vesting, including post termination of employment. Dividend equivalents are payable in cash on vested shares over the vesting period and during the holding period while options remain unexercised.

(v) Executive Deferred Bonus Plan (EDBP)

The table below sets out the awards under the 2022 EDBP in the form of forfeitable shares in the Company which were granted to the Executive Directors on 17 March 2022 and relate to the one-year deferred element of their bonuses for the financial year ended 31 December 2021. No awards were made under the EDBP in 2021, as no bonus was paid to the Executive Directors in respect of the financial year ended 31 December 2020, which means no EDBP awards vested in 2022.

As set out in the 2021 Report, over and above the deferral requirements set out in the Policy (50% of the total bonus being deferred into shares for one year), for the bonus payable in respect of 2021, the additional amounts (net of tax) were used to buy shares by the Executive Directors (55,440 by Mr Garat and 33,802 by Mr Davies) which will be held for three years. In addition, shares that vest from the EDBP award will be held for a further two years to meet these obligations.

The table below details those awards subject to mandatory deferral under the Policy.

Remuneration Committee Report continued

Executive director	As at 1 January 2022	Vested 18 March 2022	Granted in 2022	Lapsed	As at 31 December 2022	Market price at date of vesting	Date of grant
Ignacio Garat	–	–	86,315	–	86,315	–	17.03.22
Chris Davies[1]	–	–	63,798	63,798	–	–	17.03.22
James Stamp	–	–	–	–	–	–	–

3 Mr Davies' EDBP award lapsed in full when he left the Company

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 2022 (with comparative figures provided for 2021):

Non-Executive Director	2022 fees £'000	2021 fees[1] £'000
Sir John Armitt (Chair)	259	260
Jorge Cosmen (Deputy Chairman and Nominations Committee Chair from 4 November 2020)[1]	68	68
Matthew Crummack (Senior Independent Director from 3 April 2020)	67	67
Mike McKeon (Audit Committee Chair)	68	68
Ana de Pro Gonzalo (Independent Non-Executive Director)	56	56
Carolyn Flowers (Independent Non-Executive Director from 1st June 2021)[2, 3]	70	35
Karen Geary (Remuneration Committee Chair from 3rd December 2021)[4]	68	57
Helen Weir (Chair Designate)[5]	14	–

1 When Mr Cosmen assumed the chairmanship of the Nominations Committee from 4 November 2020, he waived any additional fee for acting as chair of the Nominations Committee

2 Carolyn Flowers joined the Board on 1 June 2021 so her 2021 fee reflects the pro-rated proportion of her annual base fee for the year. Her 2022 fee reflects a full year base fee, plus a pro-rated Committee Chair fee reflecting her appointment as Chair of the Sustainability Committee in May 2022

3 A travel allowance is also paid to Carolyn Flowers for each Board meeting or other Board-related matter she attends outside the North American continent, in an amount per such meeting or matter of £1,000. For 2021, Ms Flowers received £6,000 in respect of this allowance in addition to her base fee

4 Karen Geary was appointed as Remuneration Committee Chair in December 2021 and as such, her 2021 fees include a pro-rated element of this fee for one month only

5 Helen Weir's fee received during her period as Chair Designate from 1 October 2022 to 31 December 2022 was £56,000 per annum pro-rated

4. Payments to past Directors and payments for loss of office

(a) Payments to past Directors

No payments were made to past Directors during or in respect of the financial year ended 31 December 2022.

(b) Payments for loss of office

No payments were made to any former Directors for loss of office during or in respect of the financial year ended 31 December 2022.

5. Statement of Directors' shareholdings and share interests

(a) Executive Directors' interests in shares

Details of the Executive Directors' and their connected persons' beneficial interests in the Company's shares, and of the Executive Directors' other interests in shares, as at 31 December 2022 (or in the case of Chris Davies on his departure date of 1 November 2022) are shown in the table below:

	Shares held directly			Other share interests	
Executive Director	Shareholding target (% salary)	Shareholding value (% salary)[1]	Beneficially owned	Forfeitable shares held under the EDBP not subject to performance conditions	Outstanding LTIP share option awards subject to performance conditions
Ignacio Garat	200%[2]	33.43%	61,540	86,315	845,312
James Stamp	200%[3]	5.27%	17,223	–	498,989
Chris Davies[4]	n/a	n/a	301,833	–	–

1 The Company's closing share price of 130.00p as at 31 December 2022 has been used for the purposes of this calculation and has been applied to the beneficially owned shares in arriving at the shareholding value as at 31 December 2022

2 Mr Garat's current shareholding requirement applies to the five-year period commencing from the later of the approval of the Directors' Remuneration Policy or his date of appointment and therefore Mr Garat has until 12 May 2026 to reach his shareholding requirement

3 Mr Stamp's current shareholding requirement applies to the five-year period commencing from the later of the approval of the Directors' Remuneration Policy or his date of appointment and therefore Mr Stamp has until 5 December 2027 to reach his shareholding requirement

4 Mr Davies ceased to be an Executive Director on 31 October 2022, which is the date as at which his beneficial shareholdings are shown. No shareholding requirement applies to him post-termination of employment but certain shares he holds as a result of the previous vesting of LTIP awards remain subject to compulsory holding periods, including post-termination of employment

More information about current and former Executive Directors' interests in forfeitable shares held under the EDBP are set out in section 2bv) above. Pages 128-159 provides more information about current and former Executive Directors' interests in shares under outstanding LTIP awards.

Remuneration Committee Report continued

Share interests

The table below sets out the share awards granted to current and former Executive Directors under the rules of the Company's 2015 LTIP which either vested or lapsed during 2022 or remain outstanding as at 31 December 2022:

			During 2022					
LTIP award year/type	Date of grant	Awards held at 01.01.22	Granted	Exercised/ Eligible for exercise	Lapsed	Awards held at 31.12.22	Vesting date	Latest exercise date[1]
Ignacio Garat								
LTIP 3-year	22.03.21	366,943	–	–	–	366,943	22.03.24	22.03.26
LTIP 3-year (Approved CSOP)[2]	22.03.21	9,572[3]	–	–	–	9,572[3]	22.03.24	22.03.26
LTIP 3-year	21.03.22	–	478,369	–	–	478,369	21.03.25	21.03.27
		366,943[3]	**478,369**	**–**	**–**	**845,312[3]**		
James Stamp								
LTIP 3-year	03.04.18	7,766	–	7,766[5]	–	–	03.04.21	–
LTIP 3-year (Approved CSOP)[2]	03.04.18	7,751[3]	–	–	7,751[3,5]	–	03.04.21	–
LTIP 3-year	15.04.19	114,198	–	–	114,198[6]	–	15.04.22	–
LTIP 3-year	12.03.20	142,781	–	–	–	142,781	12.03.23	12.03.25
LTIP 3-year	22.03.21	154,627	–	–	–	154,627	22.03.24	22.03.26
LTIP 3-year	21.03.22	–	201,581	–	–	201,581	21.03.25	21.03.27
LTIP 3-year (Approved CSOP)[2]	21.03.22	–	12,479[3]	–	–	12,479[3]	21.03.25	21.03.27
		419,372	**201,581**	**7,766**	**114,198**	**498,989**		
Chris Davies								
LTIP 3-year	15.04.19	133,624	–	–	133,624[6]	–	15.04.22	–
LTIP 3-year	12.03.20	162,993	–	–	162,993[4]	–	–	–
LTIP 3-year	22.03.21	271,218	–	–	271,218[4]	–	–	–
LTIP 3-year (Approved CSOP)[2]	22.03.21	9,572[3]	–	–	9,572[3,4]	–	–	–
LTIP 3-year	21.03.22	–	265,183	–	265,183[4]	–	–	–
		567,835	**265,183[3]**	**–**	**833,018[4]**	**–**		

1 Awards vesting under the 2015 LTIP are subject to a two-year exercise period and holding period which run concurrently, save for Mr Stamp's LTIP awards between 2018 and 2022, which are not subject to any holding period as these were granted prior to him being appointed as an Executive Director. Latest exercise dates are shown only for those LTIP awards which have either yet to vest, or which have vested and are yet to be exercised

2 All LTIP awards are granted in the form of nil-cost options, save for LTIP approved CSOP awards which are granted as market value share options with an exercise price per share equal to the share price at grant. Mr Stamp' 2022 CSOP award was granted with an exercise price of 240.4p per share. LTIP approved CSOP awards comply with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of effective set-off against any shares vesting under the corresponding LTIP award

3 Due to the effective set-off arrangements explained in the note above, the number of shares subject to LTIP approved CSOP awards are not counted in the total number of awards held as this would result in a double-count

4 Mr Davies' 2020, 2021 and 2022 LTIPs (and related 2021 CSOP award) lapsed in full on his leaving the Company on 31 October 2022

5 Mr Stamp's 2018 LTIP award vested on 3 April 2021 and was exercised on 18 March 2022 (when his associated 2018 CSOP lapsed due to the share price at vesting being lower than the exercise price). Mr Stamp sold sufficient shares to satisfy his tax liabilities arising on such exercise. The share price on exercise was 235.72p per share

6 The 2019 LTIP lapsed in full with no vesting as a result of performance conditions not being met

(b) Non-Executive Directors' interests in shares

The details of the Non-Executive Directors' and their connected persons' interests in shares, for current Non-Executive Directors as at 31 December 2022, all of which are held beneficially, are shown in the table below:

Non-Executive Director	Beneficially owned
Sir John Armitt	27,937
Jorge Cosmen	47,826
Matthew Crummack	18,844
Mike McKeon	20,869
Ana de Pro Gonzalo	4,347
Carolyn Flowers	10,000
Karen Geary	14,347
Helen Weir	31,000

[1] Neither Jorge Cosmen nor his connected persons are now sufficiently closely connected with any of the Cosmen family companies which hold shares in the Company (including European Express Enterprises Ltd which is a major shareholder in the Company) for such family companies' shareholdings to be considered his or his connected persons' interests in Company shares

(c) Other information

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings in shares and options over shares in the Company.

The closing price of a Company ordinary share at 31 December 2022 was 130.00p (2021: 257.20p) and the range during the year ended 31 December 2022 was highest 284.20p to lowest 127.10p per share.

(d) Changes since year end

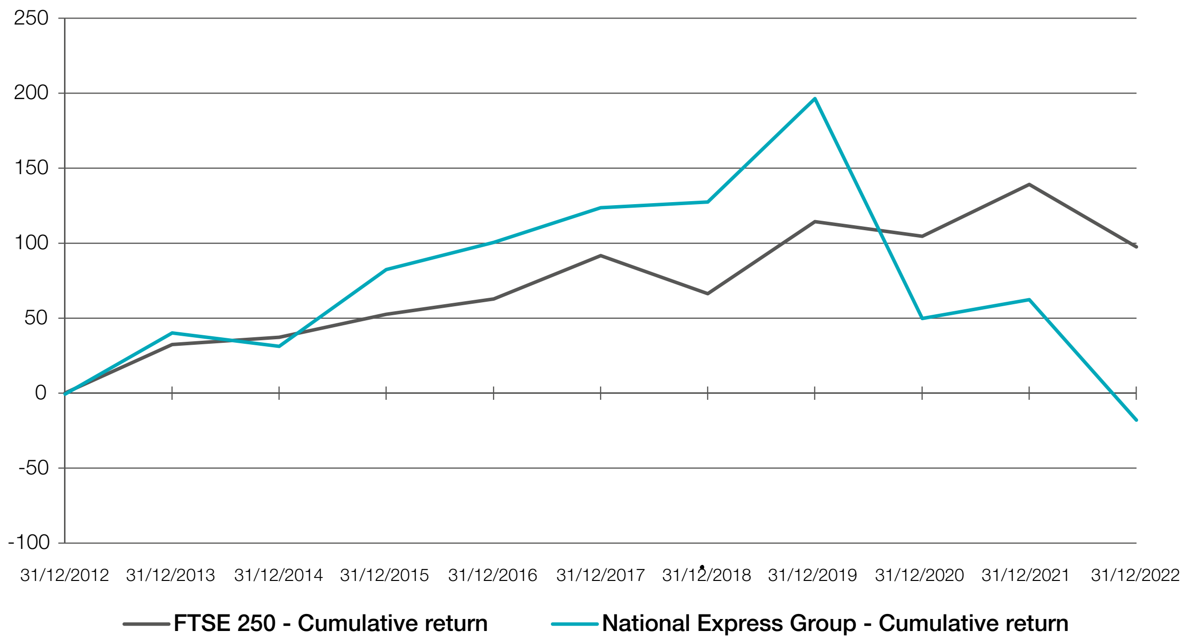
There have been no changes in current Directors' shareholdings between 31 December 2022 and the date of this Report.

Remuneration Committee Report continued

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 over the last 10 years. The FTSE 250 Index has been selected as the Company is a constituent of that Index.

Shareholder returns (%) – 10-year history



Source: Refinitiv Eikon Datastream

7. Context of Director pay

The following table sets out the actual percentage changes between 2019 and 2022 for certain elements of the remuneration for the persons who served as Directors during 2022, compared with the average percentage change in those same elements of remuneration for the Company's employees. It also sets out, by way of voluntary disclosure, a comparison with the Group's whole UK employee population as this provides a more meaningful comparison in view of the fact that the Company itself only employs a small proportion of the Group's employees.

The elements of each Executive Director's remuneration included in the table below comprise base salary, benefits and annual bonus calculated in the same way as in the single total figure of remuneration table on page 151. The Chairman and Non-Executive Directors' fees included in the table below are calculated in the same way as in the single total figure of remuneration table on page 156.

	Actual/Average percentage increase/ (decrease) from 2019 to 2020			Actual/Average percentage increase/ (decrease) from 2020 to 2021			Actual/Average percentage increase/(decrease) from 2021 to 2022		
	Base salary/ fees	Benefits[1]	Performance related bonus[2]	Base salary/ fees	Benefits[1]	Performance related bonus[2]	Base salary/ fees	Benefits[1]	Performance related bonus[2]
Ignacio Garat, current CEO	n/a	n/a	n/a	499.0%[1]	200.6%[1]	100.0%[2]	0%	-35.4%	45.1%
Chris Davies, (previous CFO)	(0.8)%	0.0%	(100)%	16.1%[3]	0.0%	100.0%[2]	-16.7%	-12.0%	-100%
James Stamp (current CFO)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sir John Armitt	(5.9)%	n/a	n/a	8.8%[4]	n/a	n/a	0%	n/a	n/a
Jorge Cosmen	0.0%	n/a	n/a	25.9%[4, 5]	n/a	n/a	0%	n/a	n/a
Matthew Crummack	14.8%	n/a	n/a	8.1%[4]	n/a	n/a	0%	n/a	n/a
Mike McKeon	1.5%	n/a	n/a	3.0%[4]	n/a	n/a	0%	n/a	n/a
Ana de Pro Gonzalo	315.4%[7]	n/a	n/a	(5.9)%[4]	n/a	n/a	0%	n/a	n/a
Carolyn Flowers	n/a	n/a	n/a	n/a[8]	n/a	n/a	99.0%[9]	n/a	n/a
Karen Geary	315.4%[7]	n/a	n/a	(5.9)%[4, 6]	n/a	n/a	17.5%[10]	n/a	n/a
Helen Weir	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Company employees	5.7%	(0.09)%	(100)%	4.4%[11]	(8.2%)[12]	100%[2]	7.2%	-1.2%	-12.1%
Company Group UK employees	1.7%[11]	(0.09)%	(100)%	2.3%[11]	(17.0%)[13]	100%[2]	8.5%	4.6%	-10.1%

1 Mr Garat joined in November 2020 and the % increase from 2020 to 2021 reflects this joining date. No increase in base salary was given for 2021

2 No bonuses were awarded for 2020

3 Reflects the salary increase to £425,000 from 1 January 2021 and the salary sacrifice made in April and May 2020, in light of the pandemic

4 The year-on-year increase reflects salary sacrifices made in April and May 2020 in the light of the pandemic

5 Received an additional £12,000 chair fee from 2021

6 Appointed Chair of the Remuneration Committee on 3 December 2021

7 The significant year-on-year percentage increases in the fees payable to Karen Geary and Ana de Pro Gonzalo reflect that they both joined the Company in October 2019 so only received fees for 3 months of the 2019 year

8 Appointed on 1 June 2021

9 Increase reflects the fact Carolyn Flowers joined the Board on 1 June 2021, so her fee reflects the pro-rated proportion of her annual base fee for the year. Her 2022 fee reflects a pro-rated committee chair fee fee associated with her appointment as Chair of the Sustainability Committee in May 2022.

10 Increase reflects the fact Karen Geary was appointed as Remuneration Committee Chair in December 2021 so her 2021 fee reflects only one month as committee Chair

11 No general pay rise in 2020, so increase reflective of some employees taking on additional responsibilities during the year and some impact of salary sacrifices in 2020

12 Driven by the net impact of the cost to the Company of providing certain benefits decreasing and the cost of providing others increasing

13 Driven by the net impact of the cost to the Company of providing certain benefits decreasing and the cost of providing others increasing, and the impact of job role changes and promotions

Remuneration Committee Report continued

8. History of CEO pay

The table below sets out the total remuneration paid to the Chief Executive Officer over the last 10 years, valued using the methodology applied to the single total figure of remuneration:

Year	2013	2014	2015	2016	2017	2018	2019	**2020[1]**	**2020[2]**	**2021**	**2022**
Chief Executive Officer	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	**D Finch**	**I Garat**	**I Garat**	**I Garat**
Single figure total remuneration (£'000)	1,553	1,562	3,661	3,887	4,225	4,318	3,048	**531**	**137**	**1,050**	**1,218**
Annual bonus payment (as % of maximum opportunity)	95%	93%	96%	83.5%	95%	90%	100%	**0%**	**n/a[3]**	**47.5%**	**69.0%**
LTIP vesting level achieved (as % of maximum opportunity)	0%	0%	73.4%	80.8%	86.9%	96%	91.53%	**0%**	**n/a[3]**	**n/a[4]**	**n/a[4]**

1 Mr Finch served as Chief Executive Officer from 1 January 2020 to 31 August 2020

2 Mr Garat served as Chief Executive Officer from 1 November 2020 to 31 December 2020

3 In 2020, Mr Garat was not entitled to any bonus award or LTIP award subject to performance conditions whose final year of performance ended during that year

4 In 2021 and 2022, Mr Garat was not entitled to any LTIP award subject to performance conditions whose final year of performance ended during those years

9. CEO pay ratios

The Committee reviewed the Company's CEO pay ratios and the Group's employee pay policies and practices when formulating the Directors' Remuneration Policy, and is satisfied that the structure and quantum of remuneration for the Executive Directors is appropriate in view of their relative roles and responsibilities.

The following table sets out ratios which compare the CEO's total remuneration in the Company's financial year ended 31 December 2022 to that of the Group's UK employees whose full time equivalent remuneration ranks them at the lower quartile, median and upper quartile of pay for all of the Group's UK employees (together with that data for the Company's previous two financial years):

Year	Methodology	25th percentile (lower quartile) pay ratio	50% percentile (median) pay ratio	75th percentile (upper quartile) pay ratio
2022	**Option A**	**46:1**	**39:1**	**31:1**
2021	Option A	43:1	37:1	31:1
2020	Option A	31:1	26:1	23:1

Option A was used to calculate the pay ratios as it is the most statistically accurate method and the relevant pay data was available to the Company in time for the preparation of this Report. The UK employees at the lower quartile, median and upper quartiles were identified as at 31 December 2022 and their full-time equivalent total remuneration was calculated in respect of the 12 months ended 31 December 2022 on the basis explained further below. The employee at the 25th percentile is employed as a cleaner and the employees at the 50th and 75th percentiles are employed as bus drivers, with their different pay reflecting overtime and different pension contributions.

The CEO's remuneration for 2020 was calculated by:

- combining the total remuneration of the former CEO (Mr Finch) and the new permanent CEO (Mr Garat) as set out in the single total figure of remuneration table on page 114 of the 2020 Annual Report and aggregating that sum with the proportion of Mr Davies' total remuneration as derived from the single total figure of remuneration table on the same page which relates to the two-month period during which he served as interim CEO (including the whole of the fixed salary supplement paid to Mr Davies during that period for acting in that capacity).

The CEO's remuneration for 2021 and 2022 was calculated as per the single total figure, shown earlier.

The total remuneration of the UK employees (including those at the lower quartile, median and upper quartiles) has been calculated using the same methodology as for the CEO's single total figure of remuneration, noting that:

- a large number of the Group's UK employees, such as bus and coach drivers and customer service centre staff, work full time but are paid by the hour (rather than having an annual fixed base salary). Their wages have been calculated as the actual number of hours worked in the year multiplied by the relevant hourly rates of pay applicable during the year; and
- a number of the Group's UK employees work part time. Those who are paid on a salaried basis have had their salaries and benefits grossed up to the full time equivalent salary for their role.

Although similar to the approach used for 2022, for further details on the calculation methodology for previous years please refer to the Annual Report for that year. Note for 2020 and 2021, where the Group's UK employees were placed on furlough during any part of 2021, the amounts actually paid to them have been included, including amounts subsequently reimbursed to the Company and its UK subsidiaries by the UK government under the Coronavirus Job Retention Scheme and topped-up amounts funded by the Company's Group.

The table below shows the CEO's total remuneration and the salary component of that total remuneration and that of each of the UK employees at the lower, median and upper quartiles of the Group's UK employee population for 2022:

Year	Pay data	Group Chief Executive	25th (lower quartile) percentile	50th (median) percentile	75th (upper quartile) percentile
2022	**Salary**	**£575,000**	**£26,475**	**£29,676**	**£35,754**
2022	**Total pay**	**£1,217,953**	**£26,546**	**£31,354**	**£38,962**

The Committee considers that the median pay ratio is consistent with the Company's pay, reward and progression policies. This is because, when setting CEO pay, the Committee has regard to the same core considerations as those taken into account by the UK management team when setting UK employee pay, including the Company's policy to pay market rates of pay that reward employees fairly for work done and that have due regard to individual performance and Company performance where the individual has the ability to influence wider Company performance. The CEO has ultimate responsibility for, and the greatest ability to influence, the Company's performance and returns to shareholders and, to reflect this, a much higher proportion of the CEO's remuneration is comprised of performance-related pay (in the form of an annual bonus and LTIP award vesting) compared with the majority of UK employees. This means that the pay ratios will fluctuate depending on the outcomes of incentive plans each year, reflecting that the CEO's pay was higher in line with the Company's performance and delivery of returns to shareholders, whereas UK employees' pay increased in line with their reduced ability to influence Company performance.

10. Relative importance of spend on pay

The table below sets out the total spend on pay in 2022 compared with distributions made to shareholders in 2022 and the figures for such values in 2021 for further comparison:

Measure	2022 £m	2021 £m	% increase from 2021 to 2022
Overall Group spend on pay including Directors	**1,395.5**	1,156.4	**20.7%**[1]
Profit distributed by way of dividend[2]	**30.6**	–	**100%**

1 Overall Group spend on pay was calculated by aggregating the Group's costs of salaries and wages, social security costs, pension costs and share-based payments for all the Group's employees whether employed in the UK or overseas in the relevant year. For 2021, the figure shown is calculated net of wages and social security costs which were refunded to the Group via UK government furlough and equivalent schemes in other countries in which the Group operates. On a like for like basis, the 2021 figure is £1,277.6, allowing for fx impact and these refunded costs of £54.3m, and the increase from 2021 to 2022 is 9.2%

2 Profit distributed by way of dividend has been used as the comparator measure as it permits a comparison between the Group's annual investment in its employed workforce and its annual cost of returning value to shareholders. In respect of 2021, this amount was zero as no interim or final dividends were paid

Remuneration Committee Report continued

11. Historical results of shareholder voting on remuneration matters

The votes cast on the resolution seeking approval of the Annual Report on Remuneration at the 2022 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld
To approve the Annual Report on Remuneration for the year ended 31 December 2021 (advisory vote only)	94.33	5.67	1,907,416

The votes cast on the resolution seeking approval of the current Policy at the 2021 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld
To approve the Directors' Remuneration Policy (binding vote)	72.57	27.43	27,540,836

1 A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against a resolution.

12. Retained advisers to the Committee

Korn Ferry was appointed as external remuneration adviser to the Remuneration Committee during 2021 following a review of potential advisers by the Committee.

Korn Ferry did not provide any services other than in relation to advising the Remuneration Committee during the year – the Committee is satisfied that no conflict of interest can arise as a result of these services. Korn Ferry has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. In view of these factors, the Committee is satisfied that the advice it receives from Korn Ferry is objective and independent. For the year under review, Korn Ferry received fees of £96,211, which were charged on a time cost basis.

