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.

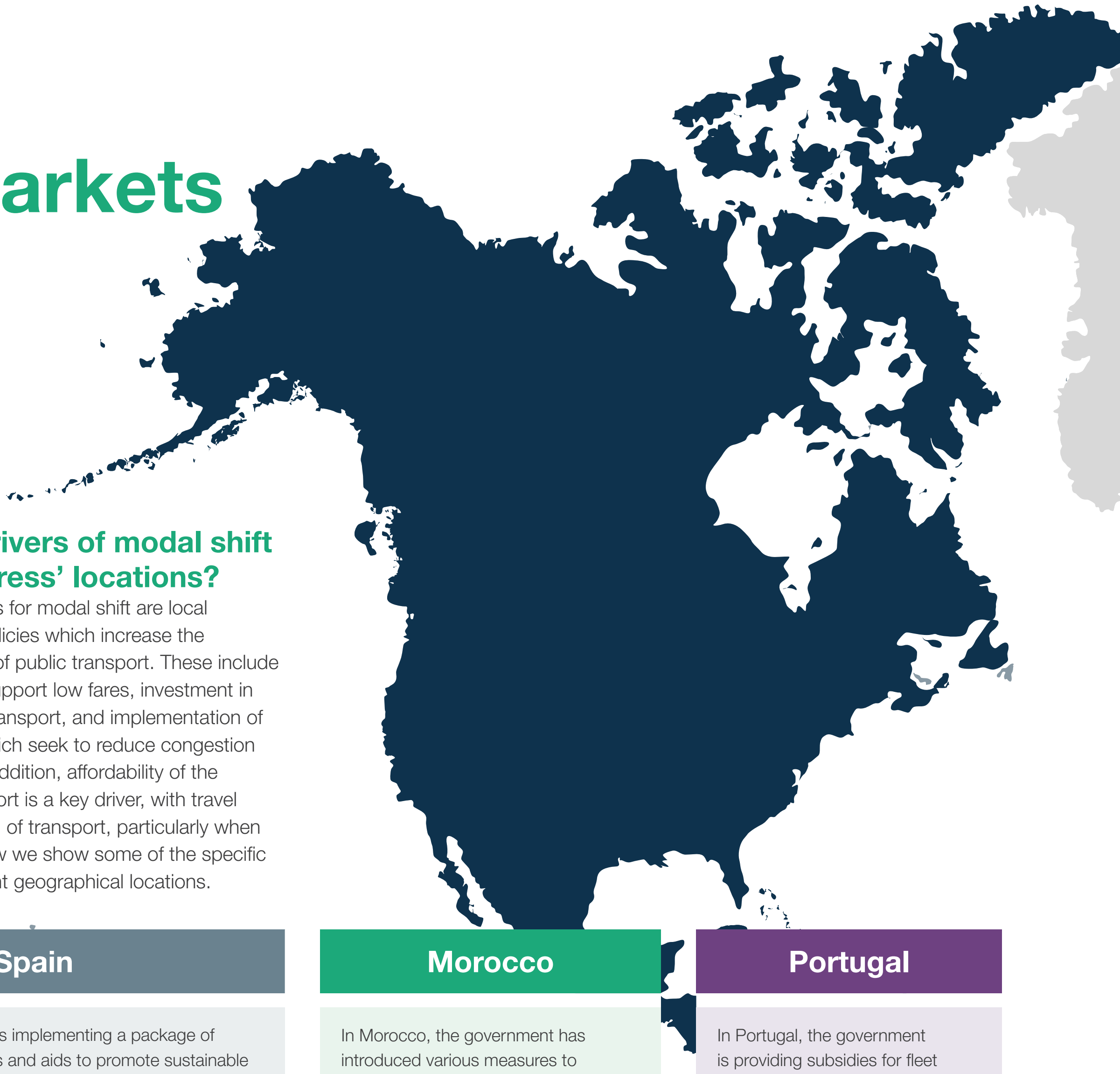
Wherever we operate, whether it's Birmingham, Barcelona or Boston, we are a key solution in the drive to encourage people out of private cars and onto buses. Our investment in ZEVs is also driving higher levels of patronage as passengers enjoy the experience of travelling on clean, quiet, green, state-of-the-art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

