Our Purpose guides everything we do

Our Purpose is to lead the modal shift to mass transit by providing safe, reliable and great value services on clean and green vehicles.

Our Purpose shapes our strategy

Read more on pages 16 to 17 – strategic imperatives

And is underpinned by our enduring values which shape our culture

Read more on page 48

This ensures consistency of delivery for all our stakeholders

Read more on pages 44 to 45

And sets a high ambition for stewardship of the environment and the societies in which we operate

Read more on page 48

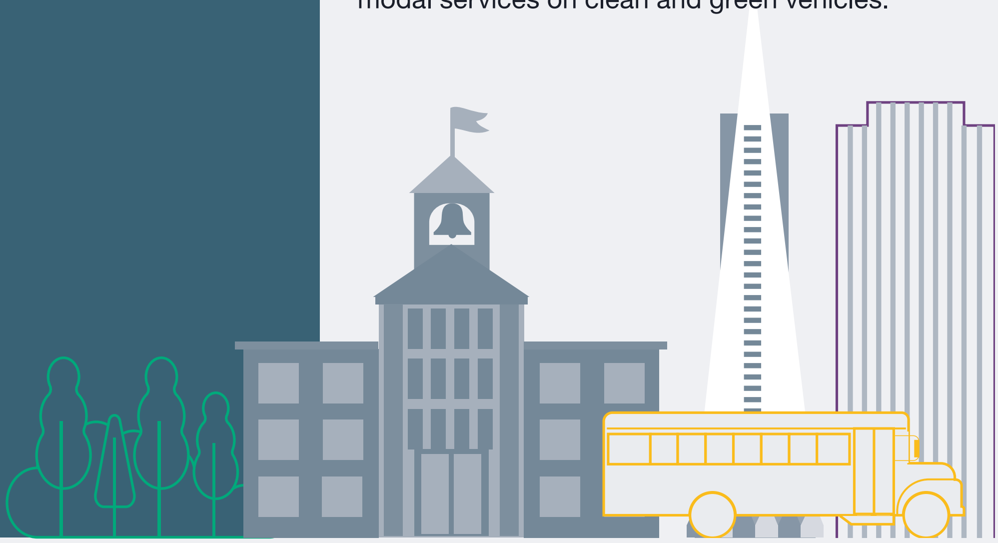
All of which is reflected in how we reward our management

Read more on pages 95 to 127

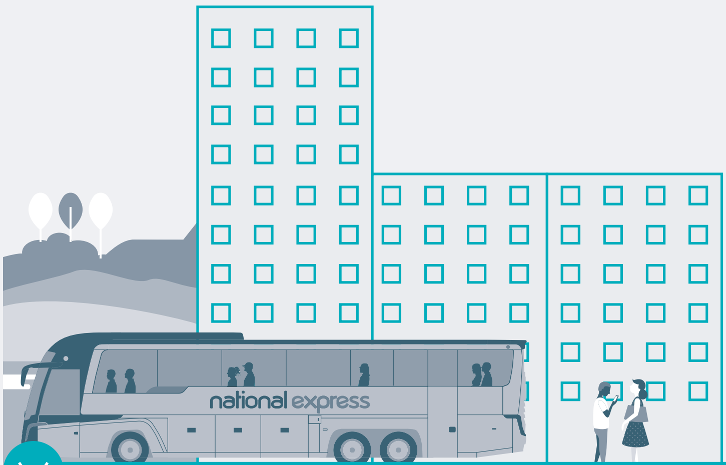
Our Vision is to be the world's premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value.

Our Belief is that driving modal shift from cars to high quality mass transit is fundamental to a clean, green and prosperous future.

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



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



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

The challenges which Covid-19 has presented in 2020 have not changed our ambition or approach. We will continue to champion modal shift, meeting the continued demand for safe and sustainable mass transit solutions.

Strategic Report

Corporate Governance

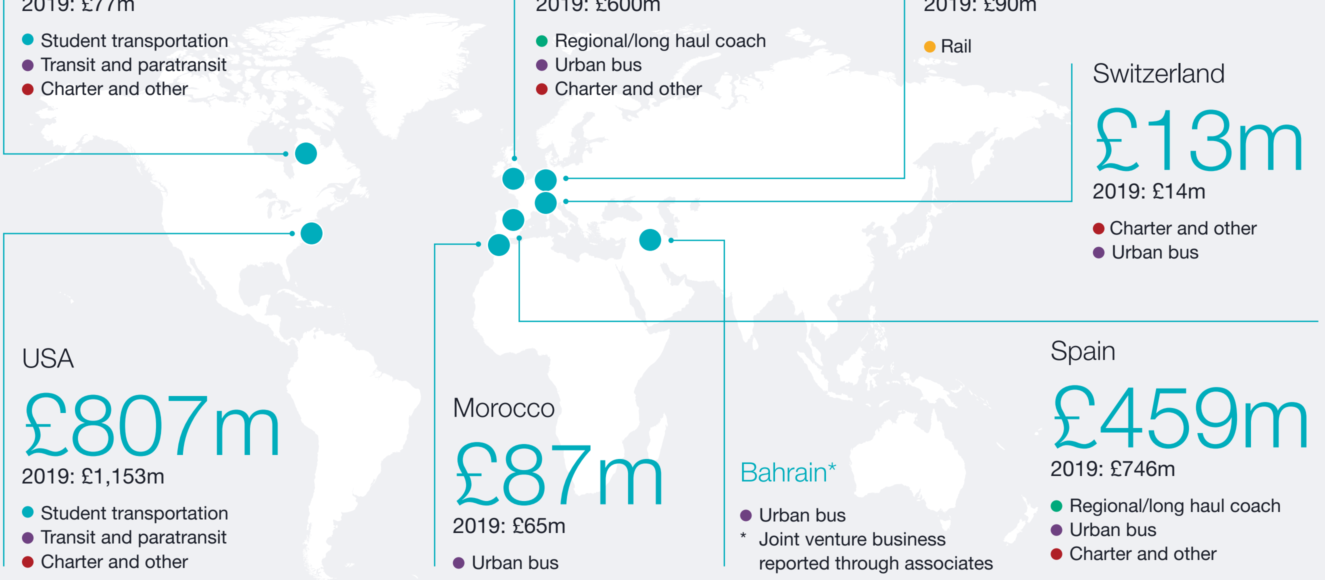
Financial Statements

Additional Information

National Express at a glance

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

Revenue breakdown by territory



Canada
£62m
2019: £77m
- Student transportation
- Transit and paratransit
- Charter and other

United Kingdom
£388m
2019: £600m
- Regional/long haul coach
- Urban bus
- Charter and other

Germany
£139m
2019: £90m
- Rail

Switzerland
£13m
2019: £14m
- Charter and other
- Urban bus

USA
£807m
2019: £1,153m
- Student transportation
- Transit and paratransit
- Charter and other

Morocco
£87m
2019: £65m
- Urban bus

Bahrain*
- Urban bus

* Joint venture business reported through associates

Spain
£459m
2019: £746m
- Regional/long haul coach
- Urban bus
- Charter and other

Summary financials

	2020 IFRS basis		Underlying basis	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Revenue	**1,955.9**	2,744.4	**1,955.9**	2,744.4
Operating (Loss)/Profit	**(381.4)**	242.3	**(50.8)**	295.3
(Loss)/Profit before tax	**(444.7)**	187.0	**(106.1)**	240.0
(Loss)/Profit for the year	**(326.7)**	148.3	**(76.8)**	184.8
Basic (Loss) / earnings per share (pence)	**(57.9)**	27.6	**(14.6)**	34.5
Net cash flow from operating activities	**(96.7)**	356.2		
EBITDA			**186.6**	510.1
Free cash flow			**(178.7)**	178.7
Net debt			**941.6**	1,224.0
Full year proposed dividend per share (pence)			**–**	5.16

To supplement IFRS reporting, we present our results on an underlying basis which shows the performance of the business before separately disclosed items, comprising amortisation of intangibles for acquired businesses and, for 2020, certain costs arising as a direct consequence of the pandemic. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further details relating to separately disclosed items are provided on page 167 in note 5 to the Financial Statements. All definitions of alternative performance measures used throughout the Annual Report are included on page 243.

What we do

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

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

Where we operate

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

Revenue breakdown by business line

Student transportation
(North America school bus)

£550m
28%[1]
2019: £804m

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

£754m
38%[1]
2019: £796m

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

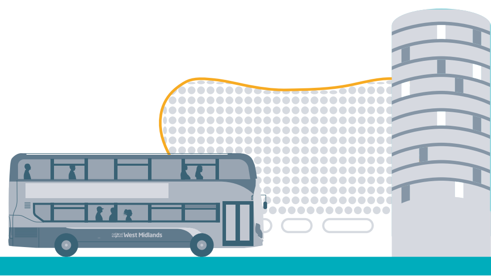
£365m
19%[1]
2019 £752m

Charter and other
(North America, ALSA and UK)

£148m
8%[1]
2019 £302m

Rail
(German Rail)

£139m
7%[1]
2019 £90m



[1] Percentage of Group revenue

An unprecedented year

Performing strongly before the crisis

Pre-pandemic performance was particularly strong with revenue up 17% year-on-year in January and February.