13. Dilution

The Company has permitted share dilution authority reserved to it under the rules of its 2015 Long-Term Incentive Plan (LTIP), as previously approved by shareholders and in line with the Investment Association's guidelines. However, as the Company's funding strategy has been and continues to be to satisfy all outstanding share incentive awards granted under the LTIP (and its other incentive plans) through the delivery of market purchased shares via the Company's Employee Benefit Trust, as opposed to by the issue and allotment of new shares, the Company has not to date used any of its permitted share dilution authority under the 2015 LTIP.

On behalf of the Board

Karen Geary

Karen Geary
Remuneration Committee Chair
1 March 2023

Directors' Report

The information set out on pages 165 to 170 (inclusive), together with the information referred to below which is incorporated by reference, comprises the Directors' Report for the Company's financial year ended 31 December 2022.

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 location of such information is shown in the table below:

Information	Annual Report section	Annual Report page no(s)
Business model and future business developments	Strategic Report	18 and 23
Principal risks and uncertainties	Strategic Report	56 to 61
Fostering relationships with suppliers, customers and others[1]	Strategic' Report Corporate Governance Report	66 and 67 109 to 110, 113 and 117
Engagement with and other matters relating to employees[2]	Strategic' Report Corporate Governance Report	77 to 79 114 to 116
Financial instruments	Consolidated Financial Statements	244 to 249
Governance matters, including Corporate Governance Statement[3] and a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees	Corporate Governance Report	95 to 164
Description of diversity policies, objectives, implementation, and results	Nominations Committee Report	120 to 122
Internal control and risk management arrangements for financial reporting	Audit Committee Report	128 to 135
Streamlined Energy and Carbon Reporting (SECR)[4]	Additional Information	288

1 The Company is not obliged to provide this information in accordance with paragraph 11B of Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'). This is because it is exempted in accordance with paragraph 11C of Part 4 of the Regulations as the qualifying conditions are met because the Company, as a holding company, does not have a turnover nor does it have more than 250 employees. However, the Company has voluntarily provided this information

2 The Company is obliged to provide certain of this information in accordance with paragraph 11 of Part 4 of the Regulations as the Company is the parent company of the Group and the average number of persons employed by the Group within the United Kingdom during the year ended 31 December 2022 was more than 250. It is not however obliged to provide the information in accordance with paragraph 10 of Part 4 of the Regulations as the average number of persons employed by the Company itself does not exceed 250. The Company has therefore voluntarily provided this information

3 The Company is obliged to make a Corporate Governance Statement pursuant to DTR 7.2. The Company is therefore exempted from the requirements of Part 8 of the Regulations in accordance with paragraph 22(a) of the Regulations

4 The Company is obliged to provide this information in accordance with Part 7 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018)

This Directors' Report and the Strategic Report together form the Management Report for the purposes of Rule 4.1.8 of the Disclosure Guidance and Transparency Rules.

The relevant information required to be disclosed under Rule 9.8.4 of the Listing Rules is as follows:

Listing Rule	Nature of information	Section and page(s) of Annual Report
LR 9.8.4(12)	Dividend waivers by shareholders	Directors' Report, page 167

Directors' Report continued

Company status and branches

National Express Group PLC (the 'Company') is the holding company of the National Express group of companies (the 'Group').

The Company is a public limited company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index.

Neither the Company nor any member of its Group has any branches, save that one of the Company's Spanish subsidiaries, NEX Continental Holdings, S.L.U., has a branch in Portugal, NEX Continental Holdings S.L, Sucursal Em Portugal which was set up in 2021.

Results and dividends

The Company's and the Group's results for the year ended 31 December 2022 are set out in the Company Financial Statements and the Consolidated Financial Statements on pages 183 to 283.

Important events since the end of the financial year

There have been no important events which have affected the Company or the Group since 31 December 2022, save for those disclosed in note 40 to the Consolidated Financial Statements.

Dividends

The Board has recommended a full year dividend for the year ended 31 December 2022 of 5.0 pence per ordinary share (2021: 0.0p). Subject to shareholder approval, the final dividend will be paid on 15 May 2023 to holders of ordinary shares on the register of members at the close of business on 14 April 2023. As the Board did not pay an interim dividend in respect of its financial year ended 31 December 2022, the total dividend for the 2022 year is 5.0p per share (2021: 0.0p).

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 2022, there were 614,086,377 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Company's Articles of Association (the 'Articles'). Further details about the Company's share capital can be found in note 32 to the Consolidated Financial Statements.

Share rights, obligations and restrictions on transfer of shares

Shareholders are entitled to participate in dividends paid or declared by the Company and any return of capital made by the Company in proportion to their holdings of ordinary shares in the Company. Shareholders are also entitled to attend and vote at all general meetings of the Company (subject to the powers under Regulation 74 of the Articles which authorise the Company's Chair, Directors or any person authorised by the Directors to take such action as thought fit to secure the safety of people attending the meeting). Every shareholder has one vote on a show of hands and one vote for each ordinary share held on a poll on each resolution put before a general meeting. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's registrar not less than 48 hours before a general meeting.

Shareholders are subject to the obligations set out in the Articles, including the principal obligation to pay up any unpaid amount on their ordinary shares.

There are no limitations on the holding of the Company's shares. There are also no restrictions on the transfer of the Company's shares other than: (i) the typical restrictions set out in the Articles (for example, in respect of non-fully paid shares); (ii) restrictions imposed by law (such as insider trading laws); and (iii) restrictions imposed on the Directors and certain other employees of the Company and members of its Group pursuant to the Company's share dealing code.

Full details of the rights, obligations and restrictions attaching to the Company's ordinary shares, including in relation to voting rights and restrictions on transfer, are set out in the Articles, which are available at: www.nationalexpressgroup.com/media/upyaaiob/articles-11-may-2022.pdf.

The Company is not aware of any agreements between existing shareholders that may result in restrictions on the voting rights attaching to, or the transfer of, the Company's ordinary shares.

Special control rights over shares

There are no special control rights attaching to the Company's shares, save that the Company can direct the Company's Employee Benefit Trust to release the shares that it holds in the Company to satisfy the vesting of outstanding awards under the Company's various share incentive plans (see Employee Benefit Trust).

Authority to issue shares

The Directors were granted the authority at the Company's 2022 Annual General Meeting to allot new shares in the Company up to a nominal value of £10,234,772 representing one third of its issued share capital or, in the case of a rights issue only, new shares up to a nominal value of £20,469,545 representing two thirds of its issued share capital. The Directors were further authorised to disapply pre-emption rights on the issue of shares of up to a nominal value £1,535,215, representing approximately 5% of its issued share capital. No new shares were issued by Directors under the authorities granted to them at the Company's 2022 Annual General Meeting during the year ended 31 December 2022 or up to 1 March 2023, being the date this Directors' Report was approved. Such authorities remain valid until the Company's 2023 Annual General Meeting or 30 June 2023, whichever is earlier. The Directors propose to renew the Directors' authorities to issue and allot new shares and to disapply pre-emption rights on such issue and allotment at the Company's 2023 Annual General Meeting in line with the revised Statement of Principles issued by the Financial Reporting Council on behalf of the Pre-Emption Group 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 2022 Annual General Meeting to make market purchases of up to 61,408,637 of its own shares, representing approximately 10% of its issued share capital. No shares were purchased under this authority during the year ended 31 December 2022 or up to 1 March 2023, being the date this Directors' Report was approved. Such authority remains valid until the Company's 2023 Annual General Meeting or 30 June 2023, whichever is earlier. The Directors propose to renew this authority at the 2023 Annual General Meeting to give the Company the ability to return value to shareholders in this way in appropriate circumstances.

Employee Benefit Trust

IQ EQ Corporate Services (Jersey) Ltd is a shareholder in the Company and acts as the trustee (the 'Trustee') of the National Express Group Employee Benefit Trust (the 'EBT'). It is used to purchase Company shares in the market from time to time and hold them for the benefit of employees, including for satisfying awards that vest under the Company's various share incentive plans. The EBT also holds some Company shares in particular ringfenced accounts for specific employees who have had options over such shares vest to them under the Company's share incentive plans but have not yet exercised those options. The EBT purchased a total of 120,082 shares in the market during the year ended 31 December 2022 for an aggregate consideration of £290,698.87 (including dealing costs) and released 251,606 shares to satisfy vested share plan awards and 89,242 shares to the Executive Directors who purchased these shares from the EBT using the cash element of their 2021 annual bonus awards.

As at 31 December 2022, the EBT held 1,268,303 Company shares in trust (representing 0.21% of the Company's issued share capital). The Trustee may vote the shares it holds in the Company at its discretion, but where it holds any shares in a ringfenced account for particular employees it will seek their instructions on how it exercises the votes attached to those shares. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on the shares in the Company held in the EBT, except the shares it holds in ringfenced accounts for particular employees where it receives the dividends on such shares and passes them through to such employees.

Major shareholdings

As at 31 December 2022, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

Shareholder	Number of ordinary shares	Percentage of total voting rights[1]
European Express Enterprises Ltd	73,778,153	12.01%
M&G PLC	42,091,624	6.85%
JP Morgan Asset Management Holdings Limited[2]	41,082,956	6.69%
Liontrust Investment Partners PLC	39,306,348	6.40%
abrdn PLC[3]	31,239,316	5.09%
Newton Investment Management Ltd	29,583,062	4.82%
J O Hambro Capital Management Ltd	25,165,433	4.10%
Nortrust Noms Ltd re Greater Manchester Pension Fund	19,016,950	3.10%

1 The total number of voting rights attaching to the issued share capital of the Company on 31 December 2022 was 614,086,377.

2 A notification under DTR 5 was received from JP Morgan Asset Management Holdings Limited ('JP Morgan') on 12 May 2020, which set out the position disclosed in the table above. However, the last notification under DTR 5 was received from JP Morgan on 8 December 2021, which noted that it has gone "below the minimum threshold", but that notification did not state the new position.

3 A notification under DTR 5 was received from abrdn PLC ('abrdn') on 9 June 2022, which set out the position disclosed in the table above. A further notification under DTR 5 was received from abrdn on 28 June 2022 which noted that it has gone 'below 5%', but that notification did not state the new position.

It should be noted that these holdings may have changed since the Company was notified of them as notification of any change is not required until the next notifiable threshold is crossed.

The Company received no further notifications in accordance with DTR 5, by way of change to the above information or otherwise, between 31 December 2022 and 1 March 2023, being the period from the end of the Company's last financial year to the date on which this Directors' Report was approved.

Directors' Report continued

Directors

The names of the persons who were Directors of the Company at any time during the Company's financial year ended 31 December 2022, together with the periods during which they served as Directors, are:

Director	Period served during 2022
Sir John Armitt CBE	1.01.2022 – 31.12.2022
Helen Weir	1.10.2022 – 31.12.2022
Jorge Cosmen	1.01.2022 – 31.12.2022
Ignacio Garat	1.01.2022 – 31.12.2022
James Stamp	1.11.2022 – 31.12.2022
Matthew Crummack	1.01.2022 – 31.12.2022
Carolyn Flowers	1.01.2022 – 31.12.2022
Karen Geary	1.01.2022 – 31.12.2022
Mike McKeon	1.01.2022 – 31.12.2022
Ana de Pro Gonzalo	1.01.2022 – 31.12.2022
Chris Davies	1.01.2022 – 31.10.2022

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 2022 and 1 March 2023, 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 2023 AGM); and

(b) in note 36 to the Consolidated Financial Statements, none of the Directors has or had at any time during the year ended 31 December 2022 a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiary undertakings (other than the Executive Directors in relation to their Service Agreements).

Directors' service agreements and letters of appointment

The Executive Directors are party to service agreements with the Company which contain a rolling service term subject to the giving by the Company or relevant Executive Director of the relevant notice to terminate. All the Non-Executive Directors are party to letters of appointment with the Company which contain a fixed term of appointment of between three and six years, extendable by agreement, subject to the giving by the Company or the Non-Executive Director of the relevant notice to terminate. All Directors' continued appointments are also subject to annual election or re-election by shareholders and the powers of shareholders to remove Directors.

These Directors' service agreements and letters of appointment are available for inspection at the Company's registered office. Further details of these agreements and letters are included in the current Directors' Remuneration Policy, a copy of which is available on the Company's website at www.nationalexpressgroup.com/media/tqipu44g/directors-remuneration.policy.pdf.

Directors' powers

Subject to the Companies Act 2006 (the Act), the Articles and any directions given by special resolution of the shareholders, the business of the Company is managed by the Board which may exercise all the powers of the Company. The Articles may be amended by a special resolution of the shareholders.

The Directors may pay interim dividends where, in their opinion, the financial position of the Company justifies such payment and the Directors may recommend that shareholders declare dividends and, if so declared by ordinary resolution of shareholders, arrange for payment of such dividends. Where authorised to do so by ordinary resolution of the shareholders, the Directors may issue shares or rights to subscribe for shares or securities convertible into shares in the Company. Where the Company is authorised to do so by special resolution of the shareholders, the Directors may arrange for the Company to purchase its own shares, up to any limits specified in such resolution. The Directors may also appoint other Directors in the circumstances described on the next page.

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors are set out in the Act and related legislation and the Articles.

The Board may appoint a Director either to fill a casual vacancy or as an additional Director provided that the total number of Directors does not exceed any maximum number of Directors prescribed in the Articles. A Director so appointed by the Board must retire and seek election to office at the next Annual General Meeting of the Company. Each incumbent Director must also retire and seek re-election to office at each Annual General Meeting of the Company.

In addition to the powers of removal conferred by the Act, the Company may by ordinary resolution of which special notice is given remove any Director before the expiry of their period of office and may by ordinary resolution appoint another person who is willing to act in their place. The Company may also by ordinary resolution appoint a Director either to fill a casual vacancy or as an additional Director.

In accordance with the Articles and the provisions of the UK Corporate Governance Code, all the current Directors will retire at the Company's 2023 Annual General Meeting and offer themselves for election or re-election. The Board is satisfied that each of the Directors is qualified for election or re-election to office by their contribution and commitment to the Board, their key strengths in support of the Company's strategy as set out on pages 98 to 101 and for the reasons given on page 122 of the Nominations Committee Report.

Directors' indemnities and insurance

The Company has granted qualifying third party indemnities to each Director and the Company Secretary to the extent permitted by law. Qualifying third party indemnities (as defined by section 234 of the Companies Act 2006) in relation to losses or liabilities incurred by the Company's Directors and Company Secretary to third parties in the actual or purported execution or discharge of their duties as officers of the Company and of its associated companies were in force during the year ended 31 December 2022 and remain in force as at 1 March 2023, being the date this Directors' Report was approved. The Company also maintains Directors' and Officers' liability insurance which provides appropriate cover in respect of legal action brought against its Directors and Company Secretary.

Significant agreements affected by a change of control

The Company is party to the following significant agreements that could be altered or terminate on a change of control of the Company following a takeover bid.

Under the terms of the Company's revolving credit facilities, the Company would upon a change of control have five days to notify the lenders of such change of control and if, following 10 days of negotiations to either confirm or alter the terms of such facilities, no agreement has been reached, outstanding balances under such facilities could become repayable.

Under the terms of the Company's £1.5 bn Euro Medium Term Note ('EMTN') programme (as last updated on 13 June 2022), there is a change of control put option such that, upon a change of control put event, any holder of EMTNs issued under the programme may require the Company to redeem or purchase such EMTNs.

Under the terms of a Note Purchase Agreement entered into on 29 October 2019 relating to the issue by the Company of £134,000,000 2.38% Series A Senior Notes due 10 June 2027, €43,000,000 1.11% Series B Senior Notes due 7 May 2027, €137,000,000 1.33% Series C Senior Notes due 7 May 2030, €60,000,000 1.46% Series D Senior Notes due 7 May 2032 and $81,000,000 3.11% Series E Senior Notes due 10 June 2027, the Company is required to offer to repay the holders of all such Notes the entire unpaid principal and interest on such Notes on a change of control of the Company.

Under the terms of the Company's £500,000,000 Perpetual Subordinated Non-Call 5.25 Fixed Rate Reset Notes issued on 24 November 2020 there is a change of control option such that, upon a change of control event, the Company may redeem such Notes (in whole but not in part) plus accrued interest, or otherwise incur an interest rate step-up of 5% on the prevailing interest rate effective from the date on which the change of control event occurs.

Under the terms of some of the Group's vehicle leasing facilities, where the Company is a guarantor of such facilities, a change of control of the Company may amount to an event of default which could result in outstanding balances under such leasing facilities becoming repayable.

Under the rules of each of the Group's active share schemes, following a change of control of the Company the vesting of awards made under such schemes will be accelerated and, where performance targets are attached to the awards, the number of awards to vest will be determined according to the extent to which performance targets have been met. Each of the share schemes also allows, under certain circumstances and where the acquiring company has agreed, new awards to be granted in the acquiring company in place of the original awards to give substantially equivalent value to the awardees.

Due to the size of certain of the Company's credit facilities, note purchase agreements and leasing facilities, absent consent from the relevant lenders, noteholders and lessors to a change of control following a takeover bid or the bidder being able to refinance such facilities and borrowings upon its takeover bid being accepted and taking effect, their repayment, termination or default upon such change of control could create significant liquidity issues for the Company and could also trigger cross-defaults into other of the Company's and the Group's credit and leasing facilities.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, save that the provisions of the Group's active share incentive schemes may cause awards made under them to Directors and employees in the form of share options to vest on a takeover bid being accepted and taking effect, or, under certain circumstances and where the acquiring company agrees, new awards to be made in the acquiring company in place of the original awards to give substantially equivalent value to the awardees.

Directors' Report continued

Employee matters

Pages 68 to 80 of this Annual Report set out how the Company: engages with its workforce and takes their views into account; involves employees in Company performance; promotes common awareness among employees of financial and economic factors affecting the Company performance; and summarises how the Company is an equal opportunities employer.

Political donations, contributions and expenditure

The Company did not make any political donations or contributions or incur any political expenditure during the year ended 31 December 2022 (2021: nil political donations, contributions and political expenditure). The Company's policy is that neither it nor its subsidiaries make what are commonly regarded as donations or contributions to political parties. However, the Act's definition of political donations includes expenditure that could capture other business activities which would not normally be thought of as political donations or contributions, such as subscriptions, payment of expenses and support for bodies representing either the transport industry specifically or the business community in general in policy review or reform. The resolution being proposed at the Company's 2023 Annual General Meeting to authorise political donations, contributions and expenditure is to ensure that these normal business activities are permitted and that neither the Company nor its UK subsidiaries commit any technical breach of the Act.

Audit information

Each of the persons who are Directors as at 1 March 2023, being the date this Directors' Report was approved, confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and that he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The Company's 2023 Annual General Meeting ('AGM' or 'Meeting') will be held at BMA House, British Medical Association, Tavistock Square, London WC1H 9JP at 2pm on Wednesday, 10 May 2023. A separate circular, comprising a letter from the Chair, Notice of the Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Both documents can also be found on the Company's website at: www.nationalexpressgroup.com.

Approval

The Directors' Report was approved by the Board on 1 March 2023.

By Order of the Board

Simon Callander
Group General Counsel and Company Secretary
National Express Group PLC
Company number 2590560

Directors' Responsibilities

Legal and regulatory framework

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS), adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Article 4 of the International Accounting Standards Regulation, and have elected to prepare the parent Company Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare such financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with applicable law and regulations.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Directors' Report, taken together, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Ignacio Garat

Ignacio Garat
Group Chief Executive Officer
1 March 2023

J. Stamp

James Stamp
Group Chief Financial Officer
1 March 2023

Financials

Independent Auditor's Report

to the members of National Express Group PLC

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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group Income Statement;
- the group Statement of Comprehensive Income;
- the group and parent company balance sheets;
- the group and parent Statement of Changes in Equity;
- the group Statement of Cash Flows;
- the related notes 1 to 40 for the group financial statements; and
- the related notes 1 to 20 for the parent company financial statements

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 7 to the Financial Statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report continued

to the members of National Express Group PLC continued

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impairment of Spanish goodwill – Spain and North America • Accounting for and recoverability of deferred tax assets Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £11.5 million which was determined based on consideration of three key metrics: EBITDA before separately disclosed items, revenue and net assets.
Scoping	The group is organised into four operating divisions, each of which has multiple trading entities, each of which we identified as components, plus the head office function. Five Components were subject to full scope audits and two Components were subject to an audit of specified account balances. These Components account for 96% of the group's revenue, 82% of Underlying Operating Profit and 96% of net assets.
Significant changes in our approach	We have removed North American insurance and other claims provision as a key audit matter for the current year. This reflects the reduced level of judgement in estimating the provision and a convergence between management's actuarial analysis and our own independent analysis; these have led to a reduction in the level of associated audit risk and level of audit effort. We have introduced the accounting for and recoverability of deferred tax assets as a key audit matter in the current year. Given the history of recent losses, we have identified the accounting for and recoverability of deferred tax assets as a key audit matter in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the underlying assumptions which support management's analysis of the group's cost base and the levels of inherent risk in its revenue streams; this included consideration of operational difficulties, inflation and energy prices, passenger demand, and the group's ability to increase its prices;
- challenging the recovery assumptions in the forecast against external economic forecasts, as well as other relevant information about respective markets that may contradict management's assessment;
- assessing the level of headroom available to the group from its loan facilities and assessing the risk of breaching the related covenants;
- obtaining copies of financial facilities and evaluating forecast liquidity and performance against these;
- challenging management's reverse stress test analysis by assessing the point at which covenants are breached in the context of a reasonable worst-case scenario and performing a sensitivity analysis on the key variables; and
- assessing the disclosures made by the group around its going concern assumptions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impairment of Goodwill – Spain and North America

Key audit matter description	The goodwill balance allocated to the Spanish (ALSA) division is £561 million (2021: £785 million) as at 31 December 2022. The decrease in the balance is primarily due to the material impairment of £261 million in the current year, partially offset by foreign exchange movements, as outlined in Note 14. The goodwill balance allocated to the North American division is £743 million (2021: £670 million) as at 31 December 2022. The increase in the balance is principally due to foreign exchange movements. As outlined in Note 2 (ii) ALSA and North America goodwill impairment has been identified as a key source of estimation uncertainty. The key estimates in both impairment tests are the discount rate, long-term growth rate and long-term operating margin assumptions, including in relation to the impact of climate change. As the majority of the value in use resides in the terminal value, the impairment assessment is particularly sensitive to the perpetual growth rate and long-term operating margin and cash flows for each business. Further details on the assumptions applied and the sensitivity to changes in those assumptions is provided in Note 14. Within the long-term operating margin assumptions in the ALSA cash flows, we have pinpointed the greatest level of uncertainty to the long-term sustainable margins achievable in the Long-Haul business, as well as assumed margin expansion in Morocco. The Audit Committee Report on page 133 refers to the ALSA goodwill impairment. Note 2 to the Financial Statements sets out the group's accounting policy for testing impairment. The basis for the impairment reviews is outlined in Note 14 to the Financial Statements, including details of the pre-tax discount rate and perpetual growth rate used. The level of risk associated with this Key Audit Matter has increased as a result of the material impairment recorded against ALSA goodwill and also due to the significant reduction in headroom against North American goodwill, both of which were principally due to increases seen in market discount rates during the year.

5.1. Impairment of Goodwill – Spain and North America

How the scope of our audit responded to the key audit matter	Our procedures for challenging the group's methodology and assumptions included the following for each impairment test. **Understanding relevant controls, assessing discount rate, long-term growth rates and financial statement disclosures** • obtaining an understanding of relevant controls around impairment identification, review and the associated forecasts; • assessing the integrity of the impairment models through testing of the mechanical accuracy and evaluating the application of the input assumptions; • understanding the underlying process used to determine the risk-adjusted discount rates; • engaging with our valuation specialists to benchmark the discount rates and perpetual growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetual growth rates versus the risk adjustments made to the underlying cash flows; and • assessing the appropriateness of disclosures provided in the financial statements about the key source of estimation uncertainty, and the sensitivity analysis provided. **ALSA impairment cash flows** • making inquiries of finance and operational management as to the basis for the underlying projections; • challenging long-term cash tax rate assumptions with reference to historical actuals and long-term published tax rates; • challenging assumptions around capital expenditure and working capital with reference to historical trends; • obtaining published government data on the future of the Long-Haul market in Spain and formed an independent expectation of long-term earnings post concession renewals; • assessing evidence of historical contract wins and viewed recent correspondence with customers about ongoing contract tenders; • performing independent modelling on revenue and EBIT projections for each line of business, taking into account historical margin and revenue growth performance as well as macroeconomic and demographic forecasts, such as CPI and population growth; • considering the impact of climate change implications on the long-term projections of the business, specifically considering the total cost of ownership analysis of zero emission vehicles versus combustion engine vehicles; and • using the above information to come up with an independent point estimate of the cash flows in the model. **North America impairment cash flows** • challenging management's assumptions about route recovery in US School Bus with reference to actual performance to date, including applying sensitivities to those assumptions; • assessing cash tax rates assumed with reference to the business model and available future tax deductions; • considering the impact of climate change implications on the long-term projections of the business, specifically considering the total cost of ownership analysis of zero emission vehicles versus combustion engine vehicles; and • determining an independent point estimate with reference to historical earnings performance and external market data, such as CPI growth.
Key observations	Our audit procedures identified areas requiring improvement in the controls and processes surrounding the impairment assessment process. We are satisfied that the discount rate and long-term growth rate assumptions fall within our independently determined acceptable range. We concur with the final position adopted with regards to the ALSA cash flow forecasts and the impairment recognised. We concur with management's conclusion there is no impairment in North American goodwill but that it represents a key source of estimation uncertainty. We have also concluded that the related disclosures are appropriate.