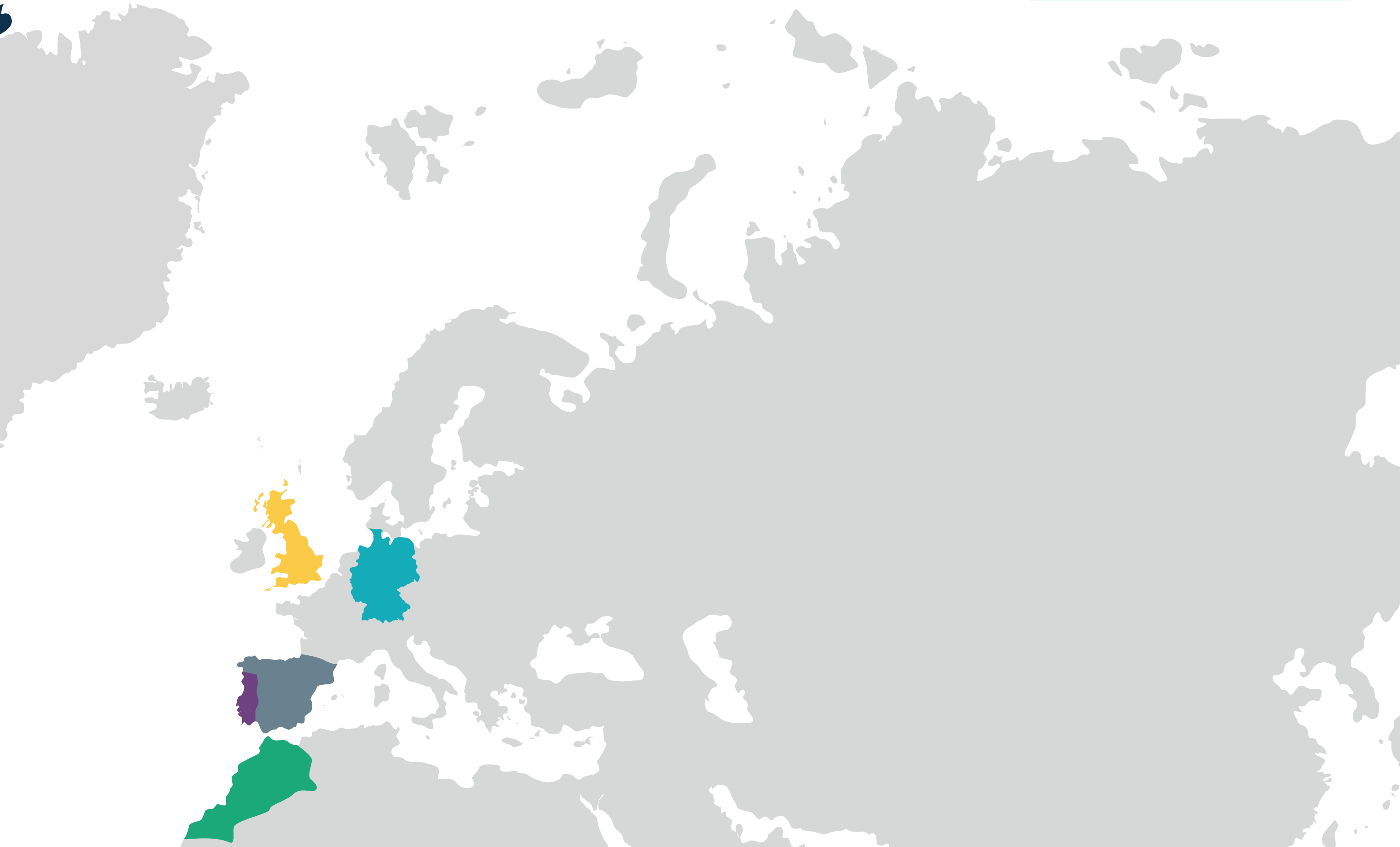
Keeping fares affordable is a key driver for promoting modal shift. In Morocco, the government is helping to keep fares low by: part funding investment in new fleet, where 50% is funded by central government (helping to keep fares lower for passengers as the bus operators bear lower up-front costs); 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.

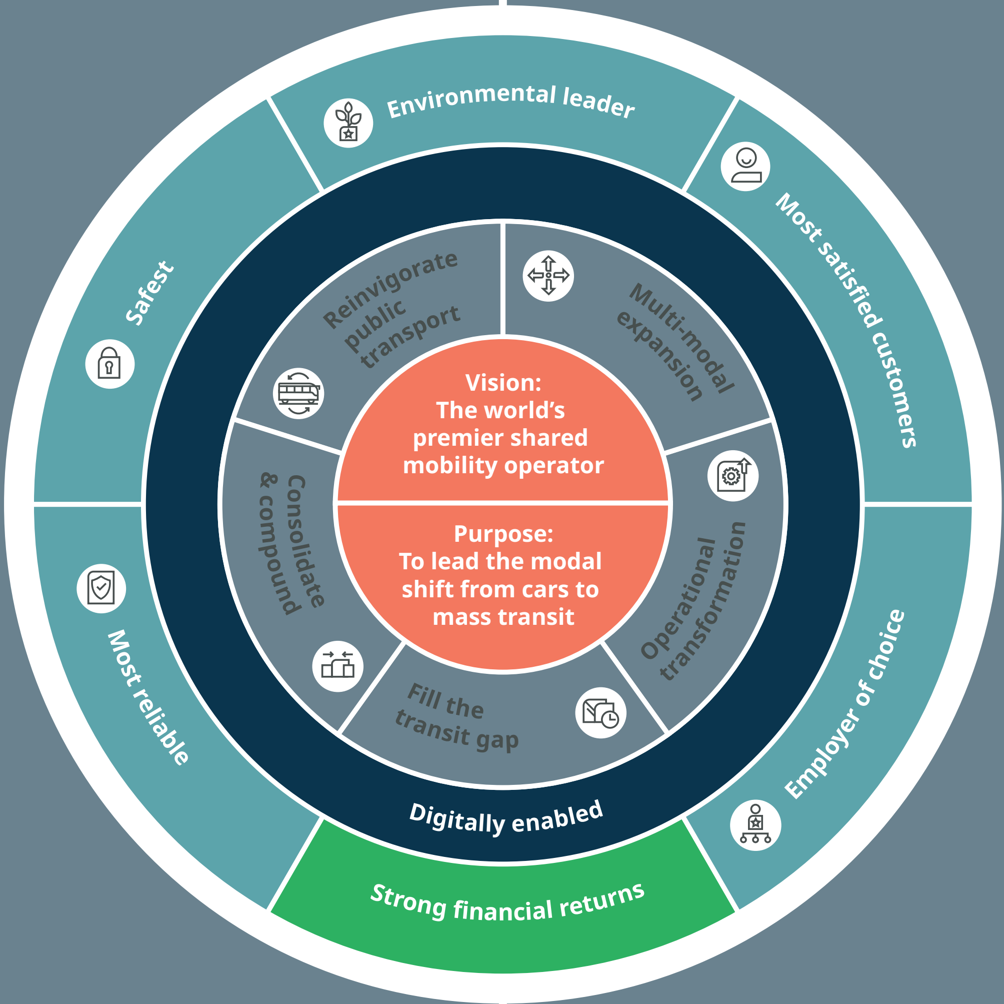
Our shuttle business fills the transit gap, with corporate and university campuses seeing restrictions in available parking spaces as local policymakers seek to reduce emissions and congestion on roads.

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.