ALSA was performing very strongly with revenue up 23% in the first two months of the year driven by underlying growth of over 6% boosted by the new contracts in Rabat and Casablanca and acquisitions made in 2019. Our Spanish business was performing strongly across all segments but particularly in long haul where revenue was up 8%.

North America was performing strongly with revenue up 16% in the first two months of the year, largely driven by continued growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing revenue by over 20% in the first two months).

The UK was performing well, with revenue up over 5% in the first two months of the year. Broad-based underlying growth in both our bus and coach businesses was augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

See Chairman's statement on pages 6 to 7 and Operating review on pages 20 to 21

Doing the right things through the crisis

An unprecedented 80% drop in passenger demand following lockdown was mitigated by proactive customer engagement to limit revenue loss to 50% and swift action to significantly reduce service to save variable costs.

The safety and welfare of our customers and colleagues remained our priority with enhanced cleaning regimes and reconfigured vehicle layouts quickly established; personal protective equipment (PPE) promptly distributed and employee welfare programmes enhanced.

Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles; and medical transport.

Swift and decisive action was taken to protect the financial position of the Group with liquidity boosted by a £230 million share placing, £1.3 billion of new facilities and lending covenants renegotiated out to December 2021.

Decisive management action to cut costs across the Group: at peak, 40,000 employees were furloughed or temporarily laid off; over £100 million was cut from planned capital expenditure; over £300 million of operating costs removed from the business in Q2; and the Board and senior management accepted salary sacrifices.

See our response to Covid-19 on pages 10 to 11

Ready to emerge strongly from the crisis

We remain excited by the long-term opportunity. The global recovery must be powered by a more efficient economy that is cleaner and greener. High quality mass transit will be a necessity, and the financial strains caused by the pandemic will create opportunities for operators that are able to adapt and survive.

Public transport has always played a key role in social mobility and in these unprecedented times it is ever more important in enabling economic recovery by providing safe access to work, education, retail and leisure. Where restrictions have been removed, we have seen a rapid recovery in demand.

We are confident that our strong reputation for service and safety, close relationships with customers and improved Balance Sheet mean we will be well placed to prosper post pandemic. During this period we have won or retained nearly £900 million of total contracted revenue, including our first contracts in Portugal, as well as completing the mobilisation of our new German Rail franchise.

See our Outlook statement on page 21 and market overview on pages 12 to 13

Rebounding from the pandemic

Work and commuting patterns

- Most urban bus commuters are unable to work from home
- We believe that long term, the campus model remains key to recruitment and productivity

Use of the high street

- The rise of online shopping was already driving change to the high street
- As mobility demand patterns continue to change we will flex our networks accordingly, matching services to where people want to travel to

Discretionary travel recovery

- When we have seen restrictions lift demand has quickly returned
- Vaccine roll-out programmes will help build consumer confidence – evidence of strong pent-up demand through advance holiday bookings, up nearly three times normal levels in the first two months of the year

Urbanisation and demographics Change

- People will continue to want to live and work in cities where the greatest job and career opportunities lie

Education-related travel

- Covid-19 has highlighted the issues with remote learning, particularly for children from disadvantaged backgrounds: we don't expect any long-term change to how children are schooled

See our risks on pages 36 to 41

Government support for public transport

- Covid-19 does not change the fundamental need to provide public transport to enable social mobility and local economies to thrive
- Public transport is a key solution in tackling cleaner air and congestion issues

Trusted through testing times

Sir John Armitt CBE
Chairman

> "2020 has been an unprecedented year for both society and businesses everywhere around the world."

Dear fellow shareholder

Testing times

2020 has, without a doubt, been an unprecedented year for both society in general and businesses everywhere around the world. The impact of Covid-19 has been particularly hard for transport companies, with national and local lockdowns in every market necessitating significant travel restrictions – and even when lockdowns were lifted, the guidance from many governments was for people not to travel and to stay at home wherever possible.

During this period we have really seen the essential nature of public transportation to local communities and economies, providing vital services for transporting, for example, key workers to hospitals and shops and children to schools.

Notwithstanding this, the rapid and significant fall in demand for transportation services meant that, at the peak, 40,000 of our colleagues were either furloughed or temporarily laid off. I am proud of all the work that has been done to constantly engage with our employees across each of our businesses throughout this crisis: from weekly management updates and Q&A sessions through to enhanced wellbeing programmes, our colleagues have remained both informed and considered.

As a company we have not been immune to the ravages of Covid-19, and very sadly we have lost 32 valued colleagues – our thoughts go out to their families and friends.

2020 also saw the end of the Brexit transition period and the UK leave the EU. As I have said previously, we do not expect to suffer any direct consequences as we do not run any scheduled cross-Channel services and we have worked closely with our key suppliers to ensure that there is no disruption to our supply chains.

Leadership transition

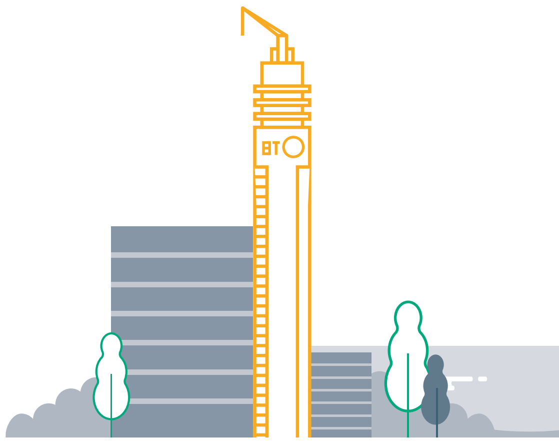
2020 has also been a time of significant change for National Express, specifically in terms of leadership.

In June, Dean Finch announced his resignation as Group CEO, a position he had held for over 10 years. I would like to thank Dean for his enormous contribution to National Express, through which he has transformed the business into a leading international transport group, with significant growth potential in all our main markets and a strong and effective management team at all levels.

I would also like to thank Chris Davies, our Group CFO, who took the reins and provided a steady hand as interim Group CEO, while the Board concluded the search for a new CEO.

And on behalf of the whole Board, I would like to welcome Ignacio Garat who joined the Group as Group CEO on 1 November, bringing with him extensive international operational and strategic experience. Despite the challenges with the pandemic, Ignacio has made a strong start, visiting all of our businesses and engaging widely across all levels, and we look forward to working with him over the coming months and years.

In addition to Dean's departure, Matt Ashley left the company on 3 April and both Lee Sander and Chris Muntwyler left the Board on 30 December. I would like to thank Matt for his contribution and Lee and Chris for their wise counsel to the Board over their tenures. I am delighted that Chris will remain as an adviser to the Board on safety and environmental matters.



> We came into this crisis in great shape, we have acted decisively through this crisis and we are well positioned to emerge strongly."

Trusted

Last year I wrote to you about how in, launching our renewed Vision and Purpose, National Express was not only looking to demonstrate leadership but also to ensure that our ambitions and focus reflect the priorities and earn the trust of all our stakeholders. This partnership approach has helped guide us through the crisis:

- Passengers have trusted us to keep them mobile in a safe and secure way – and throughout this crisis we have operated at pre-crisis levels of service across our bus networks in the UK, Spain and Morocco
- Customers, be they school boards, passenger transport authorities or corporates, have trusted us to respond flexibly and swiftly to changing circumstances and demand for services
- Colleagues have trusted us to prioritise their safety and wellbeing
- Debt and equity investors have provided us with new funding, trusting us to navigate through the crisis and repay them with superior returns as we emerge strongly

2020 performance

Not surprisingly, our financial performance has been severely impacted by the pandemic. It's important to remember that before travel restrictions came into force, we were performing very strongly, with revenue up 17% across the Group in the first two months of the year.

The pandemic had an immediate and unprecedented impact on our businesses, with the first lockdowns in the second quarter last year resulting in an 80% reduction in demand for our services which we were able to mitigate to a 50% reduction in revenue, through the strength of our customer relationships across the Group. Notwithstanding the multitude of actions taken, we could not mitigate this level of reduced demand and we have delivered our first operating loss in 11 years.

As a result of all the actions taken, we have experienced a steady improvement over the second half of the year, despite further sporadic restrictions being imposed, and as a result delivered EBITDA towards the top end of our guidance.

The financial position of the Group remains strong and, boosted by the share placing and hybrid issuance, we have ended the year with around £280 million less net debt than we had at the start of the year.

Government support

Governments around the world have recognised the essential nature of public transport and we are grateful for the support that we have received from governments in the markets in which we operate. In the UK, we have utilised the furlough scheme whenever mobility has been restricted by government policy. We have also received funds through the COVID-19 Bus Services Support Grant where we have been asked to operate services but with limited occupancy to comply with social distancing requirements. In Spain, we have utilised the ERTE (furlough) scheme to flex services up and down to the appropriate level, in line with government requests. And in North America, funding provided through the CARES Act has enabled customers to make partial payments to their school bus service providers while enhanced unemployment benefits have helped those of our staff where we were forced to shut down services.

Dividend

In light of the exceptional circumstances and performance in the past year, the Group will not be paying a dividend in respect of 2020. The Board understands how important dividends are to many of our shareholders and we are committed to reinstating dividend payments when performance recovers.