5.2. Accounting for and recoverability of deferred tax assets

Key audit matter description	At 31 December 2022 the group recognised deferred tax assets relating to losses carried forward of £261.9 million (31 December 2021: £217.0 million), with £88.8 million relating to the UK (31 December 2021: £77.7 million) and £125.5 million relating to the US (31 December 2021: £97.2 million). There are also other tax attributes recognised as deferred tax assets along with deferred tax liabilities, giving a net deferred tax asset of £88.3 million in the UK (31 December 2021: £85.1 million), £86.2 million in the US (31 December 2021: £65.6million). As outlined in Note 2 (ii) the recoverability of the deferred tax assets in the UK and US have been identified as a key source of estimation uncertainty, due to the recent history of losses that exists in both territories. Judgement has therefore been required in assessing the weight of negative evidence versus positive evidence of past and future profitable performance, in concluding on the recoverability. The level of losses has increased from the prior year providing further weight to the negative evidence that the deferred tax assets may not be recoverable. As a result of the level of audit effort required, and judgement and estimation in this area, this has been identified as a new key audit matter. Separately, as outlined in Note 2, certain historical deferred tax balances have been restated in the current year to reflect errors identified in the current year. The associated adjustment recorded increased brought forward net assets at 31 December 2021 by £34 million. This further increased the level of audit effort required in completing the audit of deferred tax in the current year and has contributed to this being a key audit matter.
How the scope of our audit responded to the key audit matter	Our procedures for challenging the accounting judgements and assumptions included the following procedures: **Recoverability of deferred tax assets** • In conjunction with our tax specialists, we performed the following procedures: – confirmed the existence of the US and UK losses and tax attributes; – assessed management's historical analysis of the cumulative three-year trading position in the UK and US to assess and challenge whether the underlying reasons for recent losses were expected to reoccur; – considered whether there were any restrictions associated with the specific losses, including restrictions on use and time restriction for use, and the resultant period over which utilisation of those losses could occur; – challenged management's analysis of the utilisation of brought forward losses against forecast future profits; as part of this we considered the interplay between group interest and transfer pricing arrangements between the UK and US, as well as relevant UK and US tax law; – considered confirmatory and contradictory evidence arising from our work on going concern and impairment to assess whether the assumptions being applied were consistent with other estimates; – agreed the analysis prepared by management to underlying accounting records and supporting evidence; and – assessed the associated disclosures provided in the financial statements about the key source of estimation uncertainty, and the basis of recoverability of the deferred tax assets. **Restatement of deferred tax** • In conjunction with our tax specialists, we performed the below procedures: – assessed the tax basis for the deferred tax positions identified as erroneous and tested the corrected amounts; – assessed the materiality of the impact on the prior year financial statements to challenge management's conclusion a restatement was required; and – reviewed the associated disclosures against the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

5.2. Accounting for and recoverability of deferred tax assets

Key observations	Our audit procedures identified areas requiring significant improvement in the controls and processes surrounding the accounting for and assessment of recoverability of deferred tax assets, including historical deferred tax positions. This is outlined further in the Audit Committee report on page 131. We are satisfied that the basis for concluding the deferred tax assets are recoverable is reasonable, that appropriate disclosures have been provided, and that this represents a key source of estimation uncertainty We have concluded that the prior year restatement in relation to deferred tax has been appropriately recorded and disclosed.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£11.5 million (2021: £11.0 million)	£8.3 million (2021: £8.3 million)
Basis for determining materiality	In determining materiality, we considered EBITDA before separately disclosed items (see note 5), net assets, and revenue. This materiality level equates to 0.8 % (2021: 0.8%) of net assets, 2.8 % (2021: 3.7%) of EBITDA before separately disclosed items and 0.4 % (2021: 0.5%) of revenue.	The parent company materiality has been set at 0.4% (2021: 0.4%) of the parent Company’s net assets and is 72.6% (2021: 76%) of group materiality.
Rationale for the benchmark applied	Consistent with the prior year, the benchmarks have been chosen to determine a materiality that considers both balance sheet and income statement metrics as we believe that using a materiality based on these benchmarks reflects critical underlying measures of the group which are of relevance to the users of the financial statements in the current environment.	Net assets is considered an appropriate benchmark for the parent company given that it is mainly a holding company.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	67.5% (2021: 65%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	When determining performance materiality, we have considered the quantum of likely uncorrected misstatements that we anticipated in planning the audit for the current year. This included our professional judgement and considerations of: – the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit; and – relevant factors about the group's control environment, specifically the control deficiencies identified as outlined in Section 7.2. In the current year, the performance materiality has been determined at 67.5% of materiality. This represents an increase of 2.5% (2021: 65%) to reflect remediation activity in the divisional transactional controls noted at the end of the prior year audit notwithstanding the findings in the key audit matters noted above.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.58 million (2021: £0.55 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The group operates predominantly in Europe and North America. Our approach to scoping is consistent with prior year. We determined that five components (located in UK, Germany, Spain and Morocco, and the USA) were subject to full scope audits, and two UK components were subject to audits of specified account balances. Work on these components was performed by Deloitte member firms to materiality levels between £3.9 million and £8.3 million (2021: between £3.1 million and £8.3 million). We also tested the consolidation process and carried out analytical procedures to reconfirm our conclusion that there were no significant risks of material misstatement to the group from the remaining components not subject to audit. The seven components subject to audit procedures account for 96% of group's revenue, 82% of underlying operating profit and 96% of net assets.

7.2. Our consideration of the control environment

In the current year we extended our controls audit work to include an assessment of certain relevant group-wide controls, as well as an increased number of business process controls.

The group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography. For four of the components noted above, which included North America for the first time, and for head office we identified relevant IT systems for the purpose of our audit work. These were typically the principal enterprise resource management systems for each business that govern the general ledger and contract accounting balances, together with any relevant revenue transactional systems. We performed an assessment of the controls associated with those financially relevant systems. Through our group-wide IT audit work in the current year we identified control deficiencies associated with privileged user access controls and also with reliance on third party service providers, who manage the associated IT applications.

As outlined in our key audit matters above, control deficiencies were identified in the areas of goodwill impairment and deferred tax.

Where control deficiencies were identified during the course of the audit, we reconsidered our risk assessment and the nature, timing and extent of our audit procedures.

7.3. Our consideration of climate-related risks

Throughout 2022 management has undertaken a number of steps to enhance and progress actions on the Taskforce on Climate related Financial disclosures ("TCFD") recommendations in its Annual Report, following its initial adoption in 2021. Management continues to perform a climate-related risk assessment which has been reviewed by the Board. Climate change is reported as a principal risk in the Annual report, page 57. As stated on page 90 of the Strategic Report, directors' view is that in any climate scenario the upside is potentially material, whilst the net financial impact of climate-related risks is low and mitigated by the group's geographical diversity, but not assumed in their modelling. As disclosed in note 14 of the financial statements and section 5.1 of this report, there are assumptions relating to climate risks that have an impact to the terminal value of the impairment assessments, most notably the total cost of ownership parity between zero emission vehicles and diesel equivalents. We have assessed the climate risks and opportunities throughout the disclosures and involved sustainability specialists in challenging management's disclosures on TCFD. We also read the disclosures in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

The group audit team continued to follow a programme of planned oversight designed so that the Senior Statutory Auditor and/or a senior member of the audit team continually oversees each of the three non-UK divisions where the group audit scope was focussed. In relation to the current year audit for non-UK components, the Senior Statutory Auditor has physically visited the US and Spanish components to maintain oversight. In the current year, the audit of specified account balances in Germany has been directly led by the group engagement team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including 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 accuracy and occurrence of certain revenue streams in ALSA, the completeness and accuracy of grant income in the UKand accuracy of goodwill impairment. 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.

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, regulations from the Traffic Commissioners and environmental regulations.

11.2 Audit response to risks identified

As a result of performing the above, we identified goodwill impairment as a key audit matter related to the potential risk of fraud. They key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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;
- in addressing the risk of fraud in the recognition of grant income, enquiring of management and obtaining external evidence to support management's accounting for Bus Service Improvement Plan ('BSIP') grant in UK, including discussions with the Department for Transport and Transport for West Midlands;
- tested the occurrence of certain revenue streams in Spain through reconciling the revenue system to the general ledger system and agreeing to supporting evidence; 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.

Independent Auditor's Report continued

to the members of National Express Group PLC continued

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 54;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 62;
- the directors' statement on fair, balanced and understandable set out on page 171;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 56 to 61;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 129 and 130; and
- the section describing the work of the Audit Committee set out on pages 130 to 135.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in this regard.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in this regard.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 14 June 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. Following a competitive tender process, we were reappointed as the external auditor by the Audit Committee for the year ending 31 December 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering periods from our initial appointment through to the period ending 31 December 2022.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jane Whitlock (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor
Birmingham, UK

01 March 2023

Group Income Statement

For the year ended 31 December 2022

	Note	Underlying result 2022 £m	Separately disclosed items (note 5) 2022 £m	Total 2022 £m	(Restated) Underlying result 2021[1] £m	Separately disclosed items (note 5) 2021 £m	(Restated) Total 2021[1] £m
Revenue	4	2,807.5	–	2,807.5	2,170.3	–	2,170.3
Operating costs	5, 6	(2,610.2)	(355.8)	(2,966.0)	(2,083.3)	(123.2)	(2,206.5)
Group operating profit/(loss)		197.3	(355.8)	(158.5)	87.0	(123.2)	(36.2)
Share of results from associates and joint ventures	18	(0.4)	–	(0.4)	(1.0)	–	(1.0)
Finance income	10	2.2	–	2.2	3.2	–	3.2
Finance costs	10	(53.2)	–	(53.2)	(49.5)	(1.4)	(50.9)
Profit/(loss) before tax		145.9	(355.8)	(209.9)	39.7	(124.6)	(84.9)
Tax (charge)/credit	11	(30.3)	19.5	(10.8)	(12.0)	19.8	7.8
Profit/(loss) for the year		115.6	(336.3)	(220.7)	27.7	(104.8)	(77.1)
Profit/(loss) attributable to equity shareholders		113.4	(335.2)	(221.8)	22.4	(103.2)	(80.8)
Profit/(loss) attributable to non-controlling interests		2.2	(1.1)	1.1	5.3	(1.6)	3.7
		115.6	(336.3)	(220.7)	27.7	(104.8)	(77.1)
Earnings per share:	13						
– basic earnings per share				(39.7)p			(16.6)p
– diluted earnings per share				(39.7)p			(16.6)p

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

Details relating to separately disclosed items are provided in note 5.

Group Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £m	(Restated) 2021[1] £m
Loss for the year		**(220.7)**	(77.1)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on defined benefit pension plans	33	**53.0**	41.9
Deferred tax charge on actuarial movements	11	**(12.7)**	(2.7)
Gains on equity instruments classified as fair value through Other Comprehensive Income	17	**1.7**	1.2
		42.0	40.4
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations	32	**146.9**	(57.2)
Exchange differences on retranslation of non-controlling interests		**3.1**	(1.3)
(Losses)/gains on net investment hedges	32	**(57.6)**	26.5
Gains on cash flow hedges	32	**78.6**	52.5
Cost of hedging	32	**(0.7)**	0.1
Hedging gains reclassified to Income Statement	32	**(77.7)**	(3.3)
Deferred tax credit on foreign exchange differences	11	**1.3**	0.5
Deferred tax credit/(charge) on cash flow hedges	11	**5.2**	(9.5)
		99.1	8.3
Other comprehensive income for the year		**141.1**	48.7
Total comprehensive expenditure for the year		**(79.6)**	(28.4)
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders		**(83.8)**	(30.8)
Non-controlling interests		**4.2**	2.4
		(79.6)	(28.4)

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

Group Balance Sheet

At 31 December 2022

	Note	**2022 £m**	(Restated) 2021[1] £m	(Restated) 2020[1] £m
Non-current assets				
Intangible assets	14	**1,620.9**	1,778.5	1,851.8
Property, plant and equipment	15	**1,175.3**	1,129.6	1,233.2
Non-current financial assets	17	**26.9**	32.6	14.3
Investments accounted for using the equity method	18	**13.9**	13.7	15.6
Trade and other receivables	20	**173.5**	147.1	91.7
Finance lease receivable	34	**9.7**	12.7	10.6
Deferred tax assets	27	**185.5**	159.4	149.3
Defined benefit pension assets	33	**0.4**	3.8	12.3
Total non-current assets		**3,206.1**	3,277.4	3,378.8
Current assets				
Inventories	21	**32.4**	28.8	27.0
Trade and other receivables	22	**560.7**	428.3	391.7
Finance lease receivable	34	**4.3**	4.1	4.3
Derivative financial instruments	17	**37.7**	31.0	44.9
Current tax assets		**2.3**	3.3	2.6
Cash and cash equivalents	23	**291.8**	508.4	629.8
Total current assets		**929.2**	1,003.9	1,100.3
Assets classified as held for sale	19	**18.6**	18.6	18.8
Total assets		**4,153.9**	4,299.9	4,497.9
Non-current liabilities				
Borrowings	28	**(886.3)**	(1,294.3)	(1,313.0)
Derivative financial instruments	28	**(22.4)**	(11.1)	(10.6)
Deferred tax liability	27	**(26.9)**	(14.5)	(15.3)
Other non-current liabilities	25	**(121.2)**	(123.8)	(202.7)
Defined benefit pension liabilities	33	**(42.5)**	(99.2)	(147.4)
Provisions	26	**(65.7)**	(68.8)	(54.8)
Total non-current liabilities		**(1,165.0)**	(1,611.7)	(1,743.8)
Current liabilities				
Trade and other payables	24	**(874.5)**	(787.7)	(783.0)
Borrowings	28	**(602.0)**	(302.3)	(354.6)
Derivative financial instruments	28	**(41.9)**	(24.5)	(23.0)
Current tax liabilities		**(4.2)**	(3.0)	(2.2)
Provisions	26	**(75.6)**	(89.0)	(81.1)
Total current liabilities		**(1,598.2)**	(1,206.5)	(1,243.9)
Total liabilities		**(2,763.2)**	(2,818.2)	(2,987.7)
Net assets		**1,390.7**	1,481.7	1,510.2
Shareholders' equity				
Share capital	32	**30.7**	30.7	30.7
Share premium account		**533.6**	533.6	533.6
Own shares		**(3.9)**	(4.5)	(3.5)
Hybrid reserve		**513.0**	513.0	497.6
Other reserves	32	**481.7**	384.0	373.2
Retained earnings		**(207.4)**	(16.2)	38.4
Total shareholders' equity		**1,347.7**	1,440.6	1,470.0
Non-controlling interests in equity		**43.0**	41.1	40.2
Total equity		**1,390.7**	1,481.7	1,510.2

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

Ignacio Garat

J. Stamp

I Garat
Group Chief Executive

J Stamp
Group Chief Financial Officer

1 March 2023

Group Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital (note 32) £m	Share premium account (note 32) £m	Own shares (note 32) £m	Hybrid reserve (note 32) £m	Other reserves (note 32) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2022 (Restated)[1]	30.7	533.6	(4.5)	513.0	384.0	(16.2)	1,440.6	41.1	1,481.7
(Loss)/profit for the year	–	–	–	–	–	(221.8)	(221.8)	1.1	(220.7)
Other comprehensive income for the year	–	–	–	–	97.7	40.3	138.0	3.1	141.1
Total comprehensive income/(expense)	–	–	–	–	97.7	(181.5)	(83.8)	4.2	(79.6)
Shares purchased	–	–	(0.3)	–	–	–	(0.3)	–	(0.3)
Own shares released to satisfy employee share schemes	–	–	0.9	–	–	(0.7)	0.2	–	0.2
Share-based payments	–	–	–	–	–	1.2	1.2	–	1.2
Deferred tax on share-based payments	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Transaction costs on issuance of hybrid instrument	–	–	–	–	–	–	–	–	–
Accrued payments on hybrid instrument	–	–	–	21.3	–	(21.3)	–	–	–
Payments on hybrid instrument	–	–	–	(21.3)	–	–	(21.3)	–	(21.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	5.3	5.3	–	5.3
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	5.8	5.8	(5.8)	–
Disposal of subsidiary shares from non-controlling interest	–	–	–	–	–	0.4	0.4	0.3	0.7
Contributions from non-controlling interests	–	–	–	–	–	–	–	3.2	3.2
At 31 December 2022	30.7	533.6	(3.9)	513.0	481.7	(207.4)	1,347.7	43.0	1,390.7

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

Group Statement of Changes in Equity continued

For the year ended 31 December 2022

	Share capital (note 32) £m	Share premium account (note 32) £m	Own shares (note 32) £m	Hybrid reserve (note 32) £m	(Restated) Other reserves (note 32)[1] £m	(Restated) Retained earnings[1] £m	(Restated) Total[1] £m	Non-controlling interests[1] £m	(Restated) Total equity[1] £m
At 1 January 2021 (Restated)[1]	30.7	533.6	(3.5)	497.6	373.2	38.4	1,470.0	40.2	1,510.2
(Loss)/profit for the year	–	–	–	–	–	(80.8)	(80.8)	3.7	(77.1)
Other comprehensive income/(expense) for the year	–	–	–	–	10.8	39.2	50.0	(1.3)	48.7
Total comprehensive income/(expense)	–	–	–	–	10.8	(41.6)	(30.8)	2.4	(28.4)
Shares purchased	–	–	(2.5)	–	–	–	(2.5)	–	(2.5)
Own shares released to satisfy employee share schemes	–	–	1.5	–	–	(1.5)	–	–	–
Share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Deferred tax on share-based payments	–	–	–	–	–	0.3	0.3	–	0.3
Transaction costs on issuance of hybrid instrument	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Accrued payments on hybrid instrument	–	–	–	21.2	–	(21.2)	–	–	–
Payments on hybrid instrument	–	–	–	(5.3)	–	–	(5.3)	–	(5.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	4.4	4.4	–	4.4
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	4.0	4.0	(4.6)	(0.6)
Other movements with non-controlling interests	–	–	–	–	–	–	–	3.1	3.1
At 31 December 2021	30.7	533.6	(4.5)	513.0	384.0	(16.2)	1,440.6	41.1	1,481.7

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

Group Statement of Cash Flows

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash generated from operations	38	**284.9**	231.1
Tax paid		**(17.6)**	(19.2)
Interest paid		**(48.6)**	(45.0)
Interest received		**2.5**	4.0
Net cash flow from operating activities		**221.2**	170.9
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19	**(4.8)**	(20.8)
Deferred consideration for businesses acquired	19	**(3.7)**	(13.0)
Proceeds from the disposal of business, net of cash disposed	19	**–**	(0.9)
Purchase of property, plant and equipment		**(169.0)**	(168.5)
Proceeds from disposal of property, plant and equipment		**9.3**	13.7
Payments to acquire intangible assets		**(10.7)**	(44.4)
Proceeds from disposal of intangible assets		**5.2**	0.7
Payments to settle net investment hedge derivative contracts		**(10.5)**	–
Receipts on settlement of net investment hedge derivative contracts		**3.1**	35.1
Receipts relating to associates and investments		**0.7**	0.9
Net cash flow from investing activities		**(180.4)**	(197.2)
Cash flows from financing activities			
Issuance of hybrid instrument[1]		**–**	(0.5)
Dividends paid to holders of hybrid instrument		**(21.3)**	(5.3)
Principal lease payments	34	**(85.9)**	(118.2)
Increase in borrowings		**128.8**	243.0
Repayment of borrowings		**(169.5)**	(220.1)
Payments to settle foreign exchange forward contracts		**(61.7)**	(11.9)
Receipts on settlement of foreign exchange forward contracts		**22.3**	20.7
Purchase of own shares		**(0.3)**	(2.5)
Acquisition of non-controlling interests[2]		**(19.1)**	(18.3)
Contributions from non-controlling interest		**3.2**	–
Disposals of non-controlling interests		**0.6**	–
Dividends paid to non-controlling interests		**–**	(0.4)
Dividends paid to shareholders of the Company	12	**–**	–
Net cash flow from financing activities		**(202.9)**	(113.5)
Decrease in net cash and cash equivalents		**(162.1)**	(139.8)
Opening net cash and cash equivalents		**376.2**	520.5
Decrease in net cash and cash equivalents		**(162.1)**	(139.8)
Foreign exchange		**19.0**	(4.5)
Closing net cash and cash equivalents	23	**233.1**	376.2

1 £0.5m of transaction costs were paid in 2021 relating to the hybrid issue in 2020

2 Amounts in 2022 include £19.1m (2021: £17.7m) paid on exercise of 10% (2021: 10%) of the WeDriveU put liability

Notes to the Consolidated Accounts

For the year ended 31 December 2022

1 Corporate information

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

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

2 Accounting policies

Basis of preparation

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

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

Going concern

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

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

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

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

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

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

2 Accounting policies continued

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

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

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

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

In conclusion, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

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

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

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

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

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

Prior year restatement of deferred tax balances

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

Group Income Statement

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

Group Statement of Comprehensive Income

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

Group Balance Sheet

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

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

2 Accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

(i) Critical accounting judgements

Separately disclosed items

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

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

(ii) Key sources of estimation uncertainty

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

ALSA and North America goodwill impairment

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

Recognition of deferred tax assets

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

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

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

Insurance and other claims

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

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

Pensions

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

Consideration of climate change

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

Basis of consolidation

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

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

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

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

2 Accounting policies continued

Summary of significant accounting policies

Subsidiaries

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

Interests in joint ventures

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

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

Interests in associates

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

Foreign currencies

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

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

Presentation of Income Statement and separately disclosed items

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

Revenue recognition

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

Contract revenues

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

Passenger revenues

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

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

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

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

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

Private hire

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

Other revenues

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

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

Contract costs

Costs to obtain a contract

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

Costs to fulfil a contract

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

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

Contract assets and liabilities

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

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

2 Accounting policies continued

Government grants

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

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

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

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

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

Service concession arrangements

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

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

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

Financial asset model

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

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

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

Intangible asset model

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

Taxes

Current tax

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

Deferred tax

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

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

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

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

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

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

Business combinations

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

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

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

Non-current assets held for sale and discontinued operations

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

2 Accounting policies continued

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

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

Intangible assets

Goodwill

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

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

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

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

Other intangible assets

Customer contracts

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

Service concessions

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

Contract costs

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

Software

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

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

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

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

Property, plant and equipment

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

Repairs and maintenance costs are expensed as incurred.

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

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

Impairment

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

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

Impairment losses relating to goodwill cannot be subsequently reversed.