Underpinned by our focused application of technology

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

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

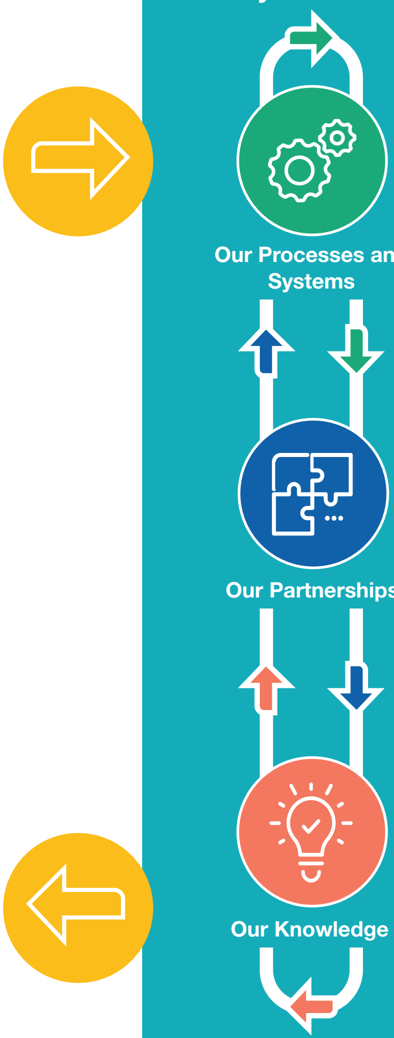
Our strong relationships with customers, suppliers and government bodies, combined with experienced colleagues, in-depth knowledge and considerable scale in terms of resources and geographical spread, enable us to drive sustainable long-term growth. We take a long-term view to the planning and utilisation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

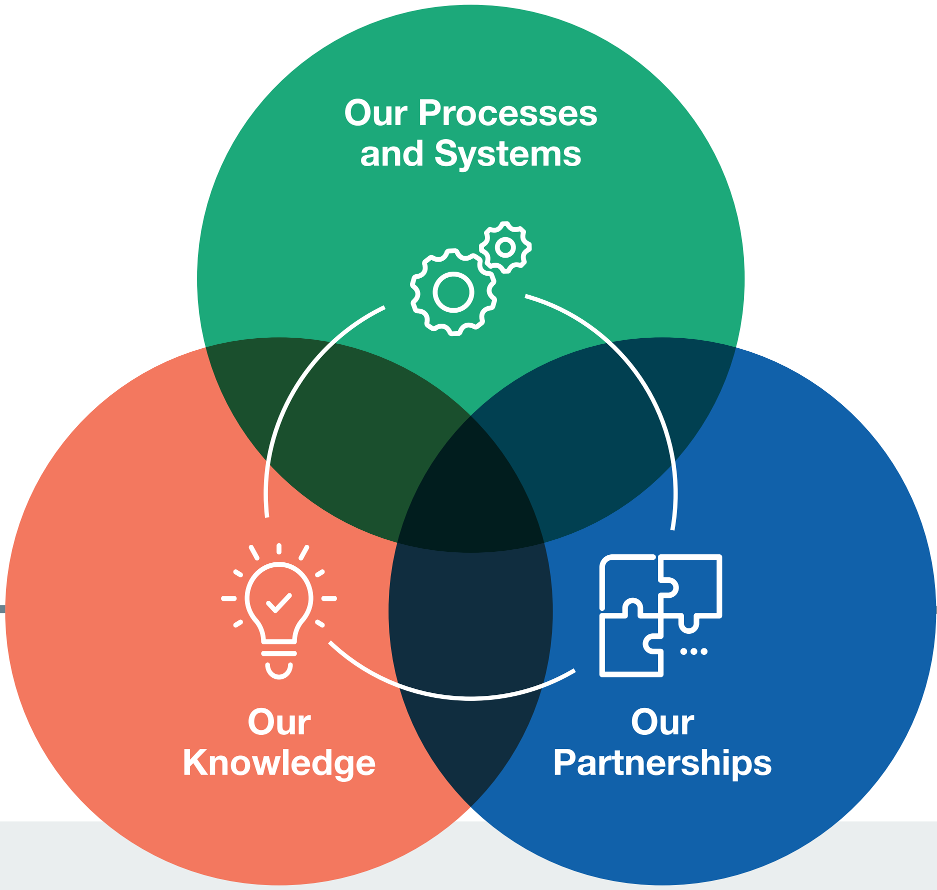
Our strength in network design and route scheduling supported by strong commercial capabilities in terms of marketing, pricing and revenue management are major competitive advantages, complemented by our leading brands.

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

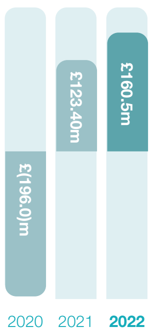
Underlying Operating Profit increased by £110.3m, despite a £95.7m reduction in Covid-related government support, reflecting a 29% increase in revenues combined with continued cost control.

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

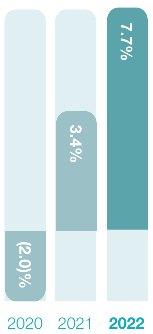
Free cash inflow of £160.5 million is 30% up year-on-year, principally reflecting a £118.1m increase in EBITDA part offset by a £42.4m increase in capital expenditure, which retuned to more normal levels after the impact of the pandemic-related freeze in the prior year. Free cash flow conversion of 81%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

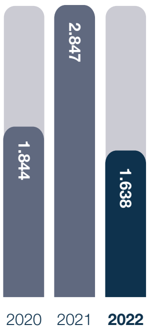
ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.