The year ahead

2021 will be a year of transition and we expect performance to rebuild as we progress through the year. The rolling out of vaccination programmes across the world gives us confidence that we will see normality return, although the exact timing of that remains impossible to forecast. When that time comes, I believe that we are well placed to recover relatively quickly given both the high proportion of non-discretionary journeys taken on our services and the level of pent-up demand for travel.

The environmental commitments we made last year look even more important as governments around the world are looking to hold on to the clean air gains that have been made through the crisis. We have made good progress in the UK this year, rolling out the first of our new zero emission buses. We will build on this in 2021 with Coventry becoming the first of two electric bus cities in the UK and with new hydrogen-powered buses being launched in Birmingham.

Finally, I would like to thank my fellow Directors and all our employees at National Express. It has been a truly tough year and we have had to make many difficult decisions, but I am very proud of how our teams have worked together to get through this unprecedented year.

I remain confident about the future. We came into this crisis in great shape, we have acted decisively through this crisis and we are well positioned to emerge strongly from it.

Sir John Armitt CBE
Chairman
18 March 2021

Introducing Ignacio Garat, Group Chief Executive

Ignacio Garat joined as Group Chief Executive Officer on 1 November 2020 from Federal Express where he led the transformation of a multi-billion-dollar part of their business with operations in 22 countries and 22,000 staff, positioning it for strong international growth. Ignacio has demonstrated strong operational, M&A and strategic leadership, with a particular emphasis on safety and using technology to drive service excellence and efficiency.

Q What attracted you to National Express?

A I have a simple belief – that public transport can transform lives. It is an absolutely critical service if we are to tackle the challenges of reducing pollution and enhancing social mobility. National Express is well placed to lead this charge, and I was impressed by the focus on safety, excellence, and customer service. I was also attracted by the well diversified international portfolio of businesses with market-leading positions. They are well balanced across B2B and B2C, with a high degree of revenue protection and a number of exciting growth opportunities.

Q What will you bring to the Group CEO role?

A Despite being new to public transport, there are many parallels I can draw from my time at Federal Express, with many of the operational challenges very familiar and requiring the same level of rigour and process optimisation. So, I will be looking to extend the operational excellence that National Express is already well known for, and to further leverage technology by accelerating the digital transformation. I also favour a disciplined approach to capital allocation to maximise returns and reduce asset intensity. Finally, and most importantly for me, is the power that comes from engaging the workforce directly with our vision and purpose, so they genuinely feel ownership for our strategy.

Q How have you approached your first few months in the business?

A Having joined during a global pandemic, my priority was to ensure that we continued to protect the safety and welfare of both our customers and employees. Early engagement with colleagues has also been key, and I have conducted nearly 200 one-to-one meetings with management and connected directly with over 2,000 employees at all levels in each of our businesses. This has given me great insights and I have been continually impressed by the passion and dedication of my new colleagues. I have also spoken with our largest shareholders, and several key customers and government officials, all of whom have provided valuable perspective on their priorities and expectations. To ensure that we rebound quickly, the senior leadership team has identified additional divisional 'big deltas', all of which will drive performance improvement in 2021.

Q What are your first impressions of National Express?

A Your first impression is always of people, and at National Express their passion and commitment really stands out, highlighted by the way they have pulled together through such challenging times. Even in these first few months I have been struck by the depth and strength of the relationships we have across multiple stakeholder groups in the communities we serve. It is clear that they have been instrumental in helping us navigate the pandemic. There is an unrelenting focus on customer satisfaction and industry-leading safety credentials, and it is inspiring to be leading a company which is so focused on continually improving delivery to our customers and other stakeholders.

Q Will you be undertaking a strategic review?

A My initial approach is more about accelerating what is working well and deprioritising what is not. The strategy in place and the performance it has delivered in recent years means a full strategic review (in the form of a complete transformation) is not a priority. However, I have initiated a business review (specifically including a review of digital strategy) which will enable us to be crisper, on where to grow and how to do so profitably, the level of operational efficiencies we can extract from the business, and which investments will yield the greatest returns.

Q Do you think Covid-19 will fundamentally impact the business in the longer term?

A No, as the core of our business is non-discretionary. School transportation and urban buses are essential for social mobility. Children need to get to school, and free bus provision is enshrined in law in North America. In our urban bus businesses in the UK, Spain, and Morocco, most of our passengers cannot work from home and need us to get them to work. Our paratransit operations in North America and new accessible transport business in the UK provide crucial services to vulnerable members of society. There is also latent demand for our more discretionary coach businesses in the UK and Spain, and volumes have returned rapidly whenever restrictions are lifted, with people traveling to see family and friends and get away on holidays.
We are well placed to scale up our services to meet that demand, and it is worth remembering that coach travel is the lowest emission way to meet those needs.

Q What are your priorities in your first year?

A My first priority, together with my leadership team, is to restore the performance of this business to pre-pandemic levels and to lock in the plans that will return this business to sustainably growing revenue and profit.
We are working hard now with a collective sense of urgency to ensure this business is in the best possible position to compete to win as soon as restrictions are lifted. The senior management team are focused on a small number of 'big deltas' that are critical to restoring performance in 2021 and we will be executing rigorously on those.
For example, in North America, we have initiated the 'Driving Excellence' programme to optimise operating processes in every depot – this will both boost revenue and release cost from the business. In ALSA, we have initiated a transformational plan to reduce central costs and the mobilisation of Rabat and Casablanca are key drivers of revenue growth. In the UK the priority is to dynamically bring the Coach network back up in the most efficient way possible. Finally, as I noted above, we will complete a business review to define the next evolution of this business by ensuring that we are maximising the return on our investment, optimising the choices of where we compete; what we offer; and how we operate.

Q How do you think about ESG?

A As I said earlier, I have a simple belief that public transport can transform lives, and it is clear that the team here is passionate about making a difference. Our purpose is to drive a modal shift away from single occupancy vehicles to high quality public transport. If we are going to hold on to the clean air gains made during the lockdown periods, we cannot revert to these single occupancy vehicles. I was particularly impressed that the company pioneered linking executive pay to emissions reduction, underlining its commitment in this area. There are some exciting developments underway for zero emission vehicles in which National Express is a key partner. But it is not just about the environment. Safety is at the heart of everything we do, we are a pioneer real Living Wage employer, and have ambitious plans for people and talent development. I feel very passionately about this entire agenda and you will be hearing more about the great things happening here in due course.

Q How would you describe your leadership style?

A My approach is always to be open and honest, and to bring the right people together to collaborate, harnessing the talents and experience across the whole business. We are one Group, and it is important to tap into our collective knowledge, and that is best achieved by having a compelling vision, a competitive strategy, and a culture of relentless execution that engages the entire organisation. As Group CEO, it is my job to lead and role-model the culture we want for this business. I like to get people aligned behind a single, unifying performance goal and plan so that everyone is clear what we are aiming for and how they can play their part. It is also incredibly important to me that people have fun and 'enjoy the journey'. I look for people who are excited about leaving a legacy and have found it in many of my colleagues I have met so far.

Q So corporate culture is an important area of focus for you?

A For a people focused organisation such as ours, it is absolutely vital. It is our values in action and without it we couldn't possibly hope to execute efficiently on our strategic plan.
It requires our leaders to be strong and consistent, leading from the front and showing pride in the organisation. It is also about humility, working with an owner's mindset and treating the company as if it was your own.
A successful culture to me is one that is meritocratic and adaptable, with a collective sense of responsibility and ownership of the plan. For an organisation such as ours it requires an international mindset, one that is always looking to take the best ideas from around the network and applying them locally. Finally, it should encourage long-term thinking, I am always looking 5-7 years forward, and believe in a rolling 1,000-day plan to instil the required amount of urgency to keep us on track.

Q Why are you so optimistic about the future?

A This is a great business that was performing strongly ahead of the pandemic. We have acted swiftly and decisively and as a result are well positioned to emerge strongly as the impact recedes. None of the macro trends in favour of public transport have been changed by Covid-19, and there are three fundamental reasons for this optimism.

Firstly, well run, quality public transport can change lives. We enable people to travel to work, school, and leisure activities by providing safe, reliable, and great value services in a way that helps them reduce their carbon footprint.
Secondly, governments are looking for ways to retain the gains made in air quality in 2020. This will continue to drive policy commitments around clean air and public transportation funding.
Thirdly, we continue to see opportunities for further diversification, either filling the spaces in our current markets with services we offer elsewhere, or expanding into new, proximate markets such as Portugal and France.

It is encouraging to see that when restrictions are lifted, demand for our services quickly returns and I am confident of a full recovery, with many of the actions we have taken in the past year resulting in a more efficient business. Finally, it is clear to me after these first few months that I have a great team to lead us forward at all levels of the organisation.

Decisive action in challenging circumstances

We remain confident that demand will return to pre-pandemic levels. Until it does, we will continue to take action to ensure a strong liquidity position, manage costs and work closely with customers to protect the business and build back stronger.

See more on:

Principal risks pages 38 to 41

Viability and going concern page 42

How the Board engages with stakeholders pages 44 to 45

Ensure the safety and welfare of staff and customers

Our ambition is to be the safest mass transit operator in the communities we serve.