Financial instruments

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

Financial assets

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

Financial assets at fair value through Profit and Loss

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

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

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

Financial assets at fair value through Other Comprehensive Income

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

Financial assets at amortised cost

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

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

2 Accounting policies continued

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

Financial liabilities

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

Financial liabilities at fair value through profit and loss

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

Loans and borrowings

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

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

Put liabilities

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

Equity instruments

Hybrid instruments

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

Derivative financial instruments and hedge accounting

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

The Group designates certain derivatives as either:

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

2 Accounting policies continued

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

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

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

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

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

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

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

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

Inventories

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

Trade and other receivables

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

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

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

Cash and cash equivalents

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

Trade and other payables

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

2 Accounting policies continued

Provisions

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

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

Onerous contracts

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

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

Insurance claims

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

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

Leases

Group as a lessee

Lease identification

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

Right-of-use asset

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

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

Lease liability

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

2 Accounting policies continued

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

Short-term leases and leases of low-value assets

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

Group as a lessor

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

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

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

Retirement benefits

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

2 Accounting policies continued

Share-based payments

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

Share capital, share premium and dividends

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

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

New standards and interpretations not applied

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

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

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

3 Exchange rates

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

4 Revenue and segmental analysis

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

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

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

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

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

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

(a) Revenue

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

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

Grants recognised within revenue

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

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

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

4 Revenue and segmental analysis continued

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

4 Revenue and segmental analysis continued

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

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

(b) Operating profit/(loss)

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

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

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

4 Revenue and segmental analysis continued

(c) Depreciation

Depreciation is analysed by reportable segment as follows:

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

(d) Non-current assets

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

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

(e) Geographical information

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

5 Separately disclosed items

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

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

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

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

Movement in onerous contract provision

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

Total charge to the Income Statement

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

5 Separately disclosed items continued

(a) Goodwill impairment of ALSA

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

(b) Intangible amortisation for acquired businesses

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

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

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

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

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

(d) Rhine-Ruhr Express onerous contract provision

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

5 Separately disclosed items continued

(f) Restructuring and other separately disclosed items

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

(g) Interest charges

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

6 Operating costs

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

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

Grants recognised within operating costs

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

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

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

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

6 Operating costs continued

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

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

7 Auditor's remuneration

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

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

8 Employee benefit costs

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

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

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

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

9 Share-based payments

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

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

9 Share-based payments continued

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

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

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

(i) Long-Term Incentive Plan (LTIP)

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

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

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

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

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

(ii) Executive Deferred Bonus Plan (EDBP)

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

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

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

9 Share-based payments continued

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

9 Share-based payments continued

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

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

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

10 Net finance costs

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

11 Taxation

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

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

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

11 Taxation continued

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

11 Taxation continued

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

(d) Tax provisions

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

(e) Temporary differences associated with Group investments

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

(f) Unrecognised tax losses

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

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

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

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

(g) Deferred tax included in the Income Statement

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

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

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

12 Dividends paid and proposed

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

13 Earnings per share

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

14 Intangible assets

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

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

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

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

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

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

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

14 Intangible assets continued

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

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14 Intangible assets continued

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

Sensitivities to key and other assumptions

(i) ALSA

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

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

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

(ii) North America

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

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

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

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

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

14 Intangible assets continued

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

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For the year ended 31 December 2022

15 Property, plant and equipment

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

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

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

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

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

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

15 Property, plant and equipment continued

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

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

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

16 Subsidiaries

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

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

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

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

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16 Subsidiaries continued

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

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

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

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

1 The main holding companies of the ALSA Group

17 Non-current financial assets

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

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

Financial assets at fair value through Other Comprehensive Income

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

17 Non-current financial assets continued

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

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

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

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

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

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

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

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

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

(a) Investments in joint ventures

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

18 Investments accounted for using the equity method continued

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

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

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

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

(b) Investments in associates

The Group's interests in associates are as follows:

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

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

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

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

19 Business combinations, disposals and assets held for sale

(a) Acquisitions – ALSA

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

19 Business combinations, disposals and assets held for sale continued

(b) Acquisitions – further information

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

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

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

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

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

(c) Disposals

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

(d) Assets held for sale

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

20 Non-current assets – trade and other receivables

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

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

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

21 Inventories

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

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

22 Current assets – trade and other receivables

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

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

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

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

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

23 Cash and cash equivalents

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

23 Cash and cash equivalents continued

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

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

24 Current liabilities – trade and other payables

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

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

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

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

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

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

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

25 Other non-current liabilities

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

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

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

26 Provisions

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

Claims provision

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

Onerous contracts

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

Other

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

27 Deferred tax

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

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

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

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

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

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

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

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

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

27 Deferred tax continued

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

28 Borrowings and derivative financial liabilities

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

29 Interest-bearing borrowings

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

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

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

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

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

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

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

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

29 Interest-bearing borrowings continued

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

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

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

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

30 Financial risk management objectives and policies

Financial risk factors and management

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

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

Foreign currency

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

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

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

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

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

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

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

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

30 Financial risk management objectives and policies continued

Interest rate risk

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

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

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

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

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

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

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

Commodity prices

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

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

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

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

30 Financial risk management objectives and policies continued

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

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

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

Credit risk

(i) Risk management

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

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

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

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

30 Financial risk management objectives and policies continued

(ii) Impairment of financial assets

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

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

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

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

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

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

30 Financial risk management objectives and policies continued

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

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

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

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

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

Liquidity risk

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

Funding for the Group is coordinated centrally by the treasury function and with the Group's forecast funding requirements and its debt facilities being reported to and monitored on an ongoing basis by the treasury function and formally via the monthly Treasury Committee. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12-month view, with minimum headroom of at least £300.0m maintained, taking into account market conditions and corporate activity, including acquisitions and organic growth plans. The minimum funding headroom assumes that factoring facilities are not available.

Short-term funding requirements are met through use of cash and cash equivalents and drawings under unsecured committed revolving credit facilities if required. Most of the Group's cash is held in the UK, the USA and Spain. In the UK the Group utilises a pooling arrangement with its main relationship bank to manage its cash on a net basis.

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. The prior year cash and cash equivalents included £11.9m which was subject to contractual or regulatory restrictions, or withholding tax levied on repatriation of cash. These amounts held were not readily available for other purposes within the Group.

The Group currently has £527.0m of unsecured committed revolving credit facilities, which mature between 2023 and 2025. During the year, the group entered into a new £32.0m unsecured committed revolving credit facility which matures in 2023. At 31 December 2022, there was £nil (2021: £nil) drawn-down on the facilities. The maximum draw down of the revolving credit facility during the year was £95.0m (2021: £nil), with no drawdowns in the prior year due to the additional liquidity facilities secured in the light of Covid-19, which matured during 2021.

Medium and long-term funding requirements are met through committed debt facilities as detailed in note 29.

30 Financial risk management objectives and policies continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 based on the contractual undiscounted cash flows, including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2022	Carrying amounts £m	Contractual cash flows £m	< 1 year £m	1-2 years £m	2-3 years £m	3-5 years £m	> 5 years £m
Non-derivative financial liabilities							
Bank overdrafts	(58.7)	(58.7)	(58.7)	–	–	–	–
Bank loans	(195.8)	(203.7)	(81.9)	(29.5)	(28.9)	(46.4)	(17.0)
Bonds	(621.4)	(693.6)	(414.6)	(5.9)	(5.9)	(11.9)	(255.3)
Lease liabilities	(197.7)	(202.1)	(64.2)	(37.6)	(21.1)	(25.5)	(53.7)
Private placements	(411.9)	(433.3)	(4.0)	(4.0)	(4.0)	(244.1)	(177.2)
Trade and other payables[1]	(765.0)	(765.0)	(757.9)	(7.1)	–	–	–
	(2,250.5)	(2,356.4)	(1,381.3)	(84.1)	(59.9)	(327.9)	(503.2)
Derivative financial liabilities							
Foreign exchange derivatives	(4.5)	(4.5)	(4.5)	–	–	–	–
Interest rate derivatives	(26.8)	(29.5)	(9.8)	(10.4)	(9.3)	–	–
Cross currency swaps	(15.6)	(13.4)	(13.4)	–	–	–	–
Fuel derivatives	(17.4)	(15.7)	(10.6)	(3.4)	(1.7)	–	–
	(64.3)	(63.1)	(38.3)	(13.8)	(11.0)	–	–

1 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense-related grants and deferred fixed asset grants

Year ended 31 December 2021	Carrying amounts £m	Contractual cash flows £m	< 1 year £m	1-2 years £m	2-3 years £m	3-5 years £m	> 5 years £m
Non-derivative financial liabilities							
Bank overdrafts	(132.2)	(132.2)	(132.2)	–	–	–	–
Bank loans	(191.1)	(196.2)	(100.6)	(19.9)	(25.9)	(31.5)	(18.3)
Bonds	(640.9)	(709.5)	(15.9)	(414.6)	(5.9)	(11.9)	(261.2)
Lease liabilities	(235.7)	(243.5)	(67.1)	(45.5)	(30.6)	(29.3)	(71.0)
Private placements	(393.9)	(420.5)	(3.9)	(3.9)	(3.9)	(7.7)	(401.1)
Trade and other payables[1]	(667.5)	(667.5)	(615.1)	(52.4)	–	–	–
	(2,261.3)	(2,369.4)	(934.8)	(536.3)	(66.3)	(80.4)	(751.6)
Derivative financial liabilities							
Foreign exchange derivatives	(18.8)	(18.8)	(18.8)	–	–	–	–
Interest rate derivatives	(6.4)	(6.5)	(0.6)	(2.1)	(2.1)	(1.7)	–
Cross currency swaps	(9.7)	(10.3)	(4.4)	0.3	0.3	0.3	(6.8)
Fuel derivatives	(0.7)	(0.7)	(0.4)	(0.2)	(0.1)	–	–
	(35.6)	(36.3)	(24.2)	(2.0)	(1.9)	(1.4)	(6.8)

1 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related grants and deferred fixed asset grants

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

30 Financial risk management objectives and policies continued

Capital risk management

The objective of capital management is to ensure that the Group is able to continue as a going concern while delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders.

The Group's capital structure consists of equity (refer to the Group Statement of Changes in Equity) and net debt (refer to note 39).

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's debt is monitored on the basis of a gearing ratio, being net debt divided by EBITDA, further details of which are provided in the Group Chief Financial Officer's review.

The Group also uses ROCE as a measure of its ability to drive better returns on the capital invested in the Group's operations, further details of which are provided in the Group Chief Financial Officer's review.

31 Financial instruments (including cash, trade receivables and payables)

Fair values

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. After initial fair value recognition, they are measured at amortised cost using the effective interest rate method. The fair value of these instruments approximates their carrying amounts, largely due to the short-term maturities.

Financial assets at fair value through Other Comprehensive Income relates to the Group's non-listed equity investments.

The Group's derivatives are measured at fair value. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value, with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement.

Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed of. For fair value hedges, all gains or losses are recognised in the Income Statement.

The fair value measurement of derivative instruments is categorised within Level 2 (i.e. the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, i.e. those that would be classified as Level 3 in the fair value hierarchy, other than the deferred contingent consideration disclosed in note 19 and financial assets at fair value through Other Comprehensive Income in note 17. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non- recurring fair value movements.

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the £250.0m bond. Consequently, the carrying value of the bond is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ from the fair value depending on movements in the Group's credit risk, movements in interest rates and unamortised fees. At 31 December 2022, the carrying value of the Group's bonds was £650.0m (2021: £650.0m) and compares with the fair value as presented in the table below.

All other liabilities, including the remaining bonds, private placements, leases, bank loans and trade and other payables (excluding contingent consideration) are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

31 Financial instruments (including cash, trade receivables and payables) continued

The following table illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2022:

Classification of financial instruments As at 31 December 2022	Assets and liabilities at amortised cost £m	At fair value through Other Comprehensive Income £m	Hedged item at fair value £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets						
Investments	–	16.8	–	–	–	16.8
Fuel derivatives	–	–	–	–	19.9	19.9
Cross currency swaps	–	–	–	–	10.7	10.7
Foreign exchange derivatives	–	–	–	16.4	0.8	17.2
Cash and cash equivalents	291.8	–	–	–	–	291.8
Other debt receivables	2.8	–	–	–	–	2.8
Finance lease receivables	14.0	–	–	–	–	14.0
Trade and other receivables[1]	432.9	–	–	–	–	432.9
	741.5	16.8	–	16.4	31.4	806.1
Liabilities						
Bank overdrafts	(58.7)	–	–	–	–	(58.7)
Bank loans	(195.8)	–	–	–	–	(195.8)
Bonds	(400.1)	–	(221.3)	–	–	(621.4)
Lease liabilities	(197.7)	–	–	–	–	(197.7)
Private placements	(411.9)	–	–	–	–	(411.9)
Fuel derivatives	–	–	–	–	(17.4)	(17.4)
Interest rate derivatives	–	–	–	(26.8)	–	(26.8)
Cross currency swaps	–	–	–	–	(15.6)	(15.6)
Foreign exchange derivatives	–	–	–	(4.5)	–	(4.5)
Trade and other payables[2]	(753.2)	–	–	(11.8)	–	(765.0)
	(2,017.4)	–	(221.3)	(43.1)	(33.0)	(2,314.8)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables

2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related grants and deferred fixed asset grants

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

31 Financial instruments (including cash, trade receivables and payables) continued

Classification of financial instruments As at 31 December 2021	Assets and liabilities at amortised cost £m	At fair value through Other Comprehensive Income £m	Hedged item at fair value £m	At fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
Assets						
Investments	–	13.9	–	–	–	13.9
Fuel derivatives	–	–	–	–	29.4	29.4
Interest rate derivatives	–	–	–	0.1	–	0.1
Cross currency swaps	–	–	–	–	12.0	12.0
Foreign exchange derivatives	–	–	–	6.1	2.1	8.2
Cash and cash equivalents	508.4	–	–	–	–	508.4
Finance lease receivables	16.8	–	–	–	–	16.8
Trade and other receivables[1]	344.7	–	–	–	–	344.7
	869.9	13.9	–	6.2	43.5	933.5
Liabilities						
Bank overdrafts	(132.2)	–	–	–	–	(132.2)
Bank loans	(191.1)	–	–	–	–	(191.1)
Bonds	(400.1)	–	(240.8)	–	–	(640.9)
Lease liabilities	(235.7)	–	–	–	–	(235.7)
Private placements	(393.9)	–	–	–	–	(393.9)
Fuel derivatives	–	–	–	–	(0.7)	(0.7)
Interest rate derivatives	–	–	–	(6.4)	–	(6.4)
Cross currency swaps	–	–	–	–	(9.7)	(9.7)
Foreign exchange derivatives	–	–	–	(16.0)	(2.8)	(18.8)
Trade and other payables[2]	(654.1)	–	–	(13.4)	–	(667.5)
	(2,007.1)	–	(240.8)	(35.8)	(13.2)	(2,296.9)

1 Trade and other receivables as stated in this table does not directly reconcile with the amounts shown in notes 20 and 22 as it excludes contract assets, prepayments and provision for impairment of receivables

2 Trade and other payables as stated in this table does not directly reconcile with the amounts shown in notes 24 and 25 as it excludes contract liabilities, deferred expense related-grants and deferred fixed asset grants

Other receivables and other payables are to be settled in cash in the currency they are held in.

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2022, there was no objective evidence that would have necessitated the impairment of loans and receivables except the provision for impairment of receivables (see note 30).

Embedded derivatives

In accordance with IFRS 9 Financial Instruments, the Group has reviewed its contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value at the end of each reporting period. In line with IFRS 9, the Group classifies hedges as:

(i) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction; and (iii) hedges of a net investment in a foreign operation.

In 2022, the Group applied cash flow hedge accounting to hedge fuel price risk and to hedge foreign currency risk on a US dollar denominated private placement. The Group applied net investment hedge accounting to hedge net investments in its North American and European foreign operations.

31 Financial instruments (including cash, trade receivables and payables) continued

The movement on derivative financial instruments is detailed below:

	At fair value through profit and loss		Derivatives used for hedging			
	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net (liability)/asset at 1 January 2022	(6.3)	(9.9)	28.7	2.3	(0.7)	14.1
Movements through Income Statement	(20.5)	(17.6)	(70.1)	(3.0)	–	(111.2)
Movements through Other Comprehensive Income	–	–	70.1	(32.6)	(5.9)	31.6
Cash settlements	–	39.4	(26.2)	28.4	7.4	49.0
Net asset/(liability) at 31 December 2022	**(26.8)**	**11.9**	**2.5**	**(4.9)**	**0.8**	**(16.5)**

	At fair value through profit and loss			Derivatives used for hedging			
	Fuel swaps £m	Interest rate swaps £m	Foreign exchange forward contracts £m	Fuel swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net (liability)/asset at 1 January 2021	(2.4)	1.5	4.6	(17.7)	(3.5)	30.2	12.7
Movements through Income Statement	2.4	(7.8)	(5.7)	(4.4)	(1.9)	–	(17.4)
Movements through Other Comprehensive Income	–	–	–	50.8	7.7	4.2	62.7
Cash settlements	–	–	(8.8)	–	–	(35.1)	(43.9)
Net asset/(liability) at 31 December 2021	–	(6.3)	(9.9)	28.7	2.3	(0.7)	14.1

A reconciliation of movements in the cash flow hedge reserve, cost of hedging reserve and net investment hedge reserve is shown in note 32.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

31 Financial instruments (including cash, trade receivables and payables) continued

A summary of the Group's hedging activities is as follows:

Hedge type	Net investment hedge	Fair value hedge	Cash flow hedge	Cash flow hedge
Risk	Foreign currency risk	Foreign currency risk	Interest Rate risk	Commodity price risk
Nominal amount of hedging	CAD 46.0 USD 320.0 EUR 616.7	USD 81.0	GBP 250.0	367.2m litres
Ageing of nominal amount:				
< 1 year	CAD 46.0 USD 320.0 EUR 376.7	–	–	220.3m litres
1-2 years	–	–	–	110.6m litres
2-5 years	EUR 43.0	USD 81.0	GBP 250.0	36.2m litres
> 5 years	EUR 197.0	–	–	–
Average hedged rate		2.43%	GBP SONIA + 1.98%	£0.58/litre
Maturity	2023 – 2032	2027	2025	2023 – 2025
Carrying amount of hedging instruments (£m)				
Assets – derivatives	7.5	3.2	–	19.9
Liabilities – derivatives	(15.6)	–	(26.8)	(17.4)
Liabilities – borrowings[1]	(212.3)	–	–	–
Carrying amount of hedged item – borrowings (£m)	–	(66.9)	(221.3)	–
Changes in fair value of hedged item for calculating hedge effectiveness[2]	14.7	(8.4)	19.9	26.5
Changes in fair value of hedged instrument used for calculating hedge effectiveness[2]	(14.7)	8.1	(19.7)	(26.9)
Amounts accumulated in reserves at 31 December 2022	15.1	(2.5)	–	(33.5)
Accumulated fair value hedge adjustment on borrowings	–	–	26.3	–

1 Represents the carrying value of the €240.0m Euro-denominated private placements

2 Inclusive of cash settlements for the period

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group, which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2022, the Group had designated EUR 616.7m of cross currency interest rate swaps, EUR 240.0m of private placements and EUR 376.7m of foreign exchange forward contracts as net investment hedges of the net assets of the Group's European subsidiaries. Similarly, USD 30.0m of foreign exchange forward contracts, and USD 290.0m and CAD 46.0m of cross currency interest rate swaps were designated as a hedge of the net assets of the Group's North America subsidiaries. No material ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Fuel swaps are used to match the timing, type of fuel and currency in which the domestic physical fuel is purchased as closely as possible, with hedges currently in place from 2023 through to 2025.

During the year, £70.1m of fair value gains (2021: £50.8m gains) have been transferred to the cash flow hedge reserve due to movements in market fuel prices. A fair value gain of £69.5m (2021: £1.9m gain) has been transferred from the cash flow hedge reserve to the Income Statement following settlement of fuel trades; this comprised a gain of £32.9m (2021: £16.0m loss), being the hedging reserve position at 1 January and a £36.6m gain (2021: £17.9 gain) generated during the year due to movements in market fuel prices. No material ineffectiveness was recognised in relation to these hedges.

31 Financial instruments (including cash, trade receivables and payables) continued

Fuel derivatives can be analysed as follows:

	31 December 2022 Fair value £m	31 December 2021 Fair value £m	31 December 2022 Volume million litres	31 December 2021 Volume million litres
Fuel derivatives				
Sterling denominated – UK	(5.2)	5.3	63.8	48.6
Euro denominated – ALSA	(3.3)	7.4	114.7	85.4
US Dollar and Canadian Dollar denominated – North America	8.4	7.1	41.8	65.5
Fuel derivatives included in current assets/(liabilities)	(0.1)	19.8	220.3	199.5
Sterling denominated – UK	0.9	3.0	41.1	42.6
Euro denominated – ALSA	0.2	3.6	69.5	61.8
US Dollar and Canadian Dollar denominated – North America	1.5	2.3	36.3	53.1
Fuel derivatives included in non-current assets/(liabilities)	2.6	8.9	146.9	157.5
Total fuel derivatives	2.5	28.7	367.2	357.0

Interest rate swaps at fair value through profit or loss

In August 2021, the Group entered into a series of interest rate swaps equal in value to the £250.0m bond. These interest rate swaps all pay fixed interest annually and receive floating interest (GBP SONIA + margin) annually with cash settlements matching that of the £250.0m bond. They are designated as a fair value hedge of the interest rate risk on the £250.0m bond. These swaps as measured at fair value through profit and loss, with any gains and losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the £250.0m bond. During the year, a fair value loss of £19.9m was recognised in the Income Statement and was offset by a fair value gain of £19.9m on the underlying hedged item due to changes in the risk-free interest rate.

Cash flow hedges

In June 2020, the Group entered into an $81.0m cross currency swap that pays fixed USD interest semi-annually and receives fixed GBP interest semi-annually. This is designated as a cash flow hedge of foreign currency risk with maturities matching an $81.0m private placement maturing in June 2027. No material ineffectiveness was recognised during the year.

32 Share capital and reserves

Issued and fully paid:	No. of shares	2022 £m	No. of shares	2021 £m
At 1 January and 31 December	614,086,377	30.7	614,086,377	30.7

The total number of share options exercised in the year by employees of the Company was 251,606 (2021: 402,244) of which all (2021: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 1,268,303 (2021: 1,489,069) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 120,082 (2021: 1,013,976) shares. 251,606 (2021: 402,244) shares were used to satisfy options granted under a number of the Company's share schemes, and a further 89,242 shares were transferred to the Executive Directors who purchased these shares using the cash element of their 2021 annual bonus awards. No shares (2021: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2022 was £1.6m (2021: £3.8m). No dividends were payable on these shares in either 2022 or 2021.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

32 Share capital and reserves continued

Hybrid reserves

The Group has in issue a Sterling denominated hybrid instrument of £500m, with an annual coupon rate of 4.25%. The contractual terms of the instrument allow the Group to defer coupon payments and the repayment of the principal indefinitely. However, any deferred payments must be made in the event of a dividend distribution. The instrument was issued in November 2020 and the terms also allow for the instrument to be redeemed at the option of the Group at five years after issue (first call date) and 10 years (second call date), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or change of control). As the Group has the unconditional right to avoid transferring cash or another financial asset in relation to this instrument, it is classified within equity. The annual coupon rate is fixed for the first five years, and thereafter reset according to the specific terms of the issuance.

Other reserves

	Capital redemption reserve £m	Merger reserve £m	Fair value reserve of financial assets at FVOCI £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Net investment hedge reserve £m	Translation reserve £m	Total £m
At 1 January 2022 (Restated)[1]	0.2	239.5	(0.3)	25.0	1.0	43.0	75.6	384.0
Exchange differences on retranslation of foreign operations	–	–	–	–	–	–	146.9	146.9
Gains on equity instruments classified as fair value through Other Comprehensive Income	–	–	1.7	–	–	–	–	1.7
Gains/(losses) on hedges	–	–	–	78.6	–	(57.6)	–	21.0
Hedging gains reclassified to Income Statement	–	–	–	(77.3)	(0.4)	–	–	(77.7)
Cost of hedging	–	–	–	–	(0.7)	–	–	(0.7)
Deferred tax	–	–	–	5.2	–	1.3	–	6.5
At 31 December 2022	0.2	239.5	1.4	31.5	(0.1)	(13.3)	222.5	481.7

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

The nature and purpose of the other reserves are as follows:

- The merger reserve included the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000 and the share issue during 2020.
- The cash flow hedge reserve and net investment hedge reserve records the movements on designated hedging instruments, offset by any movements recognised in equity on underlying hedged items.
- The cost of hedging reserve records the movements in the currency basis, which are excluded from the hedging instrument on the designated hedging instruments in the cash flow and net investment hedge reserves.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries and cost of hedging.
- The fair value reserve is for fair value movements on financial assets that are classified as fair value through Other Comprehensive Income.

32 Share capital and reserves continued

	Capital redemption reserve £m	Merger reserve £m	Fair value reserve of financial assets at FVOCI £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Net investment hedge reserve £m	(Restated) Translation reserve[1] £m	(Restated) Total[1] £m
At 1 January 2021 (Restated)[1]	0.2	239.5	(1.5)	(15.2)	1.4	16.0	132.8	373.2
Exchange differences on retranslation of foreign operations	–	–	–	–	–	–	(57.2)	(57.2)
Gains on equity instruments classified as fair value through Other Comprehensive Income	–	–	1.2	–	–	–	–	1.2
Gains on hedges	–	–	–	52.5	–	26.5	–	79.0
Hedging gains reclassified to Income Statement	–	–	–	(2.8)	(0.5)	–	–	(3.3)
Cost of hedging	–	–	–	–	0.1	–	–	0.1
Deferred tax	–	–	–	(9.5)	–	0.5	–	(9.0)
At 31 December 2021	0.2	239.5	(0.3)	25.0	1.0	43.0	75.6	384.0

1 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

33 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK division (UK) operates defined benefit pension schemes.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and maintains a small defined benefit scheme for National Express Services Limited. These post-employment benefits have been combined into the 'Other' category.

The UK, the Company and North America also operate or contribute into a number of defined contribution schemes.

The Company defined benefit scheme was subject to a buy-in transaction on 11 October 2018 whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Rothesay Life under which the benefits payable to defined benefit members became fully insured. On 23 September 2021, a full buy-out of the defined benefit section was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets (comprising the Rothesay Life insurance policy) and matching defined benefit liabilities were derecognised from the Group's Balance Sheet. The buy-out transaction also triggered the return of surplus assets to the Company totalling £7.5m, with the remaining assets retained in the scheme to cover final expenses in completing its wind-up.