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

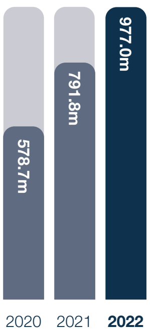
In 2022, the FWI score improved by 42% to 1.638, the best ever score recorded by the Group despite challenging traffic conditions. On a per million miles basis, the score of 0.003 represents a 50% improvement year on year and equals our best ever score in 2019, and a more than 90% improvement since we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

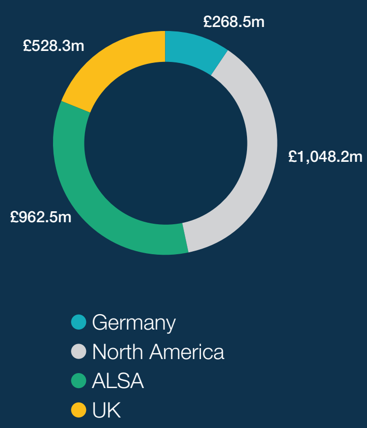
The Employee Net Promoter Score is a new input into the Executive Directors' and senior managers' annual bonus structure from 2023.

CEO's Review

Ignacio Garat

"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

Divisional Review

ALSA

Francisco Iglesias

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

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

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

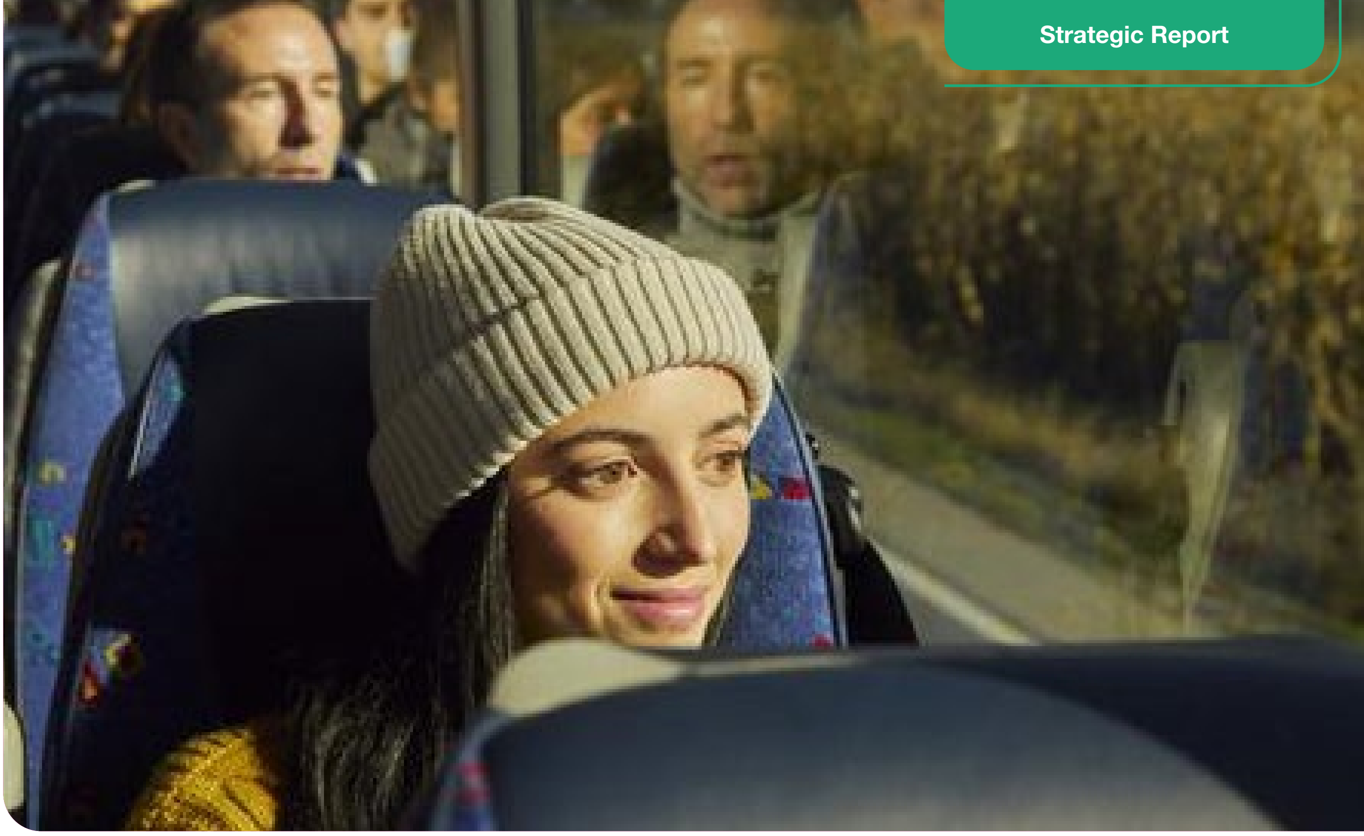
ALSA delivered very strong growth in both Revenue and Underlying Operating Profit, reflecting the improving trajectory in trading over the year and the further diversification of our multi-modal activities. Revenue exceeded €1bn for the first time, growing by 35.1% to €1,129.3m, with a strong uplift 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

Revenue (+8% against 2021)	Revenue (+20% against 2021)
$1,296.8m	**£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%**	

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.

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.

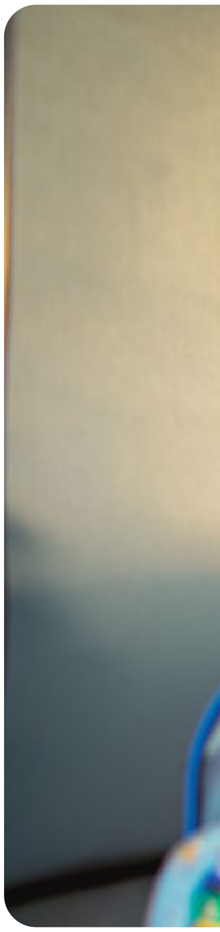
We have a strong pipeline of bidding opportunities over the next 18 months, worth circa $700m predominantly in the asset-light Transit & Shuttle businesses. In addition, we continue to see expansion bid opportunities in markets where we have existing Transit & Shuttle infrastructure, such as Los Angeles,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