The safety and welfare of our customers and colleagues remained our priority:

- Enhanced cleaning and disinfecting regimes were quickly established
- Vehicle layouts were reconfigured to enable social distancing
- PPE was promptly sourced and distributed, ahead of public health guidance
- Staffing patterns were changed to protect the most vulnerable
- Colleagues were encouraged to work from home where possible
- Technology and processes to enable flexible working were rapidly deployed and engagement with remote colleagues increased
- The employee welfare programme was enhanced, including for furloughed colleagues
- Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles and medical transport

Ensure the Group has sufficient liquidity

We have a strong Balance Sheet and we are committed to protecting our investment grade ratings.

During the year, liquidity was boosted with over £1.5 billion of new facilities including:

- Commitment from the Bank of England to purchase commercial paper up to £600 million from the UK Coronavirus Corporate Finance Facility (CCFF), none of which was utilised at 31 December 2020
- A highly over-subscribed 19.99% share placing raising £230 million in equity capital
- A highly over-subscribed £500 million hybrid capital facility securing the lowest ever coupon for a debut issuance

Covenants have been renegotiated out to 31 December 2021:

- Gearing covenant waived by lenders throughout 2020 and 2021 and will next apply in June 2022
- Interest cover covenant amended to 1.5x for and 2.5x for June 2021and December 2021 test periods respectively

The Group has a total of £1.9 billion in cash, committed facilities and £0.6 billion of undrawn CCFF at 31 December 2020. Given the Group's

January

20 January
- First case confirmed in the USA

29 January
- First case confirmed in the UK

31 January
- First case confirmed in Spain

February

- **National Express Group reports record 2019 results**

March

11 March
- WHO declares a pandemic

13 March
- USA declares a national emergency and states start to close schools

14 March
- Spain declares lockdown and approves ERTE (furlough) scheme

16 March
- Restrictions on public gatherings introduced in the USA
- UK Government urges people to work from home and avoid unnecessary travel

20 March
- UK Job Retention Scheme announced

23 March
- UK declares three-week lockdown

27 March
- US introduce $2 trillion CARES Act stimulus bill

30 March
- Majority of US states issues 'stay at home' directives

April

3 April
- UK regional bus funding package announced

- **£600m CCFF approved**
- **£200m additional bank funding secured**
- **Moody's and Fitch maintain ratings at Baa2/BBB**
- **Covenant waivers agreed**
- **£414m US private placement drawn down**

May

- **Share placing raises £230m**

June

9 June
- USA states start to roll back lockdowns

21 June
- Spain ends the state of alarm

- **National Express announces Dean Finch to stand down**

strong liquidity position the Directors intend to allow the CCFF to lapse at the end of March 2021.

Rapidly adjust the cost base

We took swift and decisive action to limit the flow-through of revenue decline:

- At the peak, 40,000 employees across the Group were either furloughed or temporarily laid off where such schemes did not exist
- Over £100 million cut from planned capital purchases
- Over £300 million of operating costs were removed from the business in Q2
- Around £100 million in structural costs were taken out of the business
- The Board, the executive management and the senior management team all accepted salary sacrifices
- 2020 bonus and Long-Term Incentive Plan (LTIP) schemes were cancelled
- Dividend was suspended for 2020

Secure customer and government support

The response to the pandemic has reaffirmed the essential nature of the services we provide to local communities and the strength of our customer relationships, enabling the Group to partially mitigate the impact of severe travel restrictions on revenue.

At the peak of national lockdowns in Q2, passenger numbers were down by 80% but revenue decline was limited to 50% through a number of factors that continued throughout the year including:

- Bilateral agreements reached with North American school boards for continued payments during closure, with 61% of pre-Covid revenue received in Q2
- Bilateral agreements with North America transit and shuttle customers to continue to pay despite service suspension
- In Spanish urban bus, contracted terms were renegotiated to be based on services run rather than passengers carried where they were not already configured that way
- In UK bus, the COVID-19 Bus Services Support Grant enabled the service to continue to run at breakeven despite social distancing measures limiting occupancy

Build agility to respond to changing circumstances

We have constantly re-assessed our response as government's response to the pandemic has changed over the months:

- The UK coach network was fully mothballed during Q2 during which time we continued to support our third party operators through Covid-19 support grants
- Both the UK and Spanish coach networks were rapidly scaled up and back down in response to changing patterns of local lockdowns
- The UK coach network was dynamically scaled up to bring students home for Christmas
- National Express Transport Solutions coaches were repurposed to provide extra capacity in the West Midlands as customer demand for buses during social distancing drove network requirements beyond 100% of pre-Covid maximums
- 75% of all schools operating in Q4 required new, dynamic network routing to cater for temporary hybrid schooling models

Set exit trajectory to emerge stronger

We are confident that our reputation for service and safety, close relationships with customers and improved Balance Sheet mean we are well placed to prosper post pandemic.

During the period we have secured nearly £900 million of contracted revenue:

- We retained our CalPita regional concession for at least a further 10 years
- We had significant school bus wins in Boise, Idaho; Fairbanks, Alaska; and Oakland, California
- We won a school bus contract where a small operator went into liquidation and where a competitor fell out with the customer in dealing with Covid-19
- We have also seen an increase in school boards contacting us to explore the potential outsourcing of their in-house services
- We won a capital-light paratransit contract for up to five years in North Carolina
- We won two seven-year urban bus contracts in Portugal, a new market

July

17 July
- UK Government removes advice to avoid public transport

- **Further covenant waiver/amendments agreed**

August

- **Dean Finch leaves, Chris Davies appointed interim Group CEO**

September

14 September
- New social distancing policies enacted in the UK (including the 'rule of six')

22 September
- UK Government reinstates guidance to work from home

30 September
- Spanish ERTE scheme extended until 31 January 2021

October

14 October
- Tiered local lockdowns enforced in the UK

25 October
- State of alarm re-imposed across Spain

November

5 November
- Second lockdown introduced in the UK
- UK furlough scheme extended to 31 March 2021

- **£500m hybrid capital issuance**
- **Ignacio Garat appointed Group CEO**

December

2 December
- End of second lockdown and introduction of local tiers limiting mobility

8 December
- Margaret Keenan becomes the first person in the world to receive a clinically approved vaccine

19 December
- Majority of people in England under tier 4 travel restrictions

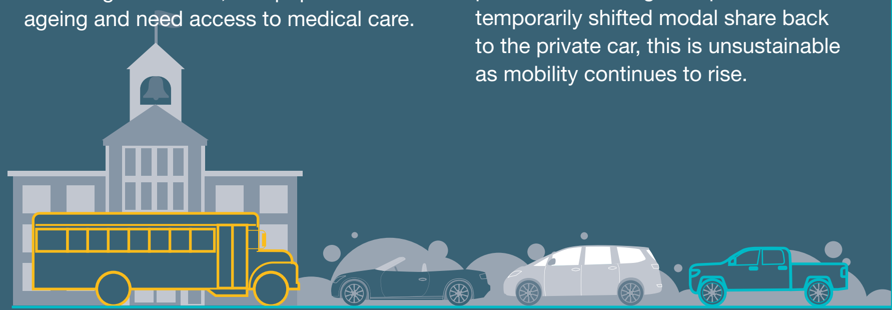
Our Belief: quality mass transit is fundamental to a safe, green and prosperous future

The key challenges remain unchanged

Urban areas face the same long-term challenges from congestion, carbon emissions and the imperative for clear air as they did prior to the pandemic.

Infrastructure constraints remain, populations continue to grow, children need to go to school, and populations are ageing and need access to medical care.

Cars emitted over 70% of surface transport emissions in the EU prior to the pandemic. Although the pandemic has temporarily shifted modal share back to the private car, this is unsustainable as mobility continues to rise.



72bn
more passenger km in the UK

20yrs
worth of car and van traffic growth

If the modal shift seen through the pandemic were to persist when volumes return to normal, this would result in 72 billion more passenger km in the UK alone. This would set us back two decades.

More than ever, integrated, accessible, safe, reliable transport networks are vital for prosperity.

What have we learned through the pandemic?

The services we provide are essential. During the pandemic, we have continued to operate in order to provide vital services, backed by our loyal customers, and both local and national governments.

We have not changed our long-term view on the demand for transport

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

Accelerating change

Our products and services will continue to adapt to meet the changes that the pandemic has brought into focus:

More flexible working, but generally for the wealthy. Essential workers need to travel to work. People who work from home part time will welcome flexible, convenient transport solutions.

Digitalisation: move to cashless transaction and frictionless journeys.

25%
increase in demand for transport

70%
of surface transport emissions emitted by cars prior to Covid-19

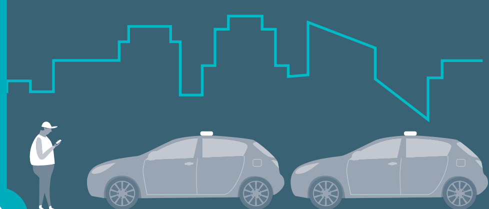
Desire for clean air and liveable spaces: people want to live in greener towns and cities

We can see from the data that as lockdowns ease, demand returns. We provide an essential service.

Technology is helping deliver better ways to serve the customer

Public transport is the solution

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



National Express will continue to be the trusted partner for cities and school boards that share our vision of a prosperous, clean, green future.