In 2020, the UK division agreed a new six-year annual deficit plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2024 with an average contribution of £7.6m per annum. The plan remains open to accrual for existing members only.

The assets of the defined benefit schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

The Group expects to contribute £10.2m into its defined benefit pension plans in 2023.

The total pension cost charged to underlying operating profit in the year for the Group was £9.7m (2021: £10.9m), of which £6.2m (2021: £6.0m) relates to the defined contribution schemes.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

The defined benefit pension (liability)/asset included in the Balance Sheet is as follows:

	2022 £m	2021 £m
Company	–	3.8
Other	0.4	–
Pension assets	0.4	3.8
UK	(39.7)	(96.1)
Other	(2.8)	(3.1)
Pension liabilities	(42.5)	(99.2)
Total	(42.1)	(95.4)

Through its defined benefit plans, the Group is exposed to a number of risks. As the only material scheme remaining in the Group, the risks, as detailed below, only relate to the UK scheme.

Investment risk

The present values of scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if the return on scheme assets is below this yield, it will create a deficit. The UK scheme holds a significant proportion of return- seeking assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.

Interest risk

A decrease in bond interest rates will increase scheme liabilities but this will be partially offset by an increase in the returns on the scheme assets.

Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk.

Longevity risk

The majority of the obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the liabilities. The UK scheme includes a buy-in policy covering part of the pensioner members' liabilities, which partly helps to mitigate longevity risk.

Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations, for example, reduced investment return through the ability to reclaim advance corporation tax, and decreases in obligations, for example, through the ability to use consumer price index (CPI) inflation instead of retail price index (RPI) to set pension increase rates. For the UK scheme the Group receives professional advice on the impact of legislative changes.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations for the principal schemes, and assumptions made, are as follows:

	UK
Date of actuarial valuation	31 March 2019
Rate of investment returns per annum	3.2%
Increase in earnings per annum	2.7%
Scheme assets taken at market value	£495.0m
Funding level	84%

33 Pensions and other post-employment benefits continued

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. Following the buy-out of the Company scheme there are no remaining pension liabilities at 31 December 2022 (2021: £nil) and therefore no assumptions are disclosed. The assumptions for the UK scheme are listed below:

	2022 UK	2021 UK
Rate of increase in salaries	2.5%	2.5%
Rate of increase of pensions in payment	2.5%	2.8%
Discount rate	4.8%	1.8%
Inflation assumption (RPI)	3.1%	3.4%
Inflation assumption (CPI)	2.5%	2.8%
Post-retirement mortality in years:		
Current pensioners at 65 – male	19.5	19.6
Future pensioners at 65 – male	20.9	21.0
Current pensioners at 65 – female	23.0	23.0
Future pensioners at 65 – female	24.5	24.6

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

(Increase)/decrease in the defined benefit obligation	UK 2022 £m	UK 2021 £m
Effect of a 0.5% increase in pensions in payment	(17.1)	(30.4)
Effect of a 0.5% increase in the discount rate	24.2	36.1
Effect of a 0.5% increase in inflation	(19.0)	(34.8)
Effect of a 1-year increase in mortality rates	(12.6)	(18.0)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK scheme, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Financial results for pension benefits

The amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2022 and 2021 are set out in the following tables:

Group Income Statement	UK 2022 £m	Company 2022 £m	Other 2022 £m	Total 2022 £m
Amounts credited:				
Current service cost	(3.5)	–	–	(3.5)
Net interest expense	(1.6)	–	(0.3)	(1.9)
Total credit to Income Statement	(5.1)	–	(0.3)	(5.4)

In addition, during the year £0.8m (2021: £1.2m) of administrative expenses were incurred.

Group Statement of Comprehensive Income	UK 2022 £m	Company 2022 £m	Other 2022 £m	Total 2022 £m
Actuarial gain during the period from obligations	176.5	–	1.6	178.1
Expected return on plan assets greater than discount rate	(125.1)	–	–	(125.1)
Net actuarial gain	51.4	–	1.6	53.0

The net interest expense has been included within finance costs (see note 10).

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

Group Income Statement	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Amounts (charged)/credited:				
Current service cost	(3.8)	–	–	(3.8)
Settlement gain	–	0.1	–	0.1
Net interest (expense)/income	(1.7)	0.1	(0.2)	(1.8)
Total charge/(credit) to Income Statement	(5.5)	0.2	(0.2)	(5.5)

Group Statement of Comprehensive Income	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Actuarial gain during the period from obligations	25.5	7.5	0.2	33.2
Expected return on plan assets greater than discount rate	15.8	(7.6)	0.5	8.7
Net actuarial gain/(loss)	41.3	(0.1)	0.7	41.9

In addition to the above actuarial movements, the 2021 Statement of Comprehensive Income included a £0.6m loss for investment advice that was incurred directly by the Company, primarily in relation to the buy-in transaction.

The amounts were recognised in the Balance Sheet at 31 December as follows:

As at 31 December 2022	**UK 2022 £m**	**Company 2022 £m**	**Other 2022 £m**	**Total 2022 £m**
Equities	**54.5**	**–**	**2.3**	**56.8**
Bonds and multi-asset credit	**77.0**	**–**	**0.9**	**77.9**
Insurance policy	**126.0**	**–**	**–**	**126.0**
Diversified growth fund	**21.9**	**–**	**–**	**21.9**
Liability-driven investment	**52.8**	**–**	**–**	**52.8**
Other	**14.9**	**–**	**–**	**14.9**
Fair value of scheme assets	**347.1**	**–**	**3.2**	**350.3**
Present value of liabilities and defined benefit obligation	**(386.8)**	**–**	**(5.6)**	**(392.4)**
Defined benefit pension deficit	**(39.7)**	**–**	**(2.4)**	**(42.1)**

None of the pension arrangements directly invest in any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group. The majority of the benefits within the plans are covered by insurance contracts. The insurance assets have been valued so as to match the defined benefit obligations. The fair value of the remaining equity and debt instruments have primarily been determined based on quoted prices in active markets.

As at 31 December 2021	UK 2021 £m	Company 2021 £m	Other 2021 £m	Total 2021 £m
Equities	96.4	–	2.6	99.0
Bonds and multi-asset credit	63.8	–	0.9	64.7
Insurance policy	171.7	–	–	171.7
Diversified growth fund	98.3	–	–	98.3
Liability-driven investment	48.0	–	–	48.0
Other	1.5	3.8	0.1	5.4
Fair value of scheme assets	479.7	3.8	3.6	487.1
Present value of liabilities and defined benefit obligation	(575.8)	–	(6.7)	(582.5)
Defined benefit pension (deficit)/surplus	(96.1)	3.8	(3.1)	(95.4)

The movement in the present value of the defined benefit obligation in the year is as stated below.

The Group's defined benefit obligation comprises £389.7m (2021: £580.6m) arising from plans that are wholly or partly funded and £2.7m (2021: £1.9m) from unfunded plans.

33 Pensions and other post-employment benefits continued

The movement in the defined benefit obligations is as follows:

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2022	(575.8)	–	(6.7)	(582.5)
Current service cost	(3.5)	–	–	(3.5)
Benefits paid	26.6	–	0.1	26.7
Contributions by employees	(0.6)	–	(0.4)	(1.0)
Finance charge	(10.2)	–	(0.4)	(10.6)
Actuarial gain from changes in financial assumptions	208.9	–	2.2	211.1
Actuarial gain arising from changes in demographics	4.2	–	–	4.2
Actuarial loss arising from experience adjustments	(36.4)	–	(0.4)	(36.8)
Defined benefit obligation at 31 December 2022	(386.8)	–	(5.6)	(392.4)

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2021	(616.7)	(110.5)	(9.0)	(736.2)
Current service cost	(3.8)	–	–	(3.8)
Benefits paid	27.4	3.7	0.1	31.2
Contributions by employees	(0.5)	–	2.2	1.7
Finance charge	(7.7)	(1.1)	(0.2)	(9.0)
Gain on settlements	–	100.4	–	100.4
Actuarial gain from changes in financial assumptions	19.9	7.3	0.1	27.3
Actuarial gain arising from changes in demographics	8.6	0.2	0.1	8.9
Actuarial loss arising from experience adjustments	(3.0)	–	–	(3.0)
Defined benefit obligation at 31 December 2021	(575.8)	–	(6.7)	(582.5)

The movement in the fair value of scheme assets is as follows:

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2022	479.7	3.8	3.6	487.1
Expected return on plan assets	8.6	–	0.1	8.7
Expected return on plan assets greater/(less) than discount rate	(125.1)	–	(0.4)	(125.5)
Cash contributions – employer	10.1	(3.1)	–	7.0
Administrative expenses	(0.1)	(0.7)	–	(0.8)
Cash contributions – employee	0.5	–	–	0.5
Benefits paid	(26.6)	–	(0.1)	(26.7)
Fair value of scheme assets at 31 December 2022	347.1	–	3.2	350.3

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2021	475.1	122.8	3.2	601.1
Expected return on plan assets	6.0	1.2	–	7.2
Expected return on plan assets greater/(less) than discount rate	15.8	(7.6)	0.5	8.7
Cash contributions – employer	9.9	(7.5)	–	2.4
Administrative expenses	(0.1)	(1.1)	–	(1.2)
Cash contributions – employee	0.4	–	–	0.4
Loss on settlement	–	(100.3)	–	(100.3)
Benefits paid	(27.4)	(3.7)	(0.1)	(31.2)
Fair value of scheme assets at 31 December 2021	479.7	3.8	3.6	487.1

The employer cash contribution of £7.5m in the Company scheme in 2021 represents the surplus returned to the Group upon the buy-out transaction completing.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

33 Pensions and other post-employment benefits continued

History of experience gains and losses:	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
UK					
Fair value of scheme assets	**347.1**	479.7	475.1	458.0	453.0
Present value of defined benefit obligation	**(386.8)**	(575.8)	(616.7)	(557.1)	(580.3)
Deficit in the scheme	**(39.7)**	(96.1)	(141.6)	(99.1)	(127.3)
Experience adjustments arising on liabilities	**(36.4)**	(3.0)	6.7	52.2	(1.1)
Experience adjustments arising on assets	**(125.1)**	15.8	24.4	8.9	(30.0)
Company					
Fair value of scheme assets	**–**	3.8	122.8	109.3	98.6
Present value of defined benefit obligation	**–**	–	(110.5)	(95.1)	(83.7)
Surplus in the scheme	**–**	3.8	12.3	14.2	14.9
Experience adjustments arising on liabilities	**–**	–	1.0	0.3	(2.3)
Experience adjustments arising on assets	**–**	(7.6)	16.4	10.8	(35.6)
Other					
Fair value of scheme assets	**3.2**	3.6	3.2	3.0	2.7
Present value of defined benefit obligation	**(5.6)**	(6.7)	(9.0)	(8.1)	(7.1)
Deficit in the scheme	**(2.4)**	(3.1)	(5.8)	(5.1)	(4.4)
Experience adjustments arising on liabilities	**(0.4)**	–	–	–	–
Experience adjustments arising on assets	**(0.4)**	0.5	0.2	0.2	–

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £82.8m loss (2021: £135.8m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

34 Leases

Group as a lessee

The Group has lease contracts for various items of property, vehicles, plant and other equipment. Lease terms are negotiated on an individual basis, contain a wide range of different terms and conditions, and may include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The Group's obligations under its leases are secured by the lessor's title to the leased assets.

(a) Amounts recognised in the Balance Sheet

Set out below is the net book value of right-of-use assets and additions during the year (included in property, plant and equipment – note 15):

	2022				2021			
Right-of-use assets	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m	Land and buildings £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Additions	**40.3**	**2.9**	**0.5**	**43.7**	25.4	8.0	0.3	33.7
Depreciation charge	**(31.4)**	**(25.8)**	**(0.5)**	**(57.7)**	(28.8)	(36.5)	(0.6)	(65.9)
Net book value at 31 December	**104.6**	**79.5**	**0.2**	**184.3**	97.6	129.9	0.2	227.7

34 Leases continued

Set out below are the carrying amounts of lease liabilities (included in borrowings – note 28) at 31 December 2022:

Lease liabilities	2022 £m	2021 £m
Current	58.0	67.0
Non-current	139.7	168.7
	197.7	235.7

The maturity analysis of lease liabilities is presented in note 29.

(b) Amounts recognised in the Income Statement

	2022 £m	2021 £m
Depreciation expense on right-of-use assets (note 6)	57.7	65.9
Interest on lease liabilities (note 10)	9.4	10.5
Interest income on sub-leases (note 10)	(0.5)	(0.7)
Expenses relating to short-term leases (note 6)	6.5	4.3
Expenses relating to leases of low-value assets (note 6)	2.9	3.0
Variable lease payments not included in the measurement of lease liabilities (note 6)	0.6	0.1
Income from sub-leasing right-of-use assets (included in other revenue)	(4.5)	(3.5)

It is not expected that commitments for short-term leases will materially differ from those in place at 31 December 2022.

(c) Amounts recognised in the Cash Flow Statement

	2022 £m	2021 £m	Included within
Payment of interest	(9.4)	(10.5)	Cash flows from operating activities
Payment of principal	(85.9)	(118.2)	Cash flows from financing activities
Payments for short-term, low-value leases and variable lease payments	(10.0)	(7.4)	Cash generated from operations
Total cash outflow for leases	(105.3)	(136.1)	

(d) Extension and termination options

Some property and vehicle leases contain extension or termination options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension or termination options in new leases to provide operational flexibility. The extension and termination options held are exercisable only by the Group and not by the lessors. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension or termination options and reassesses these assumptions when there is a significant event or significant change in circumstances within its control. Where the Group determines it is reasonably certain that a termination option will be exercised, any termination penalty is included in the lease liability.

The Group has estimated that the potential future lease payments, should it exercise the extension or termination options, would result in an immaterial change in the lease liability.

(e) Variable lease payments

The Group has a variable lease arrangement in respect of public service vehicles in North America. The lease payments are fully variable based on miles driven, and there is no minimum mileage or fixed payment within the contract. Given the lease payments are fully variable, no lease liability has been recognised in the Balance Sheet. Instead, the variable lease payments are included in the Income Statement as incurred.

(f) Residual value guarantees

The Group has a number of leased vehicles with residual value guarantees. At the lease commencement date the amounts expected to be payable have been included in the lease liability.

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

34 Leases continued

(g) Future lease commitments

In 2021 the Group entered into an availability agreement for the provision of 130 electric buses in the UK. At the year end, 45 vehicles have been made available to us, the remaining 85 expected to be delivered in 2023. The agreement includes a substitution clause whereby the service provider makes available to us a set number of vehicles each day from its wider pool of vehicles. In the Directors' view, the arrangement does not meet the definition of a lease. The service provider has control of the vehicles and has a substantive substitution right, having both the practical ability to substitute the vehicles and an economic incentive to do so. Consequently, no right-of-use asset or lease liability will be recognised on the Balance Sheet, and payments under the agreement will be charged to the Income Statement as incurred. These contracts will give rise to an estimated annual expense of £7.6m.

At the year end, the Group had commitments relating to leases not yet commenced with future lease payments of £0.3m (2021: £0.1m) within one year, £1.6m (2021: £0.7m) within five years and £nil thereafter (2021: £0.5m).

Group as a lessor

The Group has finance leasing arrangements as a lessor for certain vehicles to its customers. In addition, the Group sub-leases two properties which are no longer used by the Group. During 2022, the Group recognised interest income on lease receivables of £0.5m (2021: £0.7m).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

Net investment in the lease	2022 £m	2021 £m
Within one year	4.7	4.6
After one year but not more than five years	7.3	9.3
More than five years	6.7	5.6
Total undiscounted lease receivable	**18.7**	19.5
Unearned finance income	(4.7)	(2.7)
Finance lease receivable	**14.0**	16.8

The maturity analysis of the discounted lease payments are as follows:

Net investment in the lease	2022 £m	2021 £m
Current	4.3	4.1
Non-current	9.7	12.7
	14.0	16.8

The Group also sub-leases some of its property and public service vehicles. The Group has classified these sub-leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the right-of-use assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating lease receipts	2022 £m	2021 £m
Within one year	3.6	3.0
After one year but not more than five years	3.6	4.7
More than five years	–	–
	7.2	7.7

35 Commitments and contingencies

(a) Capital commitments

	2022 £m	2021 £m
Contracted	164.5	97.0

The Group is committed to vehicle purchases and various land and buildings improvements.

35 Commitments and contingencies continued

(b) Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £nil (2021: £3.7m) of certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 31 December 2022, the Group had performance bonds in respect of businesses in the USA of £132.7m (2021: £113.7m), in Spain of £89.9m (2021: £88.1m), in Germany of £25.8m (2021: £30.0m) and in the Middle East of £10.3m (2021: £6.0m). Letters of credit have been issued to support insurance retentions of £179.8m (2021: £145.0m).

Legal

Through the ordinary course of our operations, the Group is party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Group's results, cash flows or financial position.

36 Related party transactions

	Amounts of transactions		Amounts due from related parties		Amounts due to related parties	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Joint ventures						
Bahrain Public Transport Company W.L.L.	**0.6**	0.5	**–**	–	**–**	–
Associates						
ALSA associates	**4.5**	3.5	**2.1**	3.2	**(0.4)**	(0.5)
North America associates[1]	**0.3**	0.4	**–**	–	**–**	
Total joint ventures and associates	**5.4**	4.0	**2.1**	3.2	**(0.4)**	(0.5)
Trade investments						
ALSA trade investments	**6.8**	4.7	**–**	0.8	**(1.3)**	(0.8)
North America trade investments[1]	**–**	0.6	**–**	–	**–**	–
Total investments	**6.8**	5.7	**–**	0.8	**(1.3)**	(0.8)
Property transactions						
ALSA property transactions	**7.0**	4.9	**0.6**	0.4	**(0.2)**	(0.5)
North America property transactions	**–**	2.0	**–**	–	**–**	–
Total property transactions	**7.0**	6.9	**0.6**	0.4	**(0.2)**	(0.5)
Total other related parties	**13.8**	12.6	**0.6**	1.2	**(1.5)**	(1.3)
Total	**19.2**	16.6	**2.7**	4.4	**(1.9)**	(1.8)

1 Included in North America associate transaction is £0.4m previously included within trade investments

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are at appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 33.

Compensation of key management personnel of the Group

The Group has determined key management personnel to constitute the Group Executive Committee and all other Board members of the parent entity. Further details are disclosed in the Directors' Remuneration Report:

	2022 £m	2021 £m
Short-term benefits[1]	**2.5**	2.6
Share-based payment (note 9)	**–**	0.2
	2.5	2.8

1 Included within the prior year short-term benefits is £0.7m relating to other Board members' compensation

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

37 Service concession arrangements

The following table sets out the nature and extent of the Group's service concession arrangements:

Concession	Description of the arrangement	Concession period	Concession commencement	Nature of infrastructure	Classification under IFRIC 12
German Rail	The Group operates two train services in Germany.	15 years	2015 – 2020	Rolling stock and tracks used in the operation of the service are provided by the delegating authority.	No financial or intangible asset is recognised for construction as the infrastructure is provided to the Group.
Moroccan Urban Bus	The Group has two contracts with the Moroccan authority for the operation of public transport bus services.	15 years	September 2019	Public service vehicles used in the operation are provided by the Group, some of which are subject to 'lease type' arrangements.	Intangible asset
		Up to 15 years	November 2019	Initially, public service vehicles used in operation are provided by the public authority. Replacement public service vehicles will be provided by the Group and public authority in future years.	Financial asset
Spanish Regional Bus	The Group has a contract with the Provincial Government of Bizkaia to operate regional services.	10 years	July 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Spanish Urban Bus	The Group has two contracts with Spanish Councils to operate urban commuter coach services in Spain.	10 years	August 2019	Public service vehicles used in the operation are provided by the Group.	Financial asset
		3 years	June 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
Alaska Schoolbus	The Group has undertaken a contract for home to school transportation.	10 years	July 2021	Public service vehicles used in the operation are provided by the Group.	Financial asset
		10 years	July 2022	Public service vehicles used in the operation are provided by the Group.	Financial asset
Portugal Urban Bus	The Group has a contract with the Lisbon transport authority to operate urban commuter bus services.	7 years	June 2022	Public service vehicles are provided by the Group with a purchase option for the grantor to acquire the fleet at the end of the contract term.	Intangible asset

During the year, no revenue or profit was recognised in exchanging construction services for financial or intangible assets.

38 Cash flow statement

(a) Reconciliation of Group loss before tax to cash generated from operations

	2022 £m	2021 £m
Loss before tax	(209.9)	(84.9)
Net finance costs	51.0	47.7
Share of results from associates and joint ventures	0.4	1.0
Depreciation of property, plant and equipment	203.5	199.7
Intangible asset amortisation	55.5	54.2
Amortisation of fixed asset grants	(2.1)	(3.2)
Gain on disposal of property, plant and equipment	(10.5)	(8.0)
Gain on disposal of intangible assets	(5.1)	(0.6)
Share-based payments	1.2	1.0
Increase in inventories	(1.5)	(1.9)
Increase in receivables	(118.5)	(85.3)
Increase in payables	52.5	53.2
Receipts on settlement of fuel forward contracts	26.2	–
(Decrease)/increase in provisions	(23.9)	17.1
Decrease in pensions	(3.2)	–
Separately disclosed operating items[1]	318.6	84.4
Cash flows relating to separately disclosed items	(49.3)	(43.3)
Cash generated from operations	284.9	231.1

1 Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

38 Cash flow statement continued

(b) Analysis of changes in net debt

Net debt is an alternative performance measure which is not defined or specified under the requirements of International Financial Reporting Standards. Please refer to the glossary on page 291 for further information.

	At 1 January 2022 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2022 £m
Components of financing activities:						
Bank and other loans[1]	(189.6)	10.7	(1.0)	(14.3)	(0.5)	(194.7)
Bonds[3]	(640.9)	–	–	–	19.5	(621.4)
Fair value of interest rate derivatives	(6.3)	–	–	–	(19.7)	(26.0)
Fair value of foreign exchange forward contracts	(9.9)	39.4	–	(17.6)	–	11.9
Cross currency swaps	2.6	28.4	–	(37.0)	–	(6.0)
Net lease liabilities[2]	(218.9)	85.9	(0.7)	(13.1)	(36.9)	(183.7)
Private placements[3]	(393.9)	–	–	(17.7)	(0.3)	(411.9)
Total components of financing activities	(1,456.9)	164.4	(1.7)	(99.7)	(37.9)	(1,431.8)
Cash	268.1	(115.4)	0.4	18.6	–	171.7
Overnight deposits	0.4	6.0	–	0.2	–	6.6
Other short-term deposits	239.9	(126.6)	–	0.2	–	113.5
Bank overdrafts	(132.2)	73.5	–	–	–	(58.7)
Net cash and cash equivalents	376.2	(162.5)	0.4	19.0	–	233.1
Other debt receivables	1.0	1.6	–	0.1	–	2.7
Remove: fair value of foreign exchange forward contracts	9.9	(39.4)	–	17.6	–	(11.9)
Net debt	(1,069.8)	(35.9)	(1.3)	(63.0)	(37.9)	(1,207.9)

1 Net of arrangement fees totalling £1.1m (2021: £1.5m) on bank and other loans

2 Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

3 Excludes accrued interest on long-term borrowings

Short-term deposits relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £886.3m (2021: £1,294.3m) as disclosed in note 28.

38 Cash flow statement continued

Other non-cash movements include lease additions and disposals of £36.9m (2021: £26.6m) and a £1.1m net reduction from the amortisation of loan and bond arrangement fees (2021: £1.2m). A £19.9m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings.