Divisional Review

UK

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

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%

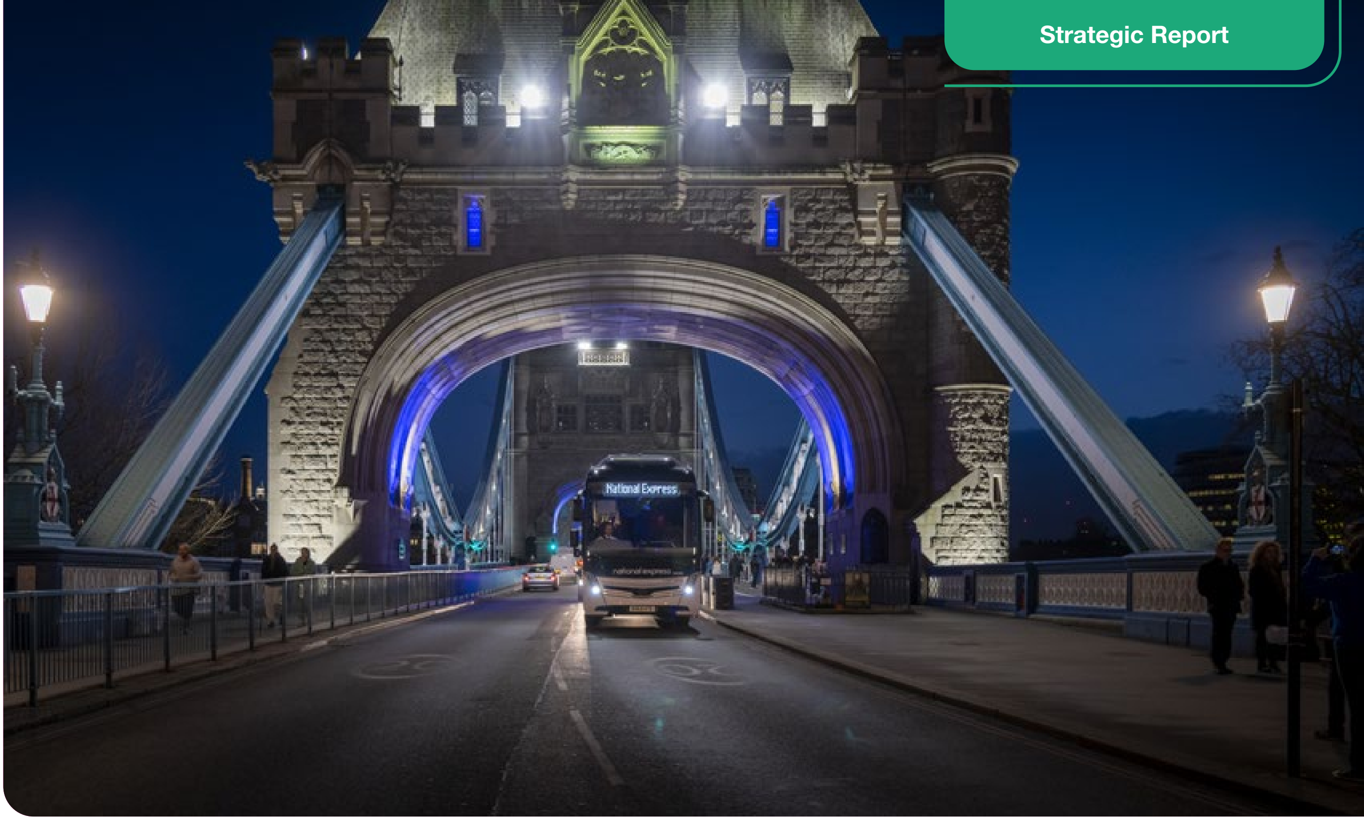
In UK Bus, National Express is the market leader in the West Midlands – the largest urban bus market outside London. In UK Coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services across the country. We also operate non-scheduled coach operations under 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.

UK continued

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.

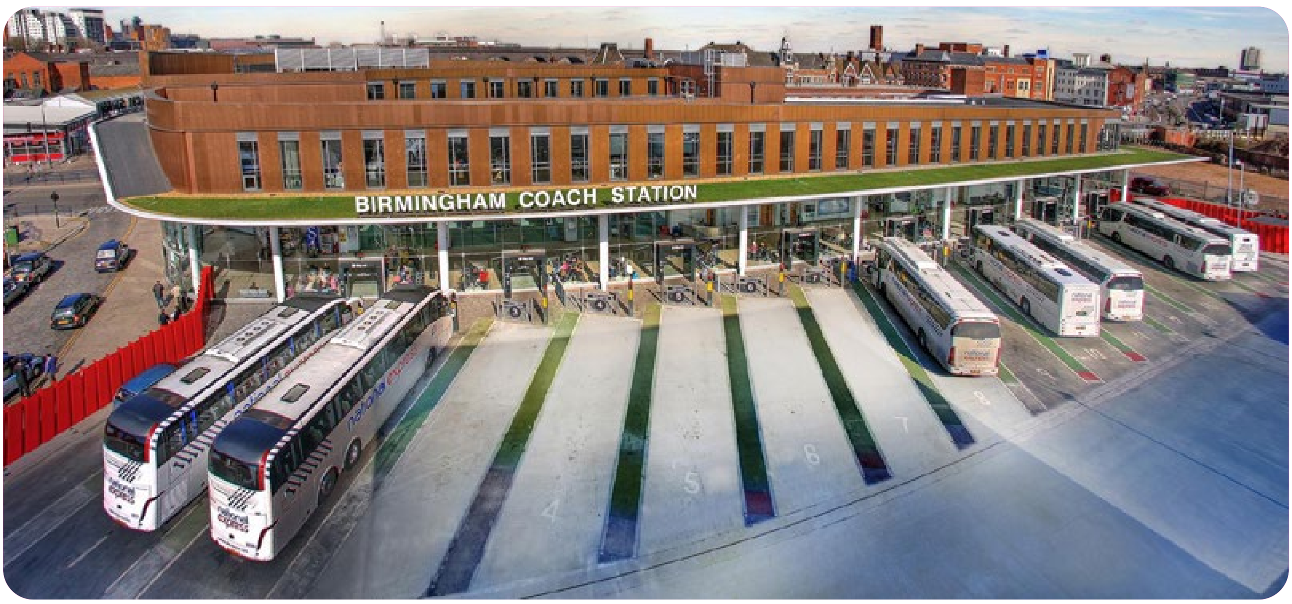
Looking forward

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

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

Divisional Review

Germany

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.