We will continue to provide environmental leadership, and to invest for a cleaner, greener, safer tomorrow.

Differentiated sources of value…

Our Purpose and Vision

At National Express we share a fundamental belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future. There is growing recognition by policy makers around the world that public transport is critical in achieving climate targets and in making cities better places to live. Public transport has always played a key role in social mobility and in these unprecedented times it is ever more important in enabling economic recovery by providing safe access to work, education, retail and leisure. We believe that the Group has created a number of value drivers that differentiate us from our peers as a leading operator in this critical sector.

Our key strengths and resources

Participation diversified by sector and geography…

…with market-leading positions where we choose to compete and with around half of Group revenues anchored in long-term contracts

Deep experience of value-adding, compounding growth through carefully selected acquisitions…

…fuelled by historically strong cash flow generation

Trusted to deliver transport solutions by government, corporate and individual customers…

…underpinned by strong B2B and B2C capabilities

Sophisticated technology improving customer service, driving efficiency and enabling revenue growth…

…and underpinning a relentless focus on retaining our Industry-leading safety position wherever we operate

Strong ESG credentials – trailblazing environmental and living wage commitments…

…and embedding these commitments in executive remuneration

The best people

Over 200 years of public transport experience on the Group Executive Committee supported by passionate and committed teams

Underpinned by our values

- Safety
- Excellence
- Customers
- People
- Community & Environment

…deliver for our stakeholders

How we create value

Growing revenue…

Over half of the Group's revenue is generated through multi-year contracts with school boards, transit authorities and corporate customers. This revenue is generated either on a per mile/kilometre basis, or per route travelled with little or no demand risk. In a normal year the Group generates a further 40% of revenue through ticket sales to the public. In these, National Express assumes revenue risk. Our Revenue Management Systems (RMS) enable us to better understand purchasing behaviour to drive revenue through differential pricing depending on time of journey, ticket type, buying channel etc. whilst our customer facing apps support our customers in getting the product they need at a price they can afford.

…converting it to profit…

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

…and delivering cash flow…

National Express has a track record of consistently generating cash flow from its operations. The Group delivered an average of over £150 million of free cash flow each year prior to the impact of the pandemic in 2020.

…to fund returns and reinvestment

We invest cash back into the operations to grow, having invested over £800 million both organically and inorganically since 2015. This has created our transit and shuttle business in North America; strengthened our market-leading positions in Spain; built our key hub positions in North America student transport; and enabled us to create the leading urban bus business in Morocco. In addition, over the five years prior to 2020, the Group returned £327 million through dividends.

Delivering for all our stakeholders

Customers

Safe, clean and reliable service at a fair price

See KPIs on page 19 (Pax KPI, FWI KPI)

Passengers

Consistent delivery, proactive innovation and transparent communication underpinned by great value for money

See KPIs on page 19 (Pax KPI, FWI KPI)

Governments & Regulators

A partner to help to solve the challenges of congestion, carbon, clean air and inclusive growth

See KPIs on page 19 (Pax KPI, FWI KPI, GHG KPI)

Suppliers

A long-term partner, investing in collaborative innovation

See KPIs on page 18 (ROCE KPI)

Employees

A workplace that values diversity, champions inclusion and respects the rights of all employees, creating opportunities for progression and rewards fairly

See KPIs on page 19 (FWI KPI) and Human Capital on pages 53 to 54

Communities

Enables broader positive community impact and greater social mobility

See more on our communities on page 52

Driving our business forward through our three strategic priorities

Objective | **Performance**

Delivering operational excellence

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

- Swift response to the pandemic across all businesses, putting actions in place to prioritise safety of customers and employees, such as enhanced cleaning regimes and prompt distribution of PPE
- Strong engagement with customers and stakeholders ensuring appropriate service levels with, for example, UK bus running higher levels of service and patronage than industry average
- Both UK bus and coach re-awarded the British Safety Council five-star rating; ALSA re-awarded the EFQM[1] five-star rating
- North America school bus restart requiring dynamic route scheduling for schools choosing to return with a hybrid model
- Rolling out our World Class Operations Manager programme

Deployment of technology

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

- New mobile websites and ticketing apps are driving higher online transactions, enhanced user experience and higher conversion rates, and lowering costs
- Proportion of journeys through digital channels in UK bus increased to over 70%; and running at 48% in ALSA, up from 45% last year
- Roll-out of a Driver Fatigue alert system in our UK coach operations
- Deployment of analytic software to improve scheduling, dispatch and on-time performance in our North America school bus business
- All new UK buses in 2020 were electric vehicles (EV), with up to a further 170 EVs to come as Coventry becomes one of two first electric cities in the UK; Birmingham will see the arrival of 20 new hydrogen-powered buses in 2021
- ALSA launched the first ever autonomous bus in Spain, at the Autonomous University of Madrid

Growing our business through acquisitions and market diversification

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

- We acquired one business in February before suspending our M&A activity in order to focus on existing operations and conserve cash
- We continued to win new contracts throughout the pandemic:
  - Significant school bus wins in a number of US states
  - Paratransit contract win in California
  - Entry into the urban bus market in Portugal, with contract wins in Porto and Lisbon to start operating in Q4 2021
  - Contract wins in the UK in corporate shuttle, accessible transport and new routes
- Further mobilisation of our urban bus operations in Casablanca, our largest contract in Morocco
- Successful mobilisation of RE4, our third service for the Rhine-Ruhr Express (RRX), in German Rail

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

Future outlook

Measuring our progress

Mitigating risks

- 'Driving Excellence' programme in North America, to optimise process efficiency across all depots
- Returning to full operations across each of our businesses as we emerge from the pandemic, stronger and more efficient
- Network reviews driving efficiency across our bus and coach operations in the UK
- Development of on-demand services and multi-modal solutions
- Increased ancillary revenue drivers in UK and ALSA, as well as charter and charter school revenues in North America
- Further advances in partnership working to address common challenges and cement our position as a trusted partner
- Demonstrating environmental leadership e.g. with Coventry becoming one of two first electric cities in the UK
- Further investment in electric and hydrogen buses
- Ambition to be zero carbon emissions in UK bus by 2030 and in UK coach by 2035

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

+ See KPIs pages 18 and 19

FWI
Reduction in GHG emissions

See Risks pages 38 to 41

3 7 8 9 11

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

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

+ See KPIs pages 18 and 19

Passenger journeys

See Risks pages 38 to 41

5 6 7 9 11

- Further selective acquisitions as we emerge from the pandemic, principally in North America and Spain
- Extending our offering into new regional and adjacent markets and cities or building further scale in existing markets and cities
- Mobilisation of our new contracts in Portugal
- Pioneering new ways to access transport with multi-modal services within big cities, providing complete mobility solutions, through integrated platforms e.g. developing a Mobility as a Service (MaaS) platform in the West Midlands in partnership with Transport for West Midlands
- Investments in assets that provide platforms for future growth

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

+ See KPIs pages 18 and 19

ROCE

See Risks pages 38 to 41

2 3 4 7 10 12 13

[2] Fatalities and Weighted Injuries Index

Measuring our progress

Financial

Underlying Operating Profit (£m)

£(50.8)m

2019: 295.3m

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.

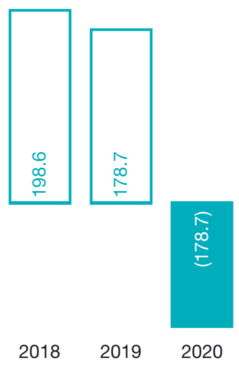
Performance
Profit performance has been significantly impacted by lower revenue as a result of the pandemic with the ensuing travel restrictions and closure of schools and businesses. As a result the Group recognised an underlying operating loss of £51m.

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)

£(178.7)m

2019: 178.7m



KPI definition
Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 25.

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; and providing the platform for further growth for all our stakeholders.

Performance
Underlying operating cash outflow of £115 million reflects the operating loss of £51m.

Free cash outflow of £179 million after investing £216 million in capital expenditure to maintain our fleet, together with a working capital outflow of £78 million reflects the temporary change in revenue streams to subsidy income with a longer payment cycle.

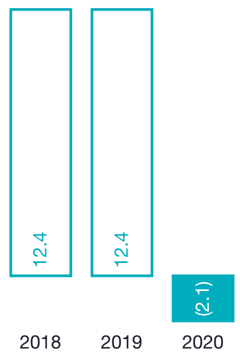
Generated over £770 million of free cash flow in the previous five years.

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 (%)

(2.1)%

2019: 12.4



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 244.

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 (2.1)% – reflects the operating loss in the year.

Invested £216 million of net maintenance capital, predominantly in replacing our fleet in our existing operations.

Invested £35 million in growth capital expenditure including vehicles to service new contracts in ALSA and North America and mobilisation costs in Morocco and German Rail.

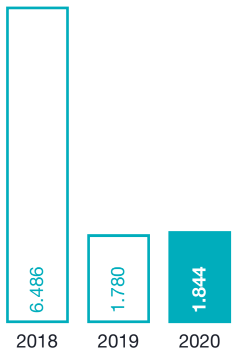
Remuneration linkage
ROCE is one of the performance conditions for the Long-Term Incentive Plan of Executive Directors and senior managers.