	At 1 January 2021 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2021 £m
Components of financing activities:						
Bank and other loans[1]	(101.8)	(89.6)	(2.0)	4.4	(0.6)	(189.6)
Bonds[3]	(647.0)	–	–	–	6.1	(640.9)
Fair value of interest rate derivatives	1.0	–	–	–	(7.3)	(6.3)
Fair value of foreign exchange forward contracts	4.6	(8.8)	–	(5.7)	–	(9.9)
Cross currency swaps	(5.7)	–	–	8.3	–	2.6
Net lease liabilities[2]	(311.3)	118.2	–	0.8	(26.6)	(218.9)
Private placements[3]	(476.8)	66.8	–	15.5	0.6	(393.9)
Total components of financing activities	(1,537.0)	86.6	(2.0)	23.3	(27.8)	(1,456.9)
Cash	241.2	28.7	0.2	(2.0)	–	268.1
Overnight deposits	49.7	(47.4)	–	(1.9)	–	0.4
Other short-term deposits	338.9	(98.4)	–	(0.6)	–	239.9
Bank overdrafts[5]	(109.3)	(22.9)	–	–	–	(132.2)
Net cash and cash equivalents	520.5	(140.0)	0.2	(4.5)	–	376.2
Other debt receivables	1.2	(0.1)	–	(0.1)	–	1.0
Remove: fair value of foreign exchange forward contracts	(4.6)	8.8	–	5.7	–	9.9
Net debt	(1,019.9)	(44.7)	(1.8)	24.4	(27.8)	(1,069.8)

1 Net of arrangement fees totalling £2.4m on bank and other loans

2 Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

3 Excludes accrued interest on long-term borrowings

(c) Reconciliation of net cash flow to movement in net debt

	2022 £m	2021 £m
Decrease in net cash and cash equivalents in the year	**(162.1)**	(139.8)
Cash inflow/(outflow) from movement in other debt receivables	**1.6**	(0.1)
Cash inflow from movement in debt and leases liabilities	**123.3**	93.4
Change in net debt resulting from cash flows	**(37.2)**	(46.5)
Change in net debt resulting from non-cash movements	**(100.9)**	(3.4)
Movement in net debt in the year	**(138.1)**	(49.9)
Opening net debt	**(1,069.8)**	(1,019.9)
Net debt	**(1,207.9)**	(1,069.8)

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2022 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of Incorporation	% equity interest
United Kingdom & Ireland	
Airlinks The Airport Coach Company Limited (a)	100
Airside Transport Services Limited (b)	100
Altram L.R.T. Limited (a)	100
Brooke Management Limited (a)	100
Central Trains Limited (a)	100
Clarkes Holdco Limited (a)	100
Coachman Limited (a)	100
Coliseum Coaches Limited (a)	100
E. Clarke & Son (Coaches) Limited (a)	100
Eurolines (U.K) Limited (a)	100
H. Luckett & Co. Limited (a)	100
London Eastern Railway Limited (a)	100
Lucketts Holdings Limited (a)	100
Lucketts Services Limited (a)	100
Maintrain Limited (a)	100
Midland Main Line Limited (a)	100
Mobiciti Limited (a)	100
Mobico Group Limited (a)	100
Mortons Travel Limited (a)	100
National Express Bus & Coach Services Limited (b)	100
National Express European Holdings Limited (05652775)* (a)	100
National Express Finance Company Limited (a)	100
National Express Financing LP** (a)	100
National Express Group Holdings Limited (04339932) (a)	100
National Express Holdings Limited (02156473)* (a)	100
National Express Intermediate Holdings Limited (a)	100
National Express International Limited (a)	100
National Express Leisure Limited (previously Lucketts Travel Limited) (a)	100
National Express Limited (a)	100
National Express Manchester Limited (a)	100
National Express Middle East Plc (a)	100
National Express North America Holdings Limited (07855182)* (a)	100
National Express Operations (Stansted) Limited (a)	100
National Express Operations Limited (02609812) (a)	100
National Express Petermann UK Limited (07855188)* (a)	100
National Express Rail Replacement Limited (a)	100
National Express Services Limited (a)	100
National Express Spanish Holdings Limited (a)	100
National Express Trains Limited (a)	100
National Express Transport Holdings Limited (04338163)* (a)	100
National Express UK Limited (a)	100
National Express UK Central Services Limited (a)	100
N E Canada Limited (08596333)* (a)	100
NE Durham UK Limited (08270480)* (a)	100
NE Europe Finance Limited (07876047)* (a)	100
NE No.1 Ltd (a)	100
NE No.2 Ltd (a)	100
NE No. 3 Limited (a)	100
NE Trains South Limited (a)	100
NXEC Trains Limited (a)	100
Scotrail Railways Limited (a)	100
Silverlink Train Services Limited (a)	100
Solent Coaches Limited (a)	100
Speedlink Airport Services Limited (a)	100
Stewarts Coach Group Limited (a)	100
Stewarts Coaches Limited (a)	100
The Kings Ferry Limited (a)	100
Travel Coventry Limited (previously WM Card Systems Limited) (a)	100
Travel Merryhill Limited (a)	100
Travel West Midlands Limited (a)	100
Travel WM Limited (a)	100
Travel Yourbus Limited (a)	100
West Anglia Great Northern Railway Limited (a)	100
West Midlands Accessible Transport Limited (previously Travel Coventry Limited) (a)	100
West Midlands Travel Limited (a)	100
W M Property Holdings Limited (a)	100
WM Travel Limited (a)	100
W M Ventures Limited (a)	100
Wood's Coaches Limited (a)	100
Woods Reisen Limited (a)	100
Worthing Coaches Limited (a)	100
Bahrain	
Bahrain Public Transport Company W.L.L. (c)	50
Germany	
National Express Germany GmbH (d)	95
National Express Holding GmbH (d)	100
National Express Rail GmbH (e)	100
Süddeutsche Regionalbahn GmbH (d)	100
Czech Republic	
National Express Cz s.r.o. (f)	100
Netherlands	
National Express Holdings LLC BV (g)	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Andorra	
Estació 2017, S.A. (h)	11
Transports Dels Pirineus (h)	100
France	
(ABG) Alsa Bustours Gex (i)	100
Alsa Puerto Rico, LLC (j)	100
Iberolines (k)	46
SARL Chamexpress.com (l)	100
Morocco	
Alsa al Baida (m)	100
Alsa City Agadir S.A. (n)	100
Alsa City Sightseeing Maroc (o)	100
Alsa City Tour S.A.R.L. (o)	95
Alsa Citybus Rabat-Salé-Temara, S.A. (p)	51
Alsa Education a la Sécurité Routière S.A.R.L. (o)	98
Alsa Intercity Services, S.A. (q)	100
Alsa Khouribga S.A. (r)	100
Alsa Tanger S.A. (s)	100
Centre de Formation Techn. Profes. Transport S.A.R.L. (o)	99
Groupe Alsa Transport S.A. (o)	100
Immeubles Véhicules Accessoires Maroc S.A.R.L. (o)	80
Interprovincial Maroc S.A.R.L. (o)	100
Transport de Voyageurs en Autocar Maroc S.A. (o)	100
Portugal	
Alsa Metropolitano do Porto, Lda (t)	100
Tiac Viagens e Turismo Lda (u)	100
Alsa Todi Metropolitana de Lisboa (v)	65
Alsa Portugal – Aluguer de veicolos, Unipessoal, Lda. (v)	100
Slovakia	
Efc Spol s.r.o. (w)	80
Spain	
Agreda Bus, S.L (x)	70
Alianza Bus, S.L.U. (y)	100
Alsa Atlántica, S.L.U. (z)	100
Alsa Ferrocarril, S.A.U. (z)	100
Alsa Granada Airport S.L. (aa)	100
Alsa Grupo, S.L.U. (z)	100
Alsa Innovación y Proyectos de Movilidad, S.L. (ab)	100
Alsa Internacional, S.L.U. (z)	100
Alsa Metropolitana, S.A.U. (y)	100
Alsa-Mirat Extremadura, S.L. (ac)	50
Alsa Micromobility, S.L.U. (z)	50
Alsa Rail, S.L.U. (z)	100
Alsa Internacional, S.L.U. y Otros U.T.E. (y)	100
Alsa Transporte Sanitario, S.L. (ad)	60
Alsa Servicios Logísticos Ferroviarios, S.L. (ad)	100
Aplic. y Sist. Integrales Para el Transporte, S.A. (ae)	100

Name and country of Incorporation	% equity interest
Aragonesa de Estación de Autobuses, S.A. (af)	23
Argabus, S.A. (ag)	100
Artazo Servicios Integrales, S.L. (ah)	100
Asturies Berlinas de Luxu, S.L. (ai)	100
Autobuses Urbanos de Bilbao, S.A. (aj)	75
Autobuses Urbanos de León, S.A.U. (ak)	100
Autocares Castilla–Leon, S.A.U. (al)	100
Autocares de Badajoz, S.L. (am)	100
Autocares Discrecionales del Norte, S.L.U. (an)	100
Automóviles Luarca, S.A.U. (ao)	100
Automóviles Sigras Carral, S.A. (ap)	100
Autos Cal Pita, S.A. (ap)	97
Autos Pelayo, S.A.U. (z)	100
Autos Rodríguez Eocar, S.L. (aq)	80
Baleares Business Cars, S.L. (ai)	100
Baleares Consignatarios, S.L.U. (ar)	100
Baleares Consignatarios Tours, S.L.U. (ar)	100
Berlinas de Asturias, S.L. (ai)	100
Berlinas Calecar, S.L.U. (al)	100
Berlinas de Canarias, S.L. (ai)	100
Berlinas de Toledo, S.L. (ai)	100
Berlinas VTC de Cantabria, S.L.U. (as)	100
Bilboko Hiribus Jasangarría, S.L. (aj)	78
Buses de Palencia, S.L. (at)	100
Bus Metropolitano de Granada, S.L. (aa)	100
Busturialdea Lea Artibai Bus, S.A. (au)	65
Bus Urbano de Castro Urdiales, S.L. (as)	96
Canary Business Cars, S.L. (ai)	100
Cataluña Business Cars, S.L. (ai)	100
Cetralsa Formación, S.L.U. (z)	100
Cía. del Tranvía Eléctrico de Avilés, S.A. (av)	87
Compañia Navarra de Autobuses, S.A. (aw)	50
Compostelana, S.A.U. (ax)	100
Concesionario Estación Autobuses Logroño, S.A. (ay)	21
Ebrobus, S.L.U. (z)	100
Estación Autobuses de Cartagena, S.A. (az)	54
Estación Autobuses de Ponferrada, S.A. (ba)	49
Estación Central de Autobuses de Zaragoza, S.A. (bb)	19
Estación de Autobuses de Siero, S.L. (bc)	50
Estación de Autobuses Aguilar de Campoo, S.L. (bd)	67
Estación de Autobuses de Aranda de Duero, S.L. (be)	43
Estación de Autobuses de Astorga, S.L. (bf)	79
Estación de Autobuses de Aviles S.L. (bg)	100
Estación de Autobuses de León, S.A. (al)	89
Estación de Autobuses de Plasencia, S.A. (bh)	52
Estación de Autobuses de San Lorenzo del Escorial, S.A.U. (y)	100
Estación de Autobuses de Ribadeo, S.L. (bi)	50
Estación de Autobuses de Vitoria, S.L. (bj)	32
Estación de Líneas Regulares, S.L. (bk)	46
Estaciónes Terminales de Autobuses, S.A. (bl)	79

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Euska Alsa, S.L.U. (an)	100
Explotación Gasoleo Estación de Autobuses A Coruña, S.L. (bm)	40
Ezkerraldea-Meatzaldea Bus, S.A. (au)	65
Gal Bus. S.L. (ap)	100
G.S. Carretera (bn)	25
General Técnica Industrial, S.L.U. (z)	100
Gestión de Movilidad Intermodal, S.L. (ad)	100
Gorbea Representaciones, S.L. (an)	100
Guaguas Gumidafe, S.L. (ah)	100
Grupo Enatcar, S.A. (y)	100
Ibero-Euro Sur, S.L. (y)	20
Intercambiadores Europeos, S.L. (z)	60
Intercar Business Cars, S.L. (bo)	100
International Business Limousines, S.A.U. (bp)	100
Interurbana de Autocares, S.A.U. (z)	100
Irubus, S.A.U. (y)	100
Jimenez Lopera, S.A.U. (bp)	100
La Unión Alavesa, S.L. (bj)	50
La Unión de Benisa, S.A. (bq)	98
Lineas Europeas de Autobuses, S.A. (br)	43
Los Abades de la Gineta, S.L.U. (y)	100
Mybustest, S.L (z)	50
Mai Tours, S.L.U. (bs)	100
Manuel Vázquez, S.L. (bt)	60
Movelia Tecnologias, S.L. (bu)	78
Movilidad Balear, S.L.U (bv)	100
Movilidad Multimodal, S.L. (ad)	100
Movilidad Peninsular, S.L. (ad)	100
Mundaka Consultoria, S.L.U. (an)	100
NEX Continental Holdings, S.L.U. (z)	100
NX Middle East, S.L.U. (bw)	100
Proyectos Unificados, S.A.U. (z)	100
Publi Imagen Granada, S.L.U. (aa)	100
Representaciones Mecánica, S.A.U. (an)	100
Return Viajes, S.L. (bx)	50
Rutas a Cataluña, S.A. (by)	28
Rutas del Cantábrico, S.L. (an)	95
Semarvi (z)	34
Serviareas 2000, S.L.U (z)	100
Servicios Auxiliares del Transporte C.B. (bz)	100
Servicios del Principado, S.A.U. (z)	100
Servicios El Temple, S.L. (ap)	100
Servicios Empresariales Especiales, S.L.U. (an)	100
Setra Ventas y Servicios, S.A.U. (bp)	100
Sevirama, S.L. (ca)	30
Sociedad Anónima Unipersonal Alsina Graells de A.T. (cb)	100
Sociedad Concesionaria Interurbano Tolosa Buruntzaldea S.L. (cc)	25
Takselia, S.L. (cd)	60
Técnicas en Vehículos Automóviles, S.L.U. (y)	100
Terminal de Autobuses de Garellano, S.L. (ce)	41

Name and country of Incorporation	% equity interest
Tibus, S.A. (cb)	60
Tibus Berlines de Luxe, S.L.U. (cb)	100
Tibus Business Cars, S.L.U. (cb)	100
Tibus Business Limousines, S.L.U. (y)	100
Tibus Luxury Services, S.L.U. (cb)	100
Transporte Colectivos, S.A.U. (cf)	100
Transportes Accesibles Peninsulares, S.L. (cg)	100
Transportes Adaptados Andaluces, S.A.U. (ch)	100
Transportes Adaptados Regionales, S.L.U. (al)	100
Transportes Adaptados Cántabros, S.A. (ci)	98
Transportes Bacoma, S.A.U. (cb)	100
Transportes Rober, S.A.U. (aa)	100
Transportes de Viajeros de Aragón, S.A. (bb)	59
Transportes Santo Domingo, S.L.U. (cj)	100
Viajes ALSA, S.A.U. (z)	100
Transportes Terrestres Cantabros, S.A. (ci)	93
Transportes Unidos de Asturias, S.L. (ck)	100
Transportes Urbanos de Cantabria, S.L.U. (ci)	100
Transportes Urbanos de Cartagena, S.A. (cl)	97
Tranvía de Vélez, S.A.U. (cm)	100
Transportes Urbanos de Guadalajara, S.L. (cn)	100
Tranvías Metropolitanas de Granada, S.A.U. (co)	100
Tury Express, S.A. (an)	100
Viajes Por Carretera, S.A.U. (an)	100
Ute Ea Alicante (dg)	50
Ute Ea Cordoba (dh)	50
Ute Mundiplan (dj)	17
Vitalia Servicios Sanitarios, S.L. (cp)	60
Voramar el Gaucho S.L.U. (cq)	100
Switzerland	
AlpyBus S.a.r.l. (cr)	100
Eggmann Frey (cs)	100
GVA Transfers.com SARL (ct)	100
Linien Abfertigung GmbH (cs)	80
Odier Excursions, S.A. (cu)	100
US	
The Provider Enterprises, Inc. (cv)	100
A1A Transportation, Inc. (cw)	100
A&S Transportation Incorporated (cw)	100
Atlantic & Southern Transportation (cx)	100
Atlantic & Southern Transportation (cy)	100
Atlantic & Southern Transportation (cz)	100
Beck Bus Transportation Corp. (da)	100
Beck Bus Transportation III, LLC (da)	100
Beck Bus Transportation IV, LLC (da)	100
Beck Bus Transportation, LLC (da)	100
Bus Co., Inc. (da)	100
Caravan Leasing Vehicles LLC (db)	100
Carrier Management Corporation (dc)	100
Chicagoland Coach Lines LLC (de)	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of Incorporation	% equity interest
Community Transportation, Inc. (dc)	100
Cook-DuPage Transportation Company, Inc. (da)	100
Diamond Transportation Services, Inc. (df)	100
Discount Enterprises, Inc. (dg)	100
Durham D&M LLC (de)	100
Durham Holding I, LLC (de)	100
Durham Holding II, LLC (de)	100
Durham School Services, L.P. (de)	100
Fox Bus Lines Inc. (dh)	100
Greensburg Yellow Cab Co. (dc)	100
Haid Acquisitions LLC (di)	100
JNC Leasing, Inc. (dj)	100
Kiessling of Attleboro Inc. (previously Aristocrat Limousine and Bus, Inc.) (dk)	100
Kiessling Transit, Inc. (dh)	100
Meda-Care Vans of Waukesha, Inc. (dl)	100
MF Petermann Investment Corporation (de)	100
Monroe School Transportation, Inc. (dm)	100
MV Student Transportation, Inc. (dn)	100
National Express Acquisition Corporation (de)	100
National Express Durham Holding Corporation (de)	100
National Express LLC (de)	100
National Express Leasing Company LLC (de)	100
National Express Transit Corporation (de)	100
National Express Transit Services Corporation (de)	100
New Dawn Transit LLC (dm)	100
Petermann Acquisition Co., LLC (de)	100
Petermann Acquisition Corporation (de)	100
Petermann Holding Co., LLC (de)	100
Petermann Ltd. (di)	100
Petermann Northeast, LLC (di)	100
Petermann Northwest, LLC (de)	100
Petermann Partners, Inc. (de)	100
Petermann Southwest, LLC (de)	100
Petermann STS, LLC (de)	100
Petermann STSA, LLC (de)	100
PM2 Co. LLC (de)	100
Quality Bus Service, LLC (dm)	100
Queen City Transportation, LLC (di)	100
Rainbow Management Service, Inc. (dm)	100
Safeway Training and Transportation Services, Inc. (cv)	100
Septran, Inc. (cz)	100
Smith Bus Service, Inc. (do)	100
Suburban Paratransit Services, Inc. (dm)	100
Total Transit Enterprises, LLC (dp)	100
Trans Express, Inc. (dm)	100
Transit Express, Inc. (dl)	100
Transit Express Services, Inc. (dl)	100
Trinity, Inc. (dj)	100
Trinity Cars, Inc. (dj)	100
Trinity Coach LLC (dj)	100
Trinity Management Services Co. LLC (dq)	100
Trinity Student Delivery LLC (dj)	100
TWB Transport, LLC (da)	100
WeDriveU America LLC (cz)	100
WeDriveU Holdings, Inc. (dr)	80
White Plains Bus Co., Inc. (dm)	100
Whitetail Bid Co., LLC (de)	100
Wise Coaches, Inc. (ds)	100
Canada	
National Express Canada (Holdings) Limited (dt)	100
National Express Canada Transit Ltd (dt)	100
Stock Transportation Ltd (dt)	100

* These subsidiaries are exempt from the requirements of the UK companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Outstanding liabilities of the exempt companies at the Balance Sheet date are guaranteed pursuant to Sections 479A-C of the Act.

** National Express Financing LP is exempt from preparing accounts in accordance with Part 2, Regulation 7 of The Partnerships (Accounts) Regulations 2008, as it is included within the Group consolidated financial statements for the year ending 31 December 2022

Notes to the Consolidated Accounts continued

For the year ended 31 December 2022

39 Subsidiary undertakings and other significant holdings continued

Key	Address
(a)	National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD
(b)	Terminal 1, Office 10, Link Corridor, Mezzanine Level, Dublin Airport, Dublin, K67 KD58, Ireland
(c)	Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain
(d)	Vogelsanger Weg 38, 40470 Düsseldorf, Germany
(e)	Johannisstrasse 60-64, 50668 Cologne, Germany
(f)	Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic
(g)	Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands
(h)	Carrer de la Cúria, s/n, Andorra la Vella
(i)	30 Rue Auguste Piccard – 01630 Saint-Genis-Pouilly
(j)	361 San Francisco Street 4th Floor, San Juan, PR, 00901
(k)	41 Boulevard Poniatowski, 75012, Paris
(l)	498 Avenue des Alpages, 74310 Les Houches
(m)	Twin Center ang Bd Zerktouni Et Al Massira Etg 5 et 6, Casablanca
(n)	Rue De Teheran, Q.I Agadir
(o)	Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech
(p)	Rue cadi Srayri et Cadi Ben Hammadi, Quartier de la Pinede – Rabat
(q)	Ferme Ahzib Achayech, Ferkat Ain Dada, Askedjour (Marakech Menara – Maroc)
(r)	No 22 Rue Meknes Hey Haboub, Khouribga
(s)	37 Rue Omar Ibn Khattab, Inmeuble Maspalomas 2, Tanger
(t)	Avenida das Forças Armadas, N 125, 12 Lisboa
(u)	Rua de Pedro Nunes, 39, Lisboa
(v)	Estrada de Algeruz, Cruz de Peixe – 2901-279-Setúbal
(w)	Tehelná 23 83103, Bratislava – Nové Mesto
(x)	Avda. Manuel Rodríguez Ayuso, 110 – Zaragoza
(y)	C/ Alcalá, 478, Madrid (28027)
(z)	C/ Miguel Fleta, 4, Madrid (28037)
(aa)	Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)
(ab)	Pepe Cosmen s/n - Oviedo

Key	Address
(ac)	C/ Túnez, 1 (Estación de Autobuses), Cáceres
(ad)	Josefa Valcárcel, 20 - Madrid
(ae)	Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)
(af)	Urbanización Plaza de Roma, F-1, Zaragoza
(ag)	C/ Real 116 – Arganda del Rey (Madrid)
(ah)	Gáldar (Las Palmas de Gran Canaria), calle Pedro de Arguello, 10
(ai)	C/ Jorge Juan, 19 – 2º Izquierda, Madrid (28001)
(aj)	C/ Tellaetxebidea 3, Bilbao
(ak)	Pol. Ind. Vilecha Oeste, León (24192)
(al)	Avenida Ingeniero Saenz de Miera, León (24009)
(am)	Avenida de la Libertad, s/n, 06800, Mérida (Badajoz)
(an)	Alameda de Urquijo, no 85, 1o – Dcha., Bilbao- Vizaya (48013)
(ao)	Magnus Blikstad 2, Gijón (33207)
(ap)	Ctra. El Burgo-Los Pelamios s/n Culleredo – A Coruña
(aq)	Cedofeita, c/ Requiande, 1 – Ribadeo-Lugo
(ar)	Carretera Porto Pi, 8-7º, 07015, Palma de Mallorca
(as)	Avenida de Candina, nº 35, Santander (39011)
(at)	C/ Campaneros, 4, 1o Dcha, Palencia (34003)
(au)	Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagaran), Vizcaya (48510)
(av)	Avda Conde de Guadalhorce 123, Aviles (33400)
(aw)	C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona
(ax)	Plaza San Cayetano, s/n. Estación Autobuses Taq. 10, Santiago de Compostela (La Coruña)
(ay)	Avda de España, 1, Logroño- La Rioja
(az)	Avda Trovero Marín. Nº 3,(Estación Autobuses), Cartagena (30202)
(ba)	Ctra de Asturias, Ponferrada
(bb)	Avda de Navarra, 80 (Estación Central de Autobuses),Zaragoza (50011)
(bc)	C/ Ramón y Cajal, Pola de Siero
(bd)	Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)
(be)	Avda Valladolid, Aranda de Duero (Burgos)
(bf)	Avda Las Murallas, nº 52, Astorga-León (24700)
(bg)	C/ Los Telares (Estación de Autobuses) Aviles (33400)
(bh)	C/ Tornavacas, 2, Plasencia

39 Subsidiary undertakings and other significant holdings continued

Key	Address
(bi)	Avda Rosalía de Castro, Ribadeo
(bj)	C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)
(bk)	Plaza de las Estaciones, Santander (Cantabria)
(bl)	Avda Menéndez Pidal, nº 13 (Estación de Autobuses), Valencia (46009)
(bm)	Rúa Caballeros, 21, 15009 A Coruña
(bn)	Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo
(bo)	Pol. De Pocomaco, Primera Avenida, 10 Nave Alsa B-15, A Coruña
(bp)	Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)
(bq)	C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)
(br)	C/Guillem de Castro, 77, Valencia
(bs)	Avenida de la Hispanidad O- Parking P12, Barajas, Madrid
(bt)	C/ Jacques Cousteau, 2 – Arteijo (A Coruña)
(bu)	C/ Santa Leonor, 65 –Avalón Parque Empresarial, Edificio A, Madrid
(bv)	C/ Porto Pi, 8 – Palma de Mallorca
(bw)	C/ Inglaterra, 20-22, Palencia (34004)
(bx)	Madrid (Las Rozas), Avda de Marsil 33
(by)	C/ Musico Gustavo Freire, 1 -1° Dcha, Lugo (27001)
(bz)	C/ Mendez Álvaro (Estación de Autobuses), Madrid
(ca)	Paseo Colón, 18, Bajo Dcha. Sevilla
(cb)	C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)
(cc)	Barrio Ubilluts, Andoaín – Guipuzcoa
(cd)	c/ Santander, 71 - Barcelona
(ce)	Alameda de Mazarredo, 21, Bilbao
(cf)	Gran Vía de D. Ingacio de Haro, 81, Bilbao
(cg)	C/Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)
(ch)	Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén
(ci)	Avda Candina, 35-37, Santander (39011)
(cj)	C/ Investigación. Nº 2 – Getafe (Madrid)
(ck)	Pol. Ind. Espírtiu Santo, Oviedo (33010)
(cl)	Paraje de la Asomada, Cartagena (Murcia)
(cm)	Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)
(cn)	Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)
(co)	Avenida de Cádiz, número 70, 1º-B, Granada
(cp)	C/ Eduardo Torroja, 57 - Madrid
(cq)	S’ den Serral (San Agustín) Sant Josep de sa Talaia, Illes Balears
(cr)	8 Chemin de Morglas, 1214, Genève
(cs)	Rue du Mont Blanc 14, 1201, Genève
(ct)	Chemin de Morglas, 8 – Vernier
(cu)	Chemin Des Aulx 9 – Plan Les Ouates – Switzerland
(cv)	9 Capitol Street, Concord, NH 03301
(cw)	1200 Pine Island Road, Plantation, FL 33324
(cx)	289 Culver Street, Lawrenceville, GA 30046
(cy)	3867 Plaza Tower Drive, Baton Rouge, LA 70816
(cz)	334 North Senate Avenue, Indianapolis, IN 46204
(da)	208 S. LaSalle Street, Chicago, County of Cook, IL 60604
(db)	8020 Excelsior Drive, Suite 200, Madison, WI 53717
(dc)	600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071
(de)	1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120
(df)	4701 Cox Road, Glen Allen, County of Henrico, VA 23060
(dg)	3800 North Central Avenue, Ste. 460 Phoenix, AZ 85012
(dh)	155 Federal Street, Suite 700, Boston, MA 02110
(di)	4400 Easton Commons Way, Suite 125, Columbus, County of Franklin, OH 43219
(dj)	40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675
(dk)	820 Bear Tavern Road, West Trenton, NJ 08628
(dl)	301 S. Bedford St., Suite 1, Madison, WI 53703
(dm)	28 Liberty Street, New York, NY 10005
(dn)	40 West Lawrence, Suite A, Helena, Montana 59601
(do)	2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264
(dp)	3800 North Central Avenue, Suite 460, Phoenix, AZ 85012
(dq)	4624 13th St., Wyandotte, MI 48192
(dr)	2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833
(ds)	300 Montvue Road, Knoxville, TN 37919
(dt)	40 King Street West, Suite 5800, Toronto, ON M5H 3S1 Canada
(dg)	Muelle de Poniente, Alicante
(dh)	Glorieta de las Tres Culturas, Córdoba
(dj)	C/ Ruiz Perelló, 15, Madrid

40 Post balance sheet events

Subsequent to year end, National Express Rail GmbH business has won a contract worth €1 billion over the lifetime of the agreement to operate the RE1 and RE11 Rhein-Ruhr-Express (“RRX”) lines in Germany to 2033.The German Rail division has been operating the two rail lines since February 2022 through an emergency contract award. Following this new contract award, National Express now operates all three RRX lots under long term contracts.