Divisional Review

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.

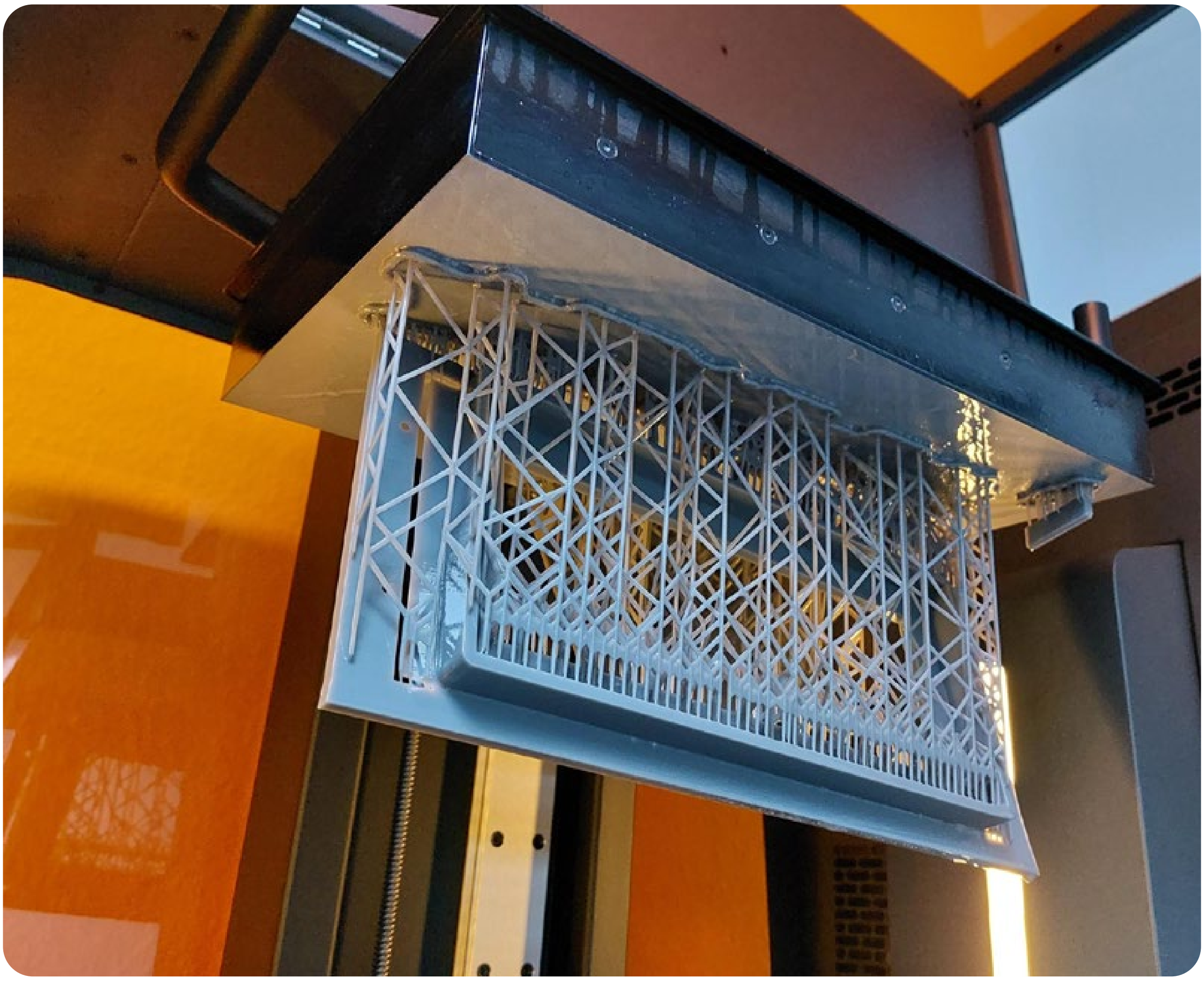
In addition, we expect to continue to benefit from backing from the German government to support modal shift. Following their very successful recent scheme allowing unlimited travel across the German rail network for a fare of €9 (in response to the rising cost of living and energy crisis) a successor 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

CFO's Review

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

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.

CFO's Review continued

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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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.

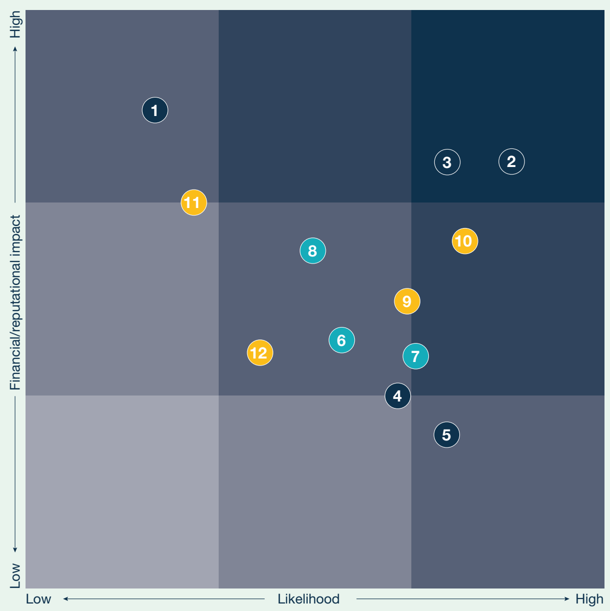
Risk Management Framework and Lines of Assurance

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
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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