Non-financial

Safety – Fatalities and Weighted Injuries (FWI)*

1.844

2019: 1.780



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 excluded 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 is a core measure of our strategic priority: Delivering operational excellence.

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

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

Performance

- In 2020 we saw a small increase in the score to 1.844
- This score compares to the best ever score recorded in 2019 and remains significantly better than historical scores as the second lowest score
- The 2020 scores represents a 71.9% improvement since 2018
- For the second year running, our businesses in North America and Morocco both recorded their lowest ever scores, improving by 32% and 82% respectively on the prior year

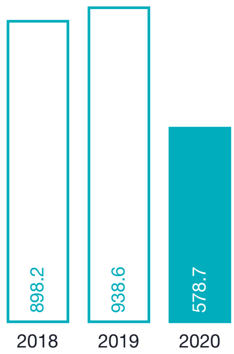
Remuneration linkage

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

Passenger journeys

578.7m

2019: 938.6 million



KPI definition

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

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

Relevance to strategy

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

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

Performance

- Passenger numbers were down 38% in 2020 with the impact of Covid-19 resulting in:
  - numerous national and local lockdowns in the UK and Spain
  - school closures in North America in Q2, followed by delayed new school year start backs with some schools choosing either hybrid or online teaching; and
  - reduced demand in our transit and corporate shuttle services in North America
- Growth in Morocco of 1% reflects the full year impact of new contracts in Casablanca and Rabat mostly offset by falls elsewhere due to Covid-19

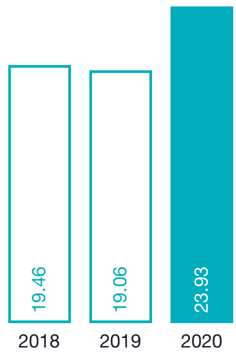
Remuneration linkage

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

Reduction in GHG emissions*

23.93

2019: 19.06



KPI definition

Total Scope 1,2 and 3 greenhouse gas (GHG) 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. Per passenger, bus and coach travel is vastly less polluting than cars and, as such, modal shift is the single most important thing we can do. But we are also committed to making public transport greener. We have adopted targets through to 2025 that are 'science based' and aligned with limiting global warming in line with the Paris Agreement.

Performance

- Total Group carbon emissions reduced by 33% due to the reduction in operations as a result of the pandemic
- 26% increase in tCO_2e / million km to 23.93 due to significantly reduced load factors, particularly where social distancing restrictions applied
- We expect to make further progress against our targets in 2021 and 2022 as Covid-19 restrictions change
- At the start of 2020 we committed never to buy another diesel bus in the UK and to be zero emission in bus by 2030 and coach by 2035. We have started in the UK but will drive a similar level of ambition across the Group

Remuneration linkage

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

Operating review

Ignacio Garat
Group Chief Executive Officer

> "We proactively engaged with customers and authorities in order to secure support and limit revenue loss and we took swift and decisive action to adjust the cost base to limit the flow-through of revenue decline."

Summary

Revenue for the year declined 29% vs. 2019 driven by the extreme travel restrictions in response to the pandemic. After significant cost reduction activity, this flowed to EBITDA of £186.6 million, at the higher end of guidance, with the trajectory of both revenue and EBITDA delivery improving each quarter. This means that after last year's record £295.3 million Underlying Operating Profit, the Group delivered an Underlying Operating Loss in 2020 of £50.8 million and a statutory loss after tax of £326.7 million (2019: £148.3m profit). The Balance Sheet was strengthened with £1.5 billion of new equity and committed borrowing facilities and net debt has been reduced by over £280 million year-on-year with £1.9 billion in cash and undrawn committed facilities available at the year end.

Performing strongly before Covid

The year started very strongly, with revenue up 17% in the first two months of the year and with all businesses performing well. In ALSA, revenue grew by 23%, driven by underlying growth of 6% boosted by the new contracts in Rabat and Casablanca; in North America revenue was up 16%, largely driven by growth in our transit and shuttle businesses, where the renewal of our two largest transit contracts in the fourth quarter of 2019 flowed through and the acquisition of WeDriveU in April 2019 boosted growth; and our UK businesses saw revenue grow by over 5%, with broad-based underlying growth in both our bus and coach businesses augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

Navigating the crisis

Covid-19 had an immediate and unprecedented impact on all our businesses from March onwards, with an 80% drop in passenger demand following the introduction of lockdown measures. We took swift action to protect the safety and wellbeing of customers and colleagues, with PPE promptly distributed, cleaning regimes enhanced, and vehicle layouts reconfigured to enable social distancing. Wherever possible colleagues have been encouraged to work from home, with technology and processes rapidly deployed, while employee welfare programmes have been enhanced. Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles and medical transport.

We proactively engaged with customers and authorities in order to secure support and limit revenue loss, and we took swift and decisive action to adjust the cost base to limit the flow-through of revenue decline. While revenue declined by around £790 million, only around 40% of this flowed to reduced EBITDA as a result of a number of wide-ranging cost reduction measures. At the peak, 40,000 employees across the Group were either furloughed or temporarily laid off, helping to drive out over £300 million of operating costs from the business in the second quarter. We have also sought to ensure that the Group had sufficient liquidity and a strengthened Balance Sheet to navigate the crisis. During the year liquidity was boosted with over £1.5 billion of new facilities including the equity raise, and covenants have been renegotiated with the gearing covenant test waived by lenders until June 2022.

All of these measures have served not only to protect our business but will also assist in the return to normal levels of service across each of the businesses. Momentum has built throughout the second half of the year and we have seen an improving trajectory, with revenue, EBITDA and cash generation at their strongest levels in the fourth quarter of the year.

Positioning for the future

As a result of the actions we have taken and the learnings we have developed through 2020, the business is now well placed to react to future changes to the operating environment and is poised to return to sustainable growth. In particular, I would note four areas in which this has manifested itself:

Firstly, we have developed a greater agility to respond rapidly to changing restrictions. This has been most evident in our long-distance operations in the UK and Spain where discretionary travel has seen the greatest impact in terms of revenue decline. As the first lockdown hit, we mothballed our UK coach network and significantly reduced services in our Spanish long-haul operations. As restrictions were lifted over the summer, services were promptly scaled back up in both the UK and Spain and pleasingly we

> “I have been impressed by the overall stability and resilience of the business in the face of unprecedented challenge.”

saw demand returning rapidly. Both networks have been subsequently scaled up and back down in response to changing patterns of local lockdowns. Vehicles in our National Express Transport Solutions (NETS) business were repurposed to provide extra capacity in our UK bus operations as customer demand for buses combined with social distancing measures drove network requirements to a peak of 103% of pre-Covid levels. In North America we have had to be fleet of foot in responding to rapidly changing patterns of school returns, flexing staffing levels up and down depending on the levels of payments forthcoming from school boards.

Secondly, we have reduced fixed costs and improved processes that will continue to benefit the Group as restrictions are lifted. We are taking out a significant portion of structural costs from across the business as well as improving the efficiency of a number of operating processes, for example through the ‘Driving Excellence’ programme of process optimisation across our portfolio of school bus depots in North America. Each division has made permanent reductions to central costs, redesigning and relocating support operations for lasting benefit. These are significant restructuring programmes, delivering annualised cost savings of c.£100 million when fully implemented.

Thirdly, we are continuing to win business through the crisis, securing nearly £900 million of contracted revenue. We won new contracts in Portugal in Lisbon and Porto (awarded on a provisional basis), worth nearly £270 million, gaining access to a new market for us. Both of these contracts are set to start operating in the fourth quarter of this year and run for seven years. In North America, we have won significant school bus contracts in Idaho, Alaska and California, and in Transit we won a capital-light paratransit contract for up to five years in California. In the UK, our NETS business secured a major contract to run employee shuttle services for the world’s largest online retailer, while NEAT secured its first accessible transport contracts outside of the West Midlands.

Finally, good progress has been made in the year on our environmental ambitions, with 29 electric buses now running across our networks in the West Midlands and more to come. Looking ahead, Coventry is set to become the first electric bus city with significant funding secured for up to 170 EVs over the next two to three years; and our UK bus business won the bid to operate the new hydrogen-powered bus service in Birmingham, with our first 20 vehicles ordered, funded by Birmingham City Council, and entering service later in 2021.

We were delighted to welcome the Prime Minister to our operations in Coventry this week, and show him our electric buses in action. Last year we committed to never again buy a diesel bus in the UK, and we are well on track to deliver our target of a fully zero emission bus fleet by 2030. We fully embrace the national bus strategy and the proposals for operators to work in partnership with local authorities to deliver cleaner, greener public transport solutions. This is exactly the partnership approach that has worked so well for many years across the West Midlands, where we have continually improved services while keeping fares down.

Outlook

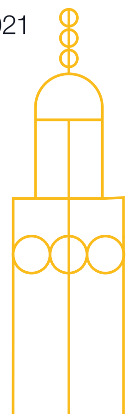
I have been impressed by the overall stability and resilience of the business in the face of unprecedented challenge. Strong customer relationships have enabled revenue to perform well ahead of the significant reductions in patronage driven by travel restrictions, and disciplined cost management has limited the extent to which this revenue decline has flowed to profit and cash. However, the situation we find ourselves in is not one that we can ultimately control and the timing of full recovery remains uncertain as we are still subject to lockdowns and related restrictions in every market we operate in.