Company Balance Sheet

At 31 December 2022

	Note	2022 £m	2021 £m
Non-current assets			
Intangible assets	4	**0.6**	0.7
Property, plant and equipment	5	**0.1**	0.1
Investments in subsidiaries	6	**2,329.8**	2,090.3
Debtors: amounts falling due after more than one year	9	**735.0**	803.2
Derivative financial instruments	7	**2.7**	9.6
Deferred tax assets	14	**25.5**	18.7
Defined benefit pension asset	18	**–**	3.8
Total non-current assets		**3,093.7**	2,926.4
Current assets			
Debtors: amounts falling due within one year	8	**39.2**	37.5
Derivative financial instruments	7	**25.2**	10.7
Cash at bank and in hand	10	**114.2**	303.6
Total current assets		**178.6**	351.8
Current liabilities			
Creditors: amounts falling due within one year	11	**(687.6)**	(292.1)
Derivative financial instruments	7	**(29.3)**	(24.0)
Provisions for liabilities and charges	13	**–**	(0.6)
Total current liabilities		**(716.9)**	(316.7)
Net current (liabilities)/assets		**(538.3)**	35.1
Total assets less current liabilities		**2,555.4**	2,961.5
Non-current liabilities			
Creditors: amounts falling due after more than one year	12	**(633.2)**	(1,034.8)
Derivative financial instruments	7	**(17.6)**	(10.9)
Provisions for liabilities and charges	13	**(0.9)**	(1.3)
Deferred tax liability	14	**–**	(0.7)
Total non-current liabilities		**(651.7)**	(1,047.7)
Net assets		**1,903.7**	1,913.8
Shareholders' equity			
Share capital	16	**30.7**	30.7
Share premium account		**533.6**	533.6
Own shares		**(3.9)**	(4.5)
Hybrid reserve		**513.0**	513.0
Other reserves	17	**226.2**	225.4
Retained earnings		**604.1**	615.6
Shareholders' equity		**1,903.7**	1,913.8

The Company reported a profit for the financial year ended 31 December 2022 of £4.0m (2021: £9.9m profit).

Ignacio Garat

I Garat
Group Chief Executive

J. Stamp

J Stamp
Group Chief Financial Officer 1 March 2023

Company Number 02590560

Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £m	Share premium account £m	Own shares (note 16) £m	Hybrid reserve £m	Other reserves (note 17) £m	Retained earnings £m	Total £m
At 1 January 2022	30.7	533.6	(4.5)	513.0	225.4	615.6	1,913.8
Profit for the year	–	–	–	–	–	4.0	4.0
Revaluation through Other Comprehensive Income	–	–	–	–	8.6	–	8.6
Transfers to the Income Statement on cash flow hedges	–	–	–	–	(7.8)	–	(7.8)
Total comprehensive income	–	–	–	–	0.8	4.0	4.8
Shares purchased	–	–	(0.3)	–	–	–	(0.3)
Own shares released to satisfy employee share schemes	–	–	0.9	–	–	(0.7)	0.2
Share-based payments	–	–	–	–	–	1.2	1.2
Accrued payments on hybrid instrument	–	–	–	21.3	–	(21.3)	–
Payments on hybrid instrument	–	–	–	(21.3)	–	–	(21.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	5.3	5.3
At 31 December 2022	30.7	533.6	(3.9)	513.0	226.2	604.1	1,903.7

The Company's retained earnings include £361.4m (2021: £372.6m) that is available for distribution. Cumulative gains on the Company's defined benefit pension scheme, which is currently in a net surplus position, are deemed to be not distributable. In addition, own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. Share premium, the capital redemption reserve and the hybrid reserve are also not distributable. Within other reserves, the merger reserve is fully distributable, and the capital redemption, hedging and cost of hedging reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 12 to the Group Consolidated Financial Statements.

	Share capital £m	Share premium account £m	Own shares (note 16) £m	Hybrid reserve £m	Other reserves (note 17) £m	Retained earnings £m	Total £m
At 1 January 2021	30.7	533.6	(3.5)	497.6	224.4	623.1	1,905.9
Profit for the year	–	–	–	–	–	9.9	9.9
Actuarial loss, net of tax	–	–	–	–	–	(0.1)	(0.1)
Revaluation through Other Comprehensive Income	–	–	–	–	1.8	–	1.8
Transfers to the Income Statement on cash flow hedges	–	–	–	–	(0.8)	–	(0.8)
Total comprehensive income	–	–	–	–	1.0	9.8	10.8
Shares purchased	–	–	(2.5)	–	–	–	(2.5)
Own shares released to satisfy employee share schemes	–	–	1.5	–	–	(1.5)	–
Share-based payments	–	–	–	–	–	1.0	1.0
Issuance of hybrid instrument (net of transaction costs)	–	–	–	(0.5)	–	–	(0.5)
Accrued payments on hybrid instrument	–	–	–	21.2	–	(21.2)	–
Payments on hybrid instrument	–	–	–	(5.3)	–	–	(5.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	4.4	4.4
At 31 December 2021	30.7	533.6	(4.5)	513.0	225.4	615.6	1,913.8

Notes to the Company Accounts
For the year ended 31 December 2022

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on a going concern basis and under the historical cost convention, except for certain derivative financial instruments which have been measured at fair value, and in accordance with applicable accounting standards in the United Kingdom.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these Financial Statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) Reduced Disclosure Framework as issued by the Financial Reporting Council.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, IFRS 16 Leases, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the Consolidated Accounts.

No Income Statement is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit or loss attributable to the Company is disclosed in the footnote to the Company's Balance Sheet.

Going concern

At 31 December 2022 the Company had net current liabilities of £538.3m (2021: net current assets of £35.1m). The net current liabilities position at the end of 2022 is predominantly due to the £400m bond, maturing in November 2023, moving to a current classification. In anticipation of the expected refinancing of this bond, the Group entered into a £400m bridge-to-bond facility in December 2022. This is for an initial period of 18 months and includes committed options to extend the maturity date until December 2025, thus maintaining the liquidity headroom throughout the period of the going concern assessment. In addition, at 31 December 2022 the Company had £527.0m of undrawn, unsecured committed revolving credit facilities. The Company relies on the trading entities of the Group to generate income. Please refer to management's going concern assessment of the Group in note 2 of the Group Financial Statements. The Directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No critical accounting judgements or key sources of estimation uncertainty have been identified in the year.

Intangible assets

Acquired and internally developed software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged on a straight-line basis over the expected useful lives of the assets as follows:

Software – 3 to 10 years

The useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Intangible assets are reviewed for impairment when events or changes in circumstances indicates that the carrying value may not be recoverable.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment. They are depreciated on a straight-line basis over their estimated useful lives as follows:

Land and buildings – 10 years
Plant and equipment – 3 to 5 years

The carrying value is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

1 Accounting policies continued

Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate being hedged.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Retirement benefits

Defined contribution schemes

Payments to defined contribution schemes are charged to the Income Statement as they fall due. The Company has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

Defined benefit schemes

Plan assets, including qualifying insurance policies, are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the Company Balance Sheet as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

Current service costs are recognised within operating costs in the Income Statement. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately as the plan amendment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs.

Re-measurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in Other Comprehensive Income and are not reclassified to profit or loss in subsequent periods.

Full actuarial valuations are carried out triennially and are updated for material transactions and other material changes in circumstances up to the end of the reporting period.

Share-based payments

The Company awards equity-settled share-based payments to certain employees, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Company over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Notes to the Company Accounts continued

For the year ended 31 December 2022

1 Accounting policies continued

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.

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each balance sheet date on the same basis.

Equity instruments

Hybrid instruments

Hybrid instruments issued by the Company are classified on initial recognition according to the substance of the arrangement. Hybrid instruments are recorded within equity where the contractual terms of the instruments allow the Company to defer coupon payments and the repayment of the principal amount indefinitely. These features give the Company the unconditional right to avoid the payment of cash or another financial asset for the principal or coupon and consequently are classified as equity instruments. These equity instruments are not re-measured from period to period. Coupon payments made are treated the same as an equity dividend distribution and where not made, are accrued within the hybrid reserve, with a corresponding reduction in retained earnings.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate derivatives, foreign currency forward exchange contracts and cross currency swaps to hedge its risks associated with interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value for the reported Balance Sheet. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of the derivative is calculated by reference to market exchange rates and interest rates at the period end.

For fair value hedges designated as interest rate derivatives, the gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk-free interest rate. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

For cross currency swaps designated as cash flow hedges, the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

Gains and losses are recognised immediately in the Income Statement.

The Company also uses foreign currency forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

2 Exchange rates

The most significant exchange rates to UK Sterling for the Company are as follows:

	2022		2021	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.21	1.24	1.35	1.38
Canadian Dollar	1.64	1.61	1.71	1.72
Euro	1.13	1.17	1.19	1.16

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible assets

	Software £m
Cost:	
At 1 January 2022	**0.7**
Additions	**–**
At 31 December 2022	**0.7**
Amortisation:	
At 1 January 2022	–
Amortisation charge	**(0.1)**
At 31 December 2022	**(0.1)**
Net book value:	
At 31 December 2022	**0.6**
At 1 January 2022	0.7

5 Property, plant and equipment

	Plant and equipment £m
Cost:	
At 1 January 2022	**0.1**
Additions	**–**
At 31 December 2022	**0.1**
Depreciation:	
At 1 January 2022	**–**
Depreciation charge	**–**
At 31 December 2022	**–**
Net book value:	
At 31 December 2022	**0.1**
At 1 January 2022	0.1

Not included within property, plant and equipment are leases that fall under the short-term exemption under IFRS 16. Rental costs expensed during the current year relating to these leases amounted to £0.3m (2021: £0.4m).

Notes to the Company Accounts continued

For the year ended 31 December 2022

6 Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2022	**2,622.2**
Additions	**241.1**
At 31 December 2022	**2,863.3**
Provisions:	
At 1 January 2022	**531.9**
Raised in year	**1.6**
At 31 December 2022	**533.5**
Net carrying amount:	
At 31 December 2022	**2,329.8**
At 1 January 2022	2,090.3

The addition in the year represents an additional investment in National Express Intermediate Holdings Limited of £239.5m (2021: £89.8m) and an additional investment in National Express Finance Company Limited of £1.6m (2021: £nil).

The Company assesses its investments in subsidiaries annually for indicators of impairment. The Company has performed a detailed assessment in the current year given that the Group's market capitalisation value remains below the net carrying amount of investments in subsidiaries and there was an impairment of goodwill in ALSA, both of which are seen as an indicator of potential impairment.

This assessment for National Express Intermediate Holdings Limited showed that the value in use significantly exceeded the net carrying value of the investment in subsidiaries, and, as a result, no impairment was required. The recoverable amount has been determined with reference to the value in use of each of the underlying trading companies, calculated on the same basis as detailed in note 14 to the Group Consolidated Financial Statements. The assessment for National Express Finance Company Limited showed that the recoverable amount was lower than the value of the investment and therefore has been impaired by the full investment value.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 39 to the Group Consolidated Financial Statements. The principal country of operation in respect of the companies below is the country in which they are incorporated and all holdings are 100% held directly by the Company:

Incorporated in England and Wales

National Express Intermediate Holdings Limited	Holding company for the majority of the Group's operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements
National Express Financing LP	UK incorporated limited partnership

7 Derivative financial instruments

	2022 £m	2021 £m
Cross currency swaps	2.7	9.6
Non-current derivative financial assets	**2.7**	**9.6**
Interest rate derivatives	–	0.1
Cross currency swaps	8.0	2.4
Foreign exchange forward contracts	17.2	8.2
Current derivative financial assets	**25.2**	**10.7**
Interest rate derivatives	(17.6)	(5.7)
Cross currency swaps	–	(5.2)
Non-current derivative financial liabilities	**(17.6)**	**(10.9)**
Interest rate derivatives	(9.2)	(0.7)
Cross currency swaps	(15.6)	(4.5)
Foreign exchange forward contracts	(4.5)	(18.8)
Current derivative financial liabilities	**(29.3)**	**(24.0)**

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the Group Consolidated Financial Statements. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

8 Debtors: amounts falling due within one year

	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	31.8	26.9
Corporation tax recoverable	1.7	3.5
Prepayments and other debtors	5.7	7.1
	39.2	37.5

Expected credit losses in respect of amounts owed by subsidiary undertakings due within one year were £nil (2021: £nil) at the reporting date.

9 Debtors: amounts falling due after more than one year

	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	733.5	801.7
Prepayments and other debtors	1.5	1.5
	735.0	803.2

Expected credit losses in respect of amounts owed by subsidiary undertakings due after more than one year were £nil (2021: £1.9m) at the reporting date.

Notes to the Company Accounts continued

For the year ended 31 December 2022

10 Cash at bank and in hand

	2022 £m	2021 £m
Cash at bank	**0.8**	74.6
Short-term deposits	**113.4**	229.0
	114.2	303.6

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

11 Creditors: amounts falling due within one year

	2022 £m	2021 £m
Trade creditors	**9.0**	7.5
Amounts owed to subsidiary undertakings	**235.8**	208.2
Accruals and deferred income	**14.1**	15.8
Accrued interest on borrowings	**2.8**	2.8
Bank overdrafts	**25.8**	57.8
Bonds	**400.1**	–
	687.6	292.1

Trade creditors are non-interest bearing and are normally settled on 30-day terms.

12 Creditors: amounts falling due after more than one year

	2022 £m	2021 £m
Bonds	**221.3**	640.9
Private placements	**411.9**	393.9
	633.2	1,034.8

13 Provisions for liabilities and charges

	Total £m
At 1 January 2022	**1.9**
Utilised in the year	**(0.1)**
Released in the year	**(0.9)**
At 31 December 2022	**0.9**
Current 31 December 2022	**–**
Non-current 31 December 2022	**0.9**
	0.9
Current 31 December 2021	0.6
Non-current 31 December 2021	1.3
	1.9

Provisions for liabilities and charges relates to restructuring activities and is expected to be utilised within the next five years.

14 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2022 £m	2021 £m
Deferred tax assets	25.5	18.7
Deferred tax liability	–	(0.7)
Net deferred tax asset	**25.5**	18.0

The major components of the provision for deferred taxation are as follows:

	2022 £m	2021 £m
Accelerated capital allowances	0.1	0.1
Other timing differences	0.1	0.1
Losses carried forward	25.3	18.5
Defined benefit pension	–	(0.7)
Net deferred tax asset	**25.5**	18.0

A reconciliation of the deferred tax balances is as follows:

	Deferred tax assets £m	Deferred tax liability £m
Deferred tax at 1 January 2022	18.7	(0.7)
Tax credit to Income Statement	1.5	0.7
Tax credit to Other Comprehensive Income	5.3	–
Deferred tax at 31 December 2022	**25.5**	–

Timing differences associated with investments

No deferred tax (2021: £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 (2021: £nil).

Notes to the Company Accounts continued

For the year ended 31 December 2022

15 Interest-bearing loans and borrowings

The effective interest rates at the balance sheet date were as follows:

	2022 £m	Maturity	Effective interest rate	2021 £m	Maturity	Effective interest rate
Current						
Bank overdrafts	25.8	–	–	57.8	–	–
7-year Sterling bond	400.1	November 2023	2.54%	–	–	–
Accrued interest on borrowings	2.8	–	–	2.8	–	–
Total current	428.7			60.6		
Non-current						
7-year Sterling bond	–	–	–	400.1	November 2023	2.54%
9-year Sterling bond	221.3	November 2028	GBP SONIA + 1.98%	240.8	November 2028	GBP SONIA + 1.98%
Private placements	411.9	2027–2032	1.92%	393.9	2027–2032	1.92%
Total non-current	633.2			1,034.8		

The Company currently has £527.0m of unsecured committed revolving credit facilities, of which £32.0m matures in 2023, £15.0m matures in 2024 and £480.0m matures in 2025. At 31 December 2022, there was £nil (2021: £nil) drawn down on the facilities, with £1.2m (2021: £1.5m) of capitalised deal fees remaining, which are classified within prepayments.

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the Group Consolidated Financial Statements.

16 Share capital

Issued and fully paid:	No. of shares	2022 £m	No. of shares	2021 £m
At 1 January and 31 December	614,086,377	30.7	614,086,377	30.7

The total number of share options exercised in the year by employees of the Company was 251,605 (2021: 402,244) of which all (2021: all) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust.

Own shares

Own shares comprises 1,268,303 (2021: 1,489,069) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the Trust). During the year, the Trust purchased 120,082 (2021: 1,013,976) shares. 251,606 (2021: 402,244) shares were used to satisfy options granted under a number of the Company's share schemes, and a further 89,242 shares were transferred to the Executive Directors who purchased these shares using the cash element of their 2021 annual bonus awards. No shares (2021: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2022 was £1.6m (2021: £3.8m). No dividends were payable on these shares in either 2022 or 2021.

17 Other reserves

	Capital redemption reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Total £m
At 1 January 2022	0.2	1.7	(0.6)	224.1	225.4
Gains on hedging	–	8.5	0.1	–	8.6
Hedging gains reclassified to Income Statement	–	(7.8)	–	–	(7.8)
At 31 December 2022	0.2	2.4	(0.5)	224.1	226.2

	Capital redemption reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Total £m
At 1 January 2021	0.2	0.7	(0.6)	224.1	224.4
Gains on hedging	–	1.8	–	–	1.8
Hedging gains reclassified to Income Statement	–	(0.8)	–	–	(0.8)
At 31 December 2021	0.2	1.7	(0.6)	224.1	225.4

The nature and purpose of the other reserves are as follows:

- The cash flow hedge reserve records the movements on designated hedging instruments.
- The cost of hedging reserve records the movements in the currency basis, which are excluded from the hedging instrument on the designated hedging instruments in the cash flow hedge reserves.
- The merger reserve included the premium on the share issue in May 2020.

18 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

Defined benefit scheme

The defined benefit scheme is now closed to all future accrual. The scheme was subject to a buy-in transaction on 11 October 2018 whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Rothesay Life under which the benefits payable to defined benefit members became fully insured. On 23 September 2021, a full buy-out of the defined benefit section was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets (comprising the Rothesay Life insurance policy) and matching defined benefit liabilities were derecognised. The buy-out transaction also triggered the return of surplus assets in two tranches, comprising £7.5m in 2021 and the final return of £3.1m in 2022.

Following the buy-out of the Company scheme there are no remaining pension liabilities at 31 December 2022 and therefore no assumptions are disclosed.

The relevant assumptions used in the prior year, which were those used to derive the schemes valuation immediately preceding the buy- out transaction, are shown below:

	2022	2021
Rate of increase of pensions	–	3.4%
Discount rate	–	2.0%
Inflation assumption (RPI)	–	3.4%
Inflation assumption (CPI)	–	2.8%
Post-retirement mortality in years:		
Current pensioners at 65 – male	–	22.4
Future pensioners at 65 – male	–	23.7
Current pensioners at 65 – female	–	25.1
Future pensioners at 65 – female	–	26.6

Sensitivities regarding key assumptions are disclosed in note 33 to the Group Consolidated Financial Statements.

Notes to the Company Accounts continued

For the year ended 31 December 2022

18 Retirement benefits continued

The amounts charged to the Income Statement and Other Comprehensive Income for the years ended 31 December 2022 and 2021 are set out in the following tables:

Income Statement	2022 £m	2021 £m
Settlement gain	–	0.1
Net interest income	–	0.1
Total credit to the Income Statement	–	0.2

During the year, £0.7m (2021: £1.1m) of administrative expenses were incurred.

Other Comprehensive Income	2022 £m	2021 £m
Actuarial gain/(loss) during the period from obligations	–	7.5
Expected return on plan assets (less)/greater than discount rate	–	(7.6)
Net actuarial loss	–	(0.1)

The amounts recognised in the Balance Sheet at 31 December are as follows:

	2022 £m	2021 £m
Other	–	3.8
Fair value of scheme assets	–	3.8
Defined benefit pension surplus	–	3.8

The movement in the present value of the defined benefit obligation in the year is as stated below:

	2022 £m	2021 £m
Defined benefit obligation at 1 January	–	(110.5)
Past service cost	–	–
Benefits paid	–	3.7
Finance charge	–	(1.1)
Gain on settlements	–	100.4
Actuarial gain/(loss) arising from changes in financial assumptions	–	7.3
Actuarial gain/(loss) arising from changes in demographics	–	0.2
Actuarial gain arising from experience adjustments	–	–
Defined benefit obligation at 31 December	–	–

The movement in the fair value of scheme assets is as follows:

	2022 £m	2021 £m
Fair value of scheme assets at 1 January	3.8	122.8
Expected return on plan assets	–	1.2
Expected return on plan assets (less)/greater than discount rate	–	(7.6)
Cash contributions – employer	(3.1)	(7.5)
Administrative expenses	(0.7)	(1.1)
Loss on settlement	–	(100.3)
Benefits paid	–	(3.7)
Fair value of scheme assets at 31 December	–	3.8

18 Retirement benefits continued

The employer cash contribution of £3.1m (2021: £7.5m) in the scheme represents the surplus returned to the Company during the completion of the buy-out transaction.

History of experience gains and losses:	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of scheme assets	–	3.8	122.8	109.3	98.6
Present value of defined benefit obligation	–	–	(110.5)	(95.1)	(83.7)
Surplus in the scheme	–	3.8	12.3	14.2	14.9
Experience adjustments arising on liabilities	–	–	1.0	0.3	(2.3)
Experience adjustments arising on assets	–	(7.6)	16.4	10.8	(35.6)

19 Share-based payments

During the year ended 31 December 2022, the Company had a number of share-based payment arrangements, which are described in note 9 to the Consolidated Accounts.

The options have a weighted average contractual life of one year (2021: one year). Options were exercised throughout the year and the weighted average share price at exercise was 238p (2021: 291p).

