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.

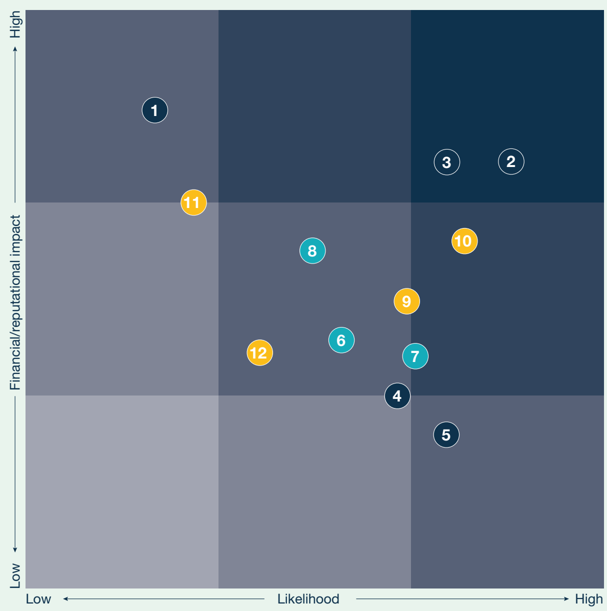
Risk Management Framework and Lines of Assurance

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: ▲

Risk appetite: ○

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: –

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