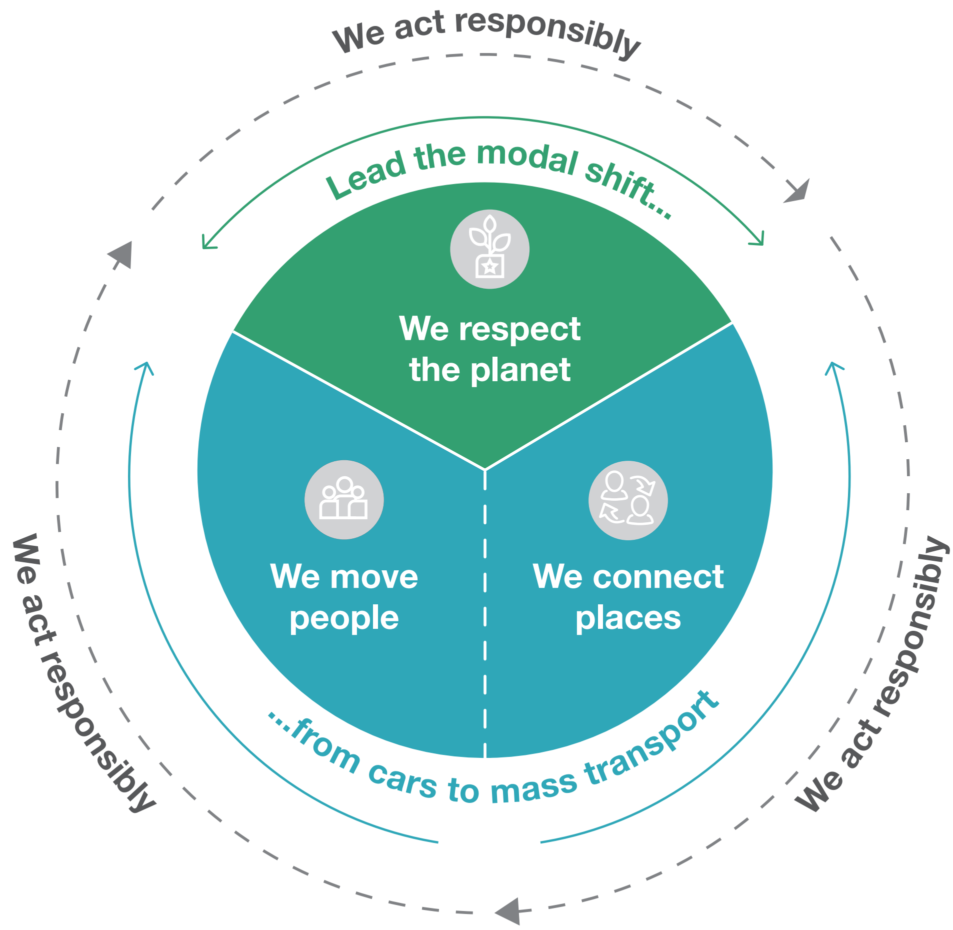
The Board of Directors has had regard to the stakeholders' interests as described on these pages, and the other matters set out in Section 172(1) (a) to (f) of the Companies Act 2006, when making decisions on behalf of the Company during the year under review. Examples of this are set out on pages 109 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
- **Safety** p.76

We connect places

- Connecting communities for the future p.77

We act responsibly

- **Employer of choice**
  - Diversity p.79
  - People strategy p.77
- Materiality p.84
- Responsible governance principles p.80
- Policies p.80
- T.C.F.D. p.81

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

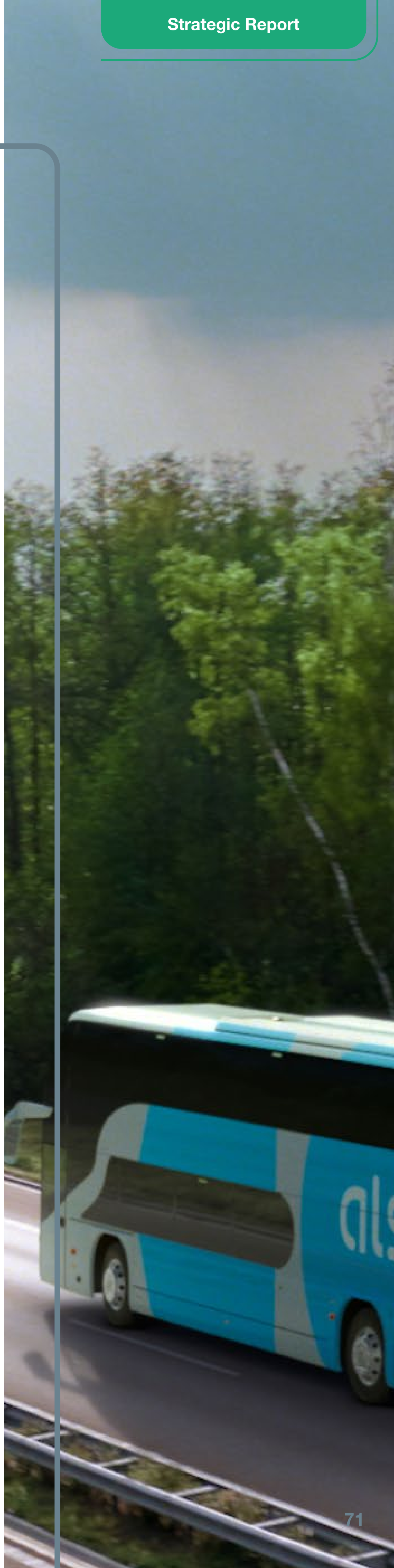
8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

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: 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*: 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

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	Energise	Elevate
• Inclusive Environment & Culture • Diverse workforce • Meaningful external impact & social change	• Values • Recruitment & EVP • Engagement • Wellbeing • Community	• 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.