20 Commitments and contingencies

Contingent liabilities

Guarantees

The Company has guaranteed credit facilities totalling £nil (2021: £3.7m) of certain joint ventures. The Company has also guaranteed certain liabilities of a number of its subsidiaries under Section 479C of the Companies Act 2006. These subsidiaries are highlighted in the full subsidiaries listing in note 40 to the 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. As at 31 December 2022, the Company had performance bonds in respect of businesses in the USA of £132.7m (2021: £113.7m), in Spain of £89.9m (2021:

£88.1m), in Germany of £25.8m (2021: £30.0m), and in the Middle East of £10.3m (2021: £6.0m). Letters of credit have been issued to support insurance retentions of £179.8m (2021: £145.0m).

Five Year Summary

	2022	2021	2020	2019	2018
Group underlying					
Revenue	**2,807.5**	2,170.3	1,955.9	2,744.4	2,450.7
Underlying operating profit/(loss)	**197.3**	87.0	(50.8)	295.3	257.7
Return on capital	**7.7%**	3.4%	(2.0)%	12.4%	12.4%
Basic EPS	**15.0**	0.2[3]	(14.6)	34.5	32.9
IFRS					
Revenue	**2,807.5**	2,170.3	1,955.9	2,744.4	2,450.7
Operating (loss)/profit	**(158.5)**	(36.2)	(381.4)	242.3	215.4
PBT	**(209.9)**	(84.9)	(447.7)	187.0	177.7
Basic EPS	**(39.7)**	(16.6[3])	(57.9)	27.6	26.6
Dividends per share	**Nil**	Nil	Nil	16.4	14.9
Net (debt)/funds					
Cash	**291.8**	508.4	629.8	715.8	117.7
Bank overdrafts	**(58.7)**	(132.2)	(109.3)	(237.5)	–
Other debt receivable	**2.7**	1.0	1.2	2.4	2.1
Bonds	**(621.4)**	(640.9)	(647.0)	(1,081.9)	(852.4)
Bank loans	**(194.7)**[1]	(189.6)	(101.8)	(242.6)	(9.0)
Fair value of derivatives included in financing activities	**(32.0)**	(3.7)	(4.7)	15.0	6.4
Lease liabilties[2]	**(183.7)**	(218.9)	(311.3)	(385.0)	(142.6)
Private placements	**(411.9)**	(393.9)	(476.8)	(68.3)	(73.7)
Net debt	**(1,207.9)**	(1,069.8)	(1,019.9)	(1,282.1)	(951.5)

1 Net of arrangement fees totalling £1.1m on bank and other loans

2 Lease liabilities are reported net of finance lease receivables that are reported separately from borrowings on the face of the Group's Balance Sheet

3 Restated for correction to deferred tax assets and liabilities, see note 2 for further information.

Environmental performance

In 2019, we introduced a new approach to measuring and assessing our environmental performance, using the Sectoral Decarbonisation Approach (SDA) methodology to set ourselves a number of environmental targets, alongside more traditional environmental targets or key performance indicators (together, the KPIs). The SDA methodology is the only approach with transport sector-specific metrics, using climate science to enable organisations to set targets relevant to their industry. We set new SDA KPIs on traction energy usage, traction carbon emissions and total (Scope 1 & 2) carbon emissions, which at the time met the 2018 Intergovernmental Panel on Climate Change (IPCC) goal of controlling the increase in global warming to below 2°C. The SDA KPIs were set over an initial seven-year performance period – 2019 to 2025 – from a 2018 baseline. We supplemented these SDA targets with KPIs on site emissions, waste to landfill and water usage, which we also aim to achieve over the same seven-year performance period against a 2018 baseline.

Our intention is to review the SDA KPIs on a regular basis as climate science, technology and forecasting methods improve, and we intend to refresh our KPIs in 2023, using 2022 as the baseline year and aligned to the ambition of the Paris agreement to control the increase in global warming to below 1.5°C. These targets have a purpose to aid our commitment to an overarching goal of achieving net zero (Scope 1 & 2 emissions) across the Group by 2040.

Group 2025 targets

Reduction target description (metric)	Base year (2018)	2025 target	2021	2022	% change from base year	% change 2021-2022	Required to meet target
Traction Energy: (vehicle fuel and electricity) **MWh/mpkm**	66.92	58.72	86.19	83.82	25.3%	(2.7%)	(29.9%)
Traction Carbon Emissions **tCO_2e/mpkm**	17.67	15.45	24.15	23.38	32.3%	(3.2%)	(33.9%)
Total Scope 1 & 2 Emissions **tCO_2e/mpkm**	19.26	16.45	25.34	24.17	25.5%	(4.3%)	(31.9%)
Site Scope 1 & 2 Emissions (building use only) **tCO_2e**	41,656	38,199	31,683	29,839	(28.4%)	(5.8%)	Met
Landfill Waste Disposal **tonnes**	7,711	5,783	4,491	4,215	(45.3%)	(6.1%)	Met
Water Consumption **m^3**	478,956	439,209	424,347	429,170	(10.4%)	1.1%	Met

The performance against KPI intensity targets in 2022 was still impacted by Covid-19, with disruption caused by the Omicron variant in the early part of the year affecting discretionary travel. This had the effect of reducing the environmental efficiency relative to normalised operation. The year began, therefore, with Covid-19 continuing to have a significant impact on our intensity metrics.

Over the full year, the 2022 traction metrics have all improved on the 2021 result as patronage improved over the year. Whilst we remain behind our 2025 targets on all three traction metrics, we are seeing the start of a positive impact of ZEV transition, mostly in the UK, and expect this to continue as we roll out the ZEV transition in future years and therefore there remains potential for material improvement in intensity metrics as this progresses.

There was a good performance on absolute site emissions and landfill waste disposal in the year, with a 5.8% and 6.1% respective reduction year on year. Whilst water consumption slightly increased on 2021 levels, this was a good result given both the service curtailments and low office occupancy levels in 2021 reduced water usage significantly, e.g. from vehicle cleaning.

Absolute emissions

tCO_2e emissions by scope	2019	2020	2021	2022	Change (2021 vs. 2022)
Scope 1	823,582	514,106	657,239	830,287	26.3%
Scope 2	49,938	67,879	73,649	83,577	13.5%
Scope 3	8,221	8,641	5,762	600,400[1]	N/A[1]
Total	**881,741**	**590,626**	**736,650**	**1,514,264**	**N/A[1]**

1 Scope 3 absolute emissions has increased significantly year on year due to the Group completing a full baseline assessment of Group-wide Scope 3 emissions during the year and including all relevant categories in the 2022 numbers. Prior year scope 3 included only business travel, waste, water and certain other upstream emissions, hence no year on year % change has been disclosed as they are not comparable. Please refer to the below for the detailed methodology and breakdown of Scope 3 emissions by category.

Environmental performance continued

tCO_2e emissions by division	2019	2020	2021	2022	Change (2021 vs. 2022)
ALSA	324,007	234,477	368,714	712,900	N/A[1]
Bahrain	22,833	20,214	17,810	23,946	N/A[1]
Germany	29,269	52,347	58,939	122,486	N/A[1]
United Kingdom	227,380	142,769	147,789	288,524	N/A[1]
USA and Canada	276,693	140,168	142,800	362,514	N/A[1]
Central Functions	1,559	569	598	3,894	N/A[1]
Group total	**881,741**	**590,545**	**736,650**	**1,514,264**	**N/A[1]**

1 Scope 3 absolute emissions has increased significantly year on year due to the Group completing a full baseline assessment of Group-wide Scope 3 emissions during the year and including all relevant categories in the 2022 numbers. Prior year scope 3 included only business travel, waste, water and certain other upstream emissions, hence no year on year % change has been disclosed as they are not comparable. Please refer to the below for the detailed methodology and breakdown of Scope 3 emissions by category.

In the current year aggregate Scope 1 & 2 GHG emissions in our UK operations amounted to 169,877 tCO2e (2021: 122,578 tCO2e), and totalled 743,987 tCO2e (2021: 582,936 tCO2e) in our global (excluding UK) operations.

Scope 1 absolute emissions increased by 26.3% on 2021 predominantly due to the strong patronage growth in the year and the inclusion of the WeDriveU business in North America for the first time following a full assessment of their emissions.

Scope 2 emissions (primarily electricity usage) have increased by 13.5%, primarily driven by the expansion of the German Rail business which mobilised an additional contract in the year, and from electric vehicles brought into service during the year.

During the year, we completed a Group-wide assessment of our Scope 3 emissions across all relevant categories, enabling fuller disclosure of our Scope 3 emissions compared to previous years.

Prior to calculating our Scope 3 footprint, all categories were screened for relevance using the GHG Protocol criteria. Those listed as “N/A” in the table below were considered to make a negligible or no contribution to the Group’s scope 3 emissions. The same operational control approach was used as for scope 1 & 2 emissions, with all divisions in the Group being included.

Note that for categories 1 and 2 (purchased goods and services and capital goods), the calculation methodology for 2022 was based on actual spend data, which was then applied to emissions factors by spend category, as supplier-specific data is not yet available. The same methodology was used within category 8 for emissions from the manufacture of leased vehicles, which includes the optional disclosure of life cycle emissions associated with manufacturing leased assets.

We aim to transition to a supplier-specific approach over time, starting with the most material suppliers, for example the companies who manufacture and produce our vehicles, some of which have committed to Scope 1 & 2 Science-Based Targets already. We are already working with some of our major vehicle manufacturers to obtain supplier-specific emissions data. We will continue to improve the data quality and methodology for calculating emissions in these categories, and therefore, these three categories may see more significant year on year movements in the future.

For employee commuting (category 7), assumptions have been made around commuting patterns applied to the actual number of employees at each location.

For investments (category 15), the ‘average data’ method is used, based on the sector the investee company operates in, which drives the sector specific emission factor used, applied to revenue data, and our proportional share of equity held.

For all other scope 3 categories (3, 4, 5, 6 and 13), actual usage data has been obtained. A breakdown of scope 3 emissions by category for 2022 is shown on the next page:

Category	Absolute emissions (tCO_2e)	% of total scope 3
1. Purchased goods & services	221,783	36.9%
2. Capital goods	92,680	15.4%
3. Upstream fuel and energy production and distribution	214,893	35.8%
4. Upstream transportation & distribution	N/A	N/A
5. Waste and water	1,967	0.3%
6. Business travel	2,349	0.4%
7. Employee commuting	41,819	7.0%
8. Upstream leased assets	10,543	1.8%
9. Downstream transportation & distribution	N/A	N/A
10. Processing of sold products	N/A	N/A
11. Use of sold products	N/A	N/A
12. End-of-life treatment of sold products	N/A	N/A
13. Downstream leased assets	1,118	0.2%
14. Franchises	N/A	N/A
15. Investments	13,248	2.2%
TOTAL	600,400	100.0%

Intensity metrics

Intensity metrics	2019	2020	2021	2022	Change (2021 vs. 2022)
Group totals (million pass.km)	46,258	24,656	28,932	37,804	30.7%
Traction Carbon Emissions (Scope 1 & 2) tCO2e/mpkm	16.69	22.28	24.15	23.38	(3.2%)
Total tCO2e per million pass.km (Scope 1, 2 & 3)	19.06	23.93	25.34	34.37	N/A[1]

1 Scope 3 absolute emissions has increased significantly year on year due to the Group completing a full baseline assessment of Group-wide Scope 3 emissions during the year and including all relevant categories in the 2022 numbers. Prior year scope 3 included only business travel, waste, water and certain other upstream emissions, hence no year on year % change has been disclosed as they are not comparable. Please refer to the below for the detailed methodology and breakdown of Scope 3 emissions by category.

Traction carbon emissions per passenger kilometre (tCO2e/million passenger km) decreased by 3.2% between 2021 and 2022, from 24.15 tcO2e/mpkm in 2021, to 23.38 tcO2e/mpkm in 2022,as passenger numbers/load factors continued to recover back towards pre-pandemic levels.

In 2022 we completed a Group-wide assessment of our Scope 3 emissions across all relevant categories, enabling fuller discloser of our Scope 3 emissions compared to previous years and forming a new baseline for comparisons in future years. This resulted in a significant increase in tCO2e/per million passenger km to 34.37 for Scope 1, 2 and 3 emissions.

Environmental performance continued

Methodology

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with appropriate emission factors taken from recognised public sources including, but not limited to, the Department for Business, Energy & Industrial Strategy (BEIS), Defra, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change.

We have used a materiality threshold of 5%, have accounted for all material sources of GHG emissions and have reported emissions for the period 1 January 2022 to 31 December 2022 in line with our Financial Statements.

We are committed to ensuring that our GHG accounting system, results and accompanying reports remain robust, continue to enhance our Group-level emission performance year-on-year and are in compliance with the mandatory requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (which Regulations implement the Government's policy on Streamlined Energy and Carbon Reporting (SECR)).

Streamlined Energy and Carbon Reporting

SECR regulations require the reporting (in MWh rather than tCO2 in line with existing standards) of the aggregate of:

- the annual quantity of energy consumed from activities for which the Company is responsible, including the combustion of fuel and the operation of any facility; and
- the annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use.

MWh by division	2021	2022
ALSA	1,325,774	1,566,970
USA and Canada	515,191	815,442
United Kingdom	489,515	622,607
Germany	137,700	196,221
Bahrain	54,950	56,081
All	2,523,130	3,257,319
Energy consumed from the activities for which the Company is responsible, including the combustion of fuel and the operation of any facility	2,333,066	3,012,926
Energy consumed resulting from the purchase of electricity, heat, steam or cooling	190,064	244,394
All	2,523,130	3,257,319

Proportion of figure that relates to energy consumed in the UK and offshore area	2021	2022
Offshore	2,033,615	2,634,714
United Kingdom	489,515	622,606
UK proportion	19%	24%

This is another way of stating existing disclosures (as it is simply stating the same information in different measurement units) so the drivers of movement in tCO2 and kWh for the Group should be broadly the same. The fact that, measured in MWh, emissions are up 29% year-on-year whereas measured in tCO2 they are up 25% is driven by a combination of definitions, measurement standards and changes in energy 'mix'.

Shareholder information

Ordinary shares
The Company's ordinary shares, each of nominal value 5 pence, are traded on the main market for listed securities on the London Stock Exchange (LON:NEX).

Company website: www.nationalexpressgroup.com
The Company website contains information about the Company's Group and its operations. Copies of the Company's annual reports, results announcements, general meeting notices and other corporate communications, together with information about the Company share price and dividends, can be found there.

e-Communication
We encourage shareholders to receive communications from the Company electronically as this will enable you to receive them more quickly and securely. It also allows the Company to communicate in a more environmentally friendly and cost effective manner.

To register for this service, you should go to www.shareview.co.uk.

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[1]

Telephone from overseas: +44 (0) 121 415 7047[1]

Textel (for the hard of hearing): 0371 384 2255[1]

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.

1 Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. 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.

Share dealing service
Equiniti provides existing and prospective UK shareholders with an easy to access and simple to use share dealing facility for buying and selling shares in the Company by telephone, post or online. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037*

* Lines are open from 8.00am to 4.30pm, Monday to Friday, excluding public holidays. Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

For online dealing, log on to: www.shareview.co.uk/dealing.

For postal dealing, call 0371 384 2030 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. Further information about ShareGift may be obtained on 020 7930 3737 or for more information visit: www.sharegift.org.

Dividends
Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account, further information is available from Equiniti (address and telephone number to the left). You will still receive an annual dividend confirmation detailing each dividend you receive.

Shareholder security
Share fraud includes scams where shareholders receive unsolicited calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'.

You should always check that any firm contacting you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website at www.fca.org.uk/consumers, or by calling the FCA's consumer helpline on 0800 111 6768 (overseas callers dial +44 207 066 1000). If you have already paid money to share fraudsters contact Action Fraud immediately on 0300 123 2040, whose website is: www.actionfraud.police.uk.

Personal data
The Company processes personal data about its shareholders in compliance with applicable laws. A copy of the Shareholder Privacy Notice explaining how the Company processes your personal data and your rights in respect of that processing can be found at: www.nationalexpressgroup.com/privacy-centre.

Definitions and supporting information

Glossary

AGM	Annual General Meeting
AI	Artificial intelligence
APMs	Alternative performance measures
Board	The Board of Directors of the Company
Code	The UK Corporate Governance Code published by the FRC in 2018
Company	National Express Group PLC
Consolidated Financial Statements	The Financial Statements for the Group for the year ended 31 December 2021
Constant Currency	Compares current period's results with the prior period's results translated at the current period's exchange rates
CPI	Consumer Price Index
DE&I	Diversity, Ethnicity and Inclusion
CRM	Customer relationship management
Directors	The Directors of the Company
Dividend	Dividend amount payable per ordinary share
DTRs	Disclosure, Guidance and Transparency Rules
EDBP	Executive Deferred Bonus Plan
EURIBOR	Euro Interbank Offered Rate
EV	Electric vehicle
Executive Directors	The Executive Directors of the Company
FCA	The Financial Conduct Authority
FRC	The Financial Reporting Council
FWI	Fatalities and Weighted Injuries
GDP	Gross Domestic Product – used to determine the economic performance of a whole country or region
GHG	Greenhouse gas emissions
Group	The Company and its subsidiaries and associates
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards

IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPIs	Key performance indicators
LIBOR	London Interbank Offered Rate
Listing Rules	The Listing Rules of the FCA
LTIP	Long-Term Incentive Plan
MaaS	Mobility as a service
Net interest expense	Finance costs less finance income
Non-Executive Directors	The Non-Executive Directors of the Company
Operating margin or 'margin'	Ratio of underlying operating profit to revenue
Ordinary shares	Ordinary shares of nominal value 5 pence each in the Company
PBT	Profit before tax
RCF	Revolving credit facility
RCP	Representative Concentration Pathway
RME	Rhine-Münster Express
RMS	Revenue Management System
RPI	Retail Prices Index
RRX	Rhine-Ruhr Express
SDA	Sectoral Decarbonisation Approach
Stagecoach	Stagecoach Group plc
TfL	Transport for London
TfWM	Transport for West Midlands
TSR	Total shareholder return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
Underlying	Underlying Operating Margin (and definition) AND ZEV (and definition)
ZEV	Zero Emission Vehicle

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
EBITDA	Operating profit[1]	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking Underlying Operating Profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. This is illustrated in the Group Chief Financial Officer's Report on page 17.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group's gearing ratio.
Gearing	No direct equivalent	The ratio of Covenant Net Debt to EBITDA over the last 12 months, after making the following adjustments to EBITDA: including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period; the reversal of IFRS 16 accounting; the exclusion of the profit or loss from associates; the exclusion of the profit or loss attributable to minority interest; and the add back of interest costs arising from the unwind of the discount on provisions.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
Free cash flow	Net cash generated from operating activities	The cash flow equivalent of Underlying Profit After Tax. A reconciliation of Underlying Operating Profit and net cash flow from operating activities to free cash flow is set out in the supporting tables below.	Free cash flow allows us and external parties to evaluate the cash generated by the Group's operations and is also a key performance measure for the Executive Directors' annual bonus structure and management remuneration.
Net maintenance capital expenditure	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations. It includes the capitalisation of leases initiated in the year in respect of existing business. A reconciliation of capital expenditure in the statutory cash flow statement to net maintenance capital expenditure (as presented in the Group Chief Financial Officer's Report) is set out in the supporting tables below.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group's profit.
Growth capital expenditure	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth. It includes the capitalisation of leases initiated in the year in respect of new business.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
Net Debt	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest).	Net Debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.

Alternative performance measures continued

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
Covenant Net Debt	Borrowings less cash and related hedges	Net Debt adjusted for certain items agreed with the Group's lenders as being excluded for the purposes of calculating Net Debt for covenant assessment. The adjustments principally comprise the exclusion of IFRS 16 liabilities, the exclusion of amounts owing under arrangements to factor advance subsidy payments, the add back of trapped cash, and an adjustment to retranslate any borrowing denominated in foreign currency to the average foreign currency exchange rates over the preceding 12 months.	Covenant Net Debt is the measure that is applicable in the covenant gearing test.
Underlying earnings	Profit after tax	Is the Underlying Profit attributable to equity shareholders for the period and can be found on the face of the Group Income Statement in the first column.	Underlying earnings is a key measure used in the calculation of Underlying earnings per share.
Underlying earnings per share	Basic earnings per share	Is Underlying Profit attributable to equity shareholders divided by the weighted average number of shares in issue, excluding those held in the Employee benefit trust which are treated as cancelled. A reconciliation of statutory profit to Underlying profit for the purpose of this calculation is provided within note 8 of the financial statements.	Underlying earnings per share is widely used by external stakeholders, particularly in the investment community.
Underlying Operating Profit	Operating profit[1]	Statutory operating profit excluding separately disclosed items and can be found on the face of the Group Income Statement in the first column.	Underlying Operating Profit is a key performance measure for the Executive Directors' annual bonus structure and management remuneration. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
Underlying Operating Margin	Operating profit[1] divided by revenue	Underlying Operating Profit/(Loss) divided by revenue	Underlying Operating Margin is a measure used to assess and compare profitability. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders
Underlying Profit Before/After Tax	Profit Before/After Tax	Statutory profit before/after tax excluding separately disclosed items and can be found on the face of the Group Income statement in the first column.	Underlying Profit Before Tax is a key performance measure for the Executive Directors' annual bonus structure. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
Return on capital employed (ROCE)	Operating profit[1] and net assets	Underlying Operating Profit divided by average capital employed. Capital employed is net assets excluding Net Debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates. The calculation of ROCE is set out in the reconciliation tables below.	ROCE gives an indication of the Group's capital efficiency and is a key performance measure for the Executive Directors' remuneration.

1 Operating profit is presented on the Group income statement. It is not defined per IFRS, however is a generally accepted profit measure.

Supporting reconciliations

Reconciliation of net cash flow from operating activities to free cash flow	2022 £m	2021 £m
Net cash flow from operating activities	221.1	170.9
Remove: Cash payments in respect of IFRIC 12 asset purchases treated as working capital for statutory cash flow*	59.7	42.9
Remove: Cash expenditure in respect of separately disclosed items	49.3	44.4
Add: Net maintenance capital expenditure	(184.5)	(142.1)
Add: Other non-cash movements	(0.8)	(1.3)
Profit on disposal of fixed assets	15.7	8.6
Free cash flow	**160.5**	123.4

* During the current and prior year the Group made payments in respect of assets (principally vehicles) acquired to fulfil a contract in Morocco that is accounted for under the IFRIC12 financial asset model and for which the statutory cash flow for these purchases is accordingly presented as a movement in working capital, with the assets being recorded as contract assets on the balance sheet rather than in property, plant and equipment or intangible assets. In order to be consistent with the treatment of asset purchases on other contracts, these asset purchases are reclassified to capital expenditure for the purposes of the “funds flow” presented in the CFO report. The asset purchases in both years were in respect of a new contract and therefore have been reclassified to growth capital expenditure, consistent with other asset purchases for new business and consistent with previous years.

Reconciliation of capital expenditure in statutory cash flow to funds flow	2022 £m	2021 £m
Purchase of property, plant and equipment	(169.0)	(168.5)
Proceeds from disposal of property, plant and equipment	9.3	13.7
Payments to acquire intangible assets	(10.7)	(44.4)
Proceeds from disposal of intangible assets	5.2	0.7
Net capital expenditure in statutory cash flow statement	(165.2)	(198.5)
Add: Profit on disposal of fixed assets	(15.7)	(8.6)
Add: capitalisation of leases initiated in the year, less disposals	(37.0)	(26.5)
Add: cash payments in respect of IFRIC 12 asset purchases*	(59.7)	(42.9)
Net capital expenditure in the funds flow (presented in the Group Chief Financial Officer’s Report)	**(277.6)**	(276.5)
Split as:		
Net maintenance capital expenditure**	(184.5)	(142.1)
Growth capital expenditure**	(93.1)	(134.4)

* See explanation above
** These terms are defined in the glossary of APMs

Reconciliation of ROCE	2022 £m	2021 £m
Statutory operating profit	(158.5)	(36.2)
Add back: separately disclosed items	355.8	123.2
Return – Underlying Operating (Loss)/Profit	197.3	87.0
Average net assets	1,436.2	1,496.0
Remove: Average Net Debt	1,138.8	1,044.9
Remove: Average derivatives, excluding amounts within Net Debt	1.2	(13.4)
Foreign exchange adjustment	(27.4)	33.5
Average capital employed	2,548.8	2,560.9
Return on capital employed	**7.7%**	3.4%

Depreciation and other non-cash items	2022 £m	2021 £m
Depreciation charge	203.5	199.7
Underlying amortisation charge	18.3	15.5
Share-based payments	1.2	1.0
Amortisation of fixed asset grants	(2.1)	(3.2)
Depreciation and other non-cash items (as disclosed in the “funds flow” in the CFO report)	**220.8**	213.0

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CAUTIONARY STATEMENT

Certain statements included in this Annual Report are, or may be deemed to be, forward-looking. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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