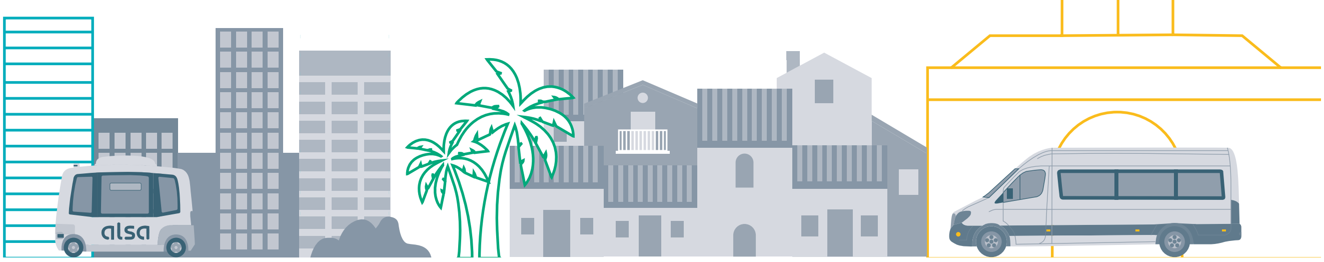
I believe that the trajectory is improving, with the fourth quarter of 2020 our strongest of the year and the global vaccination roll-out accelerating. We have seen this momentum continuing into 2021 with slowly improving revenue trends and positive EBITDA in January and February. Further, we have sufficient liquidity to see us through our most pessimistic scenarios and have further strengthened our Balance Sheet in 2020.

Given the unprecedented financial implications of the pandemic, the Board has not recommended a dividend in 2020. We understand the importance to shareholders of reinstating dividend payments as soon as economic conditions allow. It is clear that 2021 will represent a ‘transition year’ to a post-pandemic future and much will depend on the effectiveness of mass vaccination programmes to enable travel restrictions to be lifted. Against that backdrop the Board has determined the Group will resume dividend payments as soon as it is prudent to do so.

Ignacio Garat

Ignacio Garat
Group CEO
18 March 2021





Financial review

Chris Davies
Group Chief Financial Officer

"Decisive action taken to reduce costs and conserve cash."

In summary

- Strong start to the year with double-digit revenue growth before Covid-19
- Decisive action taken to reduce costs and conserve cash
- £187 million EBITDA; towards the top of guidance
- After separately disclosed items, a statutory loss after tax of £327 million
- H2 free cash flow positive and net debt reduced to £942 million
- £1.5 billion of equity and additional borrowing facilities raised
- £1.9 billion in cash, undrawn committed facilities and undrawn CCFF available
- Improving trajectory into 2021 with strong Q4 revenue, EBITDA and cash flow

Summary income statement

	Underlying result[1] 2020 £m	**Separately disclosed items[1] 2020 £m**	**Total 2020 £m**	Underlying result 2019 £m	Separately disclosed items 2019 £m	Total 2019 £m
Revenue	**1,955.9**	**–**	**1,955.9**	2,744.4	–	2,744.4
Operating costs	**(2,006.7)**	**(330.6)**	**(2,337.3)**	(2,449.1)	(53.0)	(2,502.1)
Operating (loss)/profit	**(50.8)**	**(330.6)**	**(381.4)**	295.3	(53.0)	242.3
Share of results from associates	**(2.1)**	**–**	**(2.1)**	0.4	–	0.4
Net finance costs	**(53.2)**	**(8.0)**	**(61.2)**	(55.7)	–	(55.7)
(Loss)/profit before tax	**(106.1)**	**(338.6)**	**(444.7)**	240.0	(53.0)	187.0
Tax	**29.3**	**88.7**	**118.0**	(55.2)	16.5	(38.7)
(Loss)/profit for the year	**(76.8)**	**(249.9)**	**(326.7)**	184.8	(36.5)	148.3

[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, comprising amortisation of intangibles for acquired businesses and, for 2020, certain costs arising as a direct consequence of the pandemic. 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 243-244.

In a year shaped by the travel restrictions imposed to slow the spread of Covid-19, Group revenue was £1,955.9 million (2019: 2,744.4m), a decrease of £788.5 million (29%). After a strong start to the year, with Group revenue up 17% in January and February, extensive lockdowns were imposed by governments in each country in which we operate.

During this extraordinary period, we were well supported by customers and governments and for the Group overall this meant that despite passenger numbers declining by nearly 80% during Q2, the revenue decline was mitigated to around 50%. As lockdowns were lifted in the summer, revenue started to recover steadily. After a 50% year-on-year drop in revenue in Q2, this improved to a 37% reduction in Q3 and a 32% reduction in Q4.

In the UK, the Group recognised £84.7 million from the Covid-19 Bus Services Support Grant (CBSSG), and the Scottish equivalent, in return for maintaining bus services at around 100% of pre-pandemic levels with social distancing provisions in place. In addition, the Group recognised £15.3 million and £15.6 million for Covid-19 government compensation in ALSA and German Rail respectively. Had these various revenue-related grants not been available the Group would have operated a significantly lower level of services in order to further reduce costs. There was no revenue support provided by the Government for UK coach.

As set out in the table below, the Group recorded positive EBITDA in every quarter. The greatest year-on-year decline of EBITDA in 2020 was in Q2 during the peak of the restrictions on travel. Q3 is typically the Group's smallest quarter for profit because of the school holidays in North America. Q4 recovered strongly and contributed nearly 50% of the full year EBITDA.

Quarterly summary	Revenue year-on-year	EBITDA £m
Q1 (January to March)	+7%	69.5
Q2 (April to June)	-50%	18.8
Q3 (July to September)	-37%	5.4
Q4 (October to December)	-32%	92.9
Full year 2020	-29%	186.6

The Group recorded an Underlying Operating Loss for the year of £50.8 million (2019: £295.3m profit). The year-on-year reduction of £346.1 million reflected the net of £788.5 million lower revenue partially offset by £442.4 million lower underlying operating costs. After £330.6 million (2019: £53.0m) of separately disclosed items, the statutory operating loss was £381.4 million (2019: £242.3m profit).

Operating costs were originally budgeted to grow proportionately with budgeted double-digit revenue growth, but immediately as the impact of the pandemic took hold in late March, we took action to reduce operating costs by c.£100 million per month relative to budgeted levels throughout the second quarter. All variable costs were reduced in line with service reductions and all discretionary expenditure was stopped. For several months in the year the Board and senior management agreed to pay sacrifices, and salary deferral schemes were in place across the Group.

Significant numbers of employees were temporarily laid off or furloughed utilising government income protection schemes. At peak, we had furloughed or temporarily laid off 40,000 staff from a global workforce of c.55,000. The furlough arrangements in place differ by country. In the UK, the Government provides companies with funding to pay employees that would otherwise be laid off. In Spain, companies agree temporary lay-off numbers with the Government which then provides enhanced benefits directly to the impacted employees with employers partially compensated for continued social security payments. In North America, the Government put in place a package to provide funding to employers who continued to provide benefits to employees who were temporarily laid off. The table below outlines the cost support recognised in the year.

Government Covid-related cost support	£m
UK – Covid Job Retention Scheme	27.1
ALSA – job retention schemes in Morocco, Spain and Switzerland	9.3
North America – employee retention credits in US (and equivalent in Canada)	18.5
Total	**54.9**

As well as scaling back variable costs as revenue fluctuated during the year, we also undertook a review of the fixed cost base, identifying up to £100 million of annualised savings which will be fully realised in 2021.

The majority of these savings were in payroll costs, driven by headcount reductions in managerial, administrative and customer service roles and through efficiency savings from process improvements. Other cost savings have been derived from property rationalisation, travel costs and professional fees, along with process improvements driving efficiencies in areas like repairs and maintenance.

Underlying net finance costs decreased by £2.5 million to £53.2 million (2019: £55.7m) reflecting the net of higher interest costs in the first half caused by the partial double-carry of Sterling bonds offset in the second half by the impact of lower net debt.

After finance costs and a loss of £2.1 million from the share of results from associates (2019: £0.4m profit), the Group recorded an Underlying Loss Before Tax of £106.1 million (2019: £240.0m profit).

The Underlying tax credit was £29.3 million (2019: £55.2m charge) representing an Underlying effective tax rate of 27.6% (2019: 23.0%). The statutory tax credit was £118.0 million (2019: £38.7m charge), an effective tax rate of 26.5% (2019: 20.7%). 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 £326.7 million (£148.3m profit).

Separately disclosed items

£338.6 million (2019: £53.0m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £126.9 million (2019: £7.2m) represented cash outflows in the year.

Separately disclosed items	**Income Statement 2020 £m**	Income Statement 2019 £m	**Cash 2020 £m**	Cash 2019 £m
Intangible amortisation for acquired businesses	**(52.6)**	(53.0)	**–**	–
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(262.5)**	–	**(109.6)**	–
Restructuring costs	**(14.0)**	(8.8)	**(10.8)**	(7.2)
Other separately disclosed items	**(1.5)**	8.8	**–**	–
Separately disclosed operating items	**(330.6)**	(53.0)	**(120.4)**	(7.2)
Interest charges directly resulting from the Covid-19 pandemic	**(8.0)**	–	**(6.5)**	–
Total (before tax)	**(338.6)**	(53.0)	**(126.9)**	(7.2)

Consistent with previous years, £52.6 million (2019: £53.0m) of amortisation of intangible assets arising upon consolidation of acquired businesses is included in separately disclosed items.