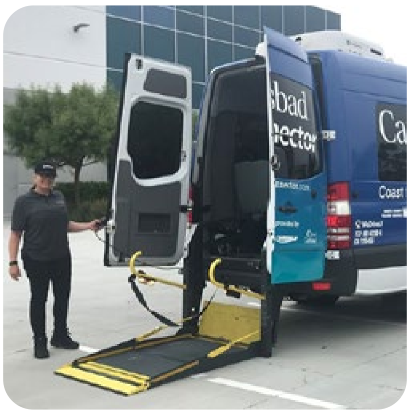
Action plans are monitored with regular updates provided to the Group Executive who oversee progress. Regular updates are also provided to the Board Sustainability Committee.

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.

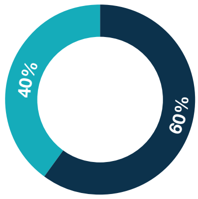
The initiative earned an external recognition in the form of a Diversity Badge.

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'.

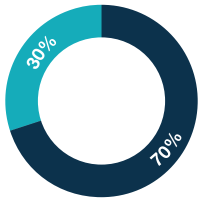
Diversity at National Express

Gender – Board



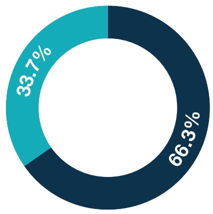
● Men
● Women
as at 31 December 2022

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

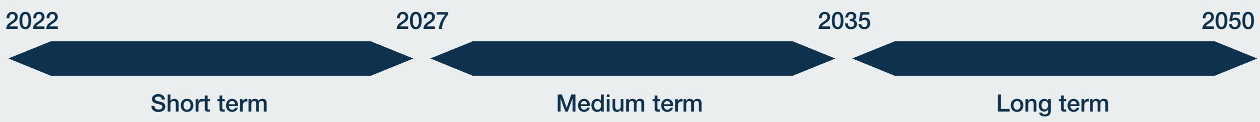
We apply a two-pronged approach to identifying and assessing climate-related risks. Firstly, they are considered as part of the Group's risk management system to identify, assess and report on all business risks (see pages 56 to 61 for more detail), which is presented to the Board annually. Secondly, 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.

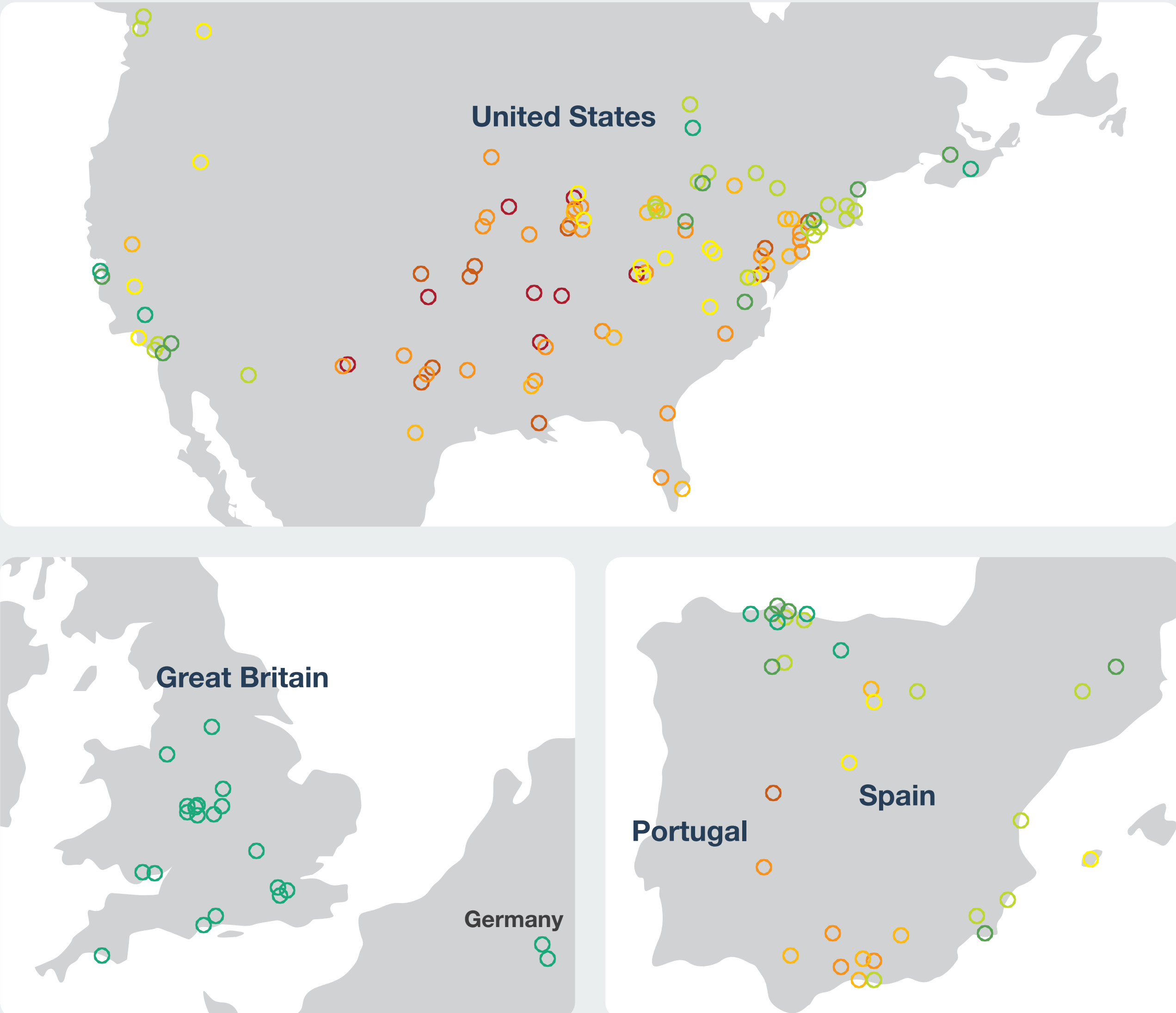
2. Extreme transition scenario, incorporating the Group's transition plans

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.