The directly attributable gains and losses resulting from the Covid-19 pandemic are comprised as follows:

Directly attributable gains and losses resulting from the Covid-19 pandemic	Income Statement 2020 £m	Cash 2020 £m
One-off costs, cancellation charges and compensation payments	(46.4)	(28.1)
Discontinuation of fuel trades	(17.3)	(14.6)
Onerous contract provisions and associated impairment	(133.4)	(66.9)
Impairments and associated charges	(99.3)	–
Re-measurement of the WeDriveU put liability	33.9	–
Total	**(262.5)**	**(109.6)**

One-off costs, cancellation charges and compensation payments include items such as compensation payments to third party operators and provision for Covid-related claims. The imposition of travel restrictions reduced operated mileage and hence trades were placed to reduce hedged fuel volumes in line with updated mileage and the original trades were recycled to the income statement, giving rise to a £17.3 million charge.

Onerous contract provisions were recognised in relation to contracts that, due to the impact of Covid-related restrictions, are now evaluated as loss-making for the rest of the relatively short remaining term prior to renewal and hence where there is no ability to recover to a profitable position. Where there were assets dedicated to onerous contracts, these assets were impaired where applicable. Further impairments and associated charges were recorded where there were dedicated assets, other than those related to onerous contracts, associated with contracts that have been terminated or not renewed due to the impacts of the pandemic or where subsequent strategic restructuring has changed the Group's usage of such assets.

The put liability resulting from the acquisition of WeDriveU is required to be re-measured at each reporting date. Whilst in the medium term we remain confident in the prospects and growth potential of the shuttle business, we have adjusted short-term projections for the business disruption due to the pandemic which impacts the two remaining years of the exercise period.

A further £8.0 million of interest charges directly resulting from the Covid-19 pandemic were recorded for items including arrangement fees on new Covid-19-related facilities, fees to amend covenants, and interest costs on the short-term financing under the Bank of England Covid Corporate Financing Facility (CCFF) programme that was drawn and repaid during the year.

In addition £14.0 million (2019: £8.8m) of restructuring costs were incurred as well as £1.5 million (2019: £8.8m credit) of other items principally comprising, in both the current and prior year, losses/gains on disposal of subsidiaries.

Segmental performance

	Underlying Operating (Loss)/ Profit 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m	Underlying Operating Profit 2019 £m	Separately disclosed items 2019 £m	Segment result 2019 £m
ALSA	**6.7**	**(100.2)**	**(93.5)**	109.5	(15.7)	93.8
North America	**12.4**	**(188.4)**	**(176.0)**	123.0	(35.0)	88.0
UK	**(49.0)**	**(50.4)**	**(99.4)**	85.0	(0.9)	84.1
German Rail	**(4.9)**	**(19.1)**	**(24.0)**	5.0	(1.4)	3.6
Central functions	**(16.0)**	**27.5**	**11.5**	(27.2)	–	(27.2)
Operating (loss)/ profit	**(50.8)**	**(330.6)**	**(381.4)**	295.3	(53.0)	242.3

ALSA recorded an Underlying Operating Profit of £6.7 million (2019: £109.5m) despite a 33% reduction in revenue. Separately disclosed items totalled £100.2 million (2019: £15.7m) and comprised £17.1 million (2019: £15.7m) of amortisation of intangible assets arising from acquired businesses; £55.4 million of onerous contract provisions and associated impairments of assets; £10.8 million of impairments of vehicles and intangible assets; £3.9 million of restructuring costs, reflecting actions to reduce the cost base going forwards and £13.0 million of other Covid-related expenses including incremental health and safety costs and discontinuation of fuel hedges. After separately disclosed items, ALSA recorded a loss of £93.5 million (2019: £93.8m profit).

In North America an Underlying Operating Profit for the year of £12.4 million (2019: £123.0m) was achieved. Separately disclosed items totalled £188.4 million (2019: £35.0m) and comprised £32.7 million (2019: £35.0m) of amortisation of intangible assets arising from acquired businesses; £50.0 million of onerous contract provisions and associated impairments of assets; £79.1 million of impairments of intangible assets and property, plant and equipment; £4.4 million restructuring costs; and £22.2 million of other Covid-related expenses such as incremental health and safety costs and discontinuation of fuel hedges.

During the year the Group undertook a review of its transit businesses and contracts, which culminated in a decision to exit, dispose or close down certain operations that were deemed no longer strategically core and/or which were low margin businesses that had been severely impacted by the pandemic and were projected to consume cash over the medium term. Furthermore the Group reviewed its portfolio of school buses, resulting in an impairment of the most aged and least energy efficient vehicles. Together, these two activities principally drove the £79.1 million of impairments of assets referred to above.

After separately disclosed items, North America recorded a loss of £176.0 million (2019: £88.0m profit).

The UK Underlying Operating Loss of £49.0 million (2019: £85.0m profit) was driven by an operating loss in UK coach, where revenue declined 67%, partially offset by a small operating profit in UK bus reflecting strong pre-pandemic trading and profits on disposal of property. Separately disclosed items in the UK totalled £50.4 million (2019: £0.9m) and comprised £0.5 million (2019: £0.9m) of amortisation of intangible assets arising from acquired businesses; £12.7 million of support payments to third party coach operators; £11.2 million of onerous contract provisions and associated impairments of assets; £5.1 million of restructuring costs; £9.3 million of impairment of vehicles and £11.4 million of other Covid-19 related expenses such as incremental health and safety costs, contractual penalties and discontinuation of fuel hedges. After separately disclosed items, the UK business recorded a loss of £99.4 million (2019: £84.1m profit).

German Rail's Underlying Operating Loss of £4.9 million (2019: £5.0m profit) reflected an adjustment to the phasing of subsidies due to the re-assessment of the Rhine-Münster Express contract life revenues and profitability in light of the pandemic. Excluding this adjustment German Rail recorded a small underlying operating profit, reflecting the net of a loss of passenger revenue in the RME contract offset by compensation provided by the Government and transport authorities. The £19.1 million (2019: £1.4m) of separately disclosed items comprised £2.3 million (2019: £1.4m) of intangible amortisation and £16.8 million of asset impairments arising from an onerous contract assessment in respect of RRX. Over its remaining life, the RRX contract was assessed to generate positive EBITDA but to be loss-making after taking account of the amortisation of contract mobilisation costs, resulting in the impairment of these assets. After separately disclosed items, German Rail recorded a loss of £24.0 million (2019: £3.6m profit).

Central functions Underlying costs of £16.0 million (2019: £27.2m) were £11.2 million lower than the previous year reflecting cost savings and lower charges in respect of bonuses and long-term share-based incentive schemes. Separately disclosed items totalled a £27.5 million profit (2019: £ nil) comprising a £33.9 million credit in respect of revaluing the WeDriveU put liability, partly offset by incremental costs attributable to the pandemic and restructuring.

Cash management

Funds flow	2020 £m	2019 Re-presented £m
Underlying Operating (Loss)/Profit	(50.8)	295.3
Depreciation and other non-cash items	237.4	214.8
EBITDA	**186.6**	510.1
Net maintenance capital expenditure	(215.9)	(211.4)
Working capital movement	(78.3)	(42.0)
Pension contributions above normal charge	(7.4)	(7.6)
Operating cash flow	**(115.0)**	249.1
Net interest paid	(56.0)	(45.4)
Tax paid	(7.7)	(25.0)
Free cash flow	**(178.7)**	178.7
Growth capital expenditure	(35.3)	(24.7)
Net inflow from discontinued operations	–	(1.2)
Acquisitions (net of cash acquired)	(52.4)	(166.4)
Disposal of subsidiaries (net of cash disposed)	4.4	21.7
Separately disclosed items	(126.9)	(7.2)
Proceeds from equity instruments	725.6	–
Dividends	–	(78.3)
Other, including foreign exchange	(54.3)	18.6
Net funds flow	282.4	(58.8)
Net debt	**(941.6)**	(1,224.0)

Note: 2019 is re-presented for the transfer of £17.5 million out of net debt in respect of vehicle leases entered into in 2019 to fulfil contracts that have been deemed to be in scope of IFRIC 12. The effect of this re-presentation is to reduce 2019 net growth capital expenditure and closing net debt by £17.5 million compared with the previously reported figures.

The Group generated EBITDA of £186.6 million in the year (2019: £510.1m).

The majority of the £215.9 million maintenance capital investment was in respect of fleet replacement in ALSA and North America. The ratio of maintenance capital expenditure to depreciation of 0.9 (2019: 1.0) was a slight reduction year-on-year reflecting actions taken to reduce capital expenditure following the onset of the pandemic. Given the long payment terms on fleet purchases these actions are anticipated to take greater effect on the maintenance capital expenditure ratio in 2021. Additions of property, plant and equipment in 2020 for both maintenance and growth purposes combined totalled £209.9 million (2019: £311.5m), a year-on-year reduction of £101.6 million. At the year end there was £289.6 million (2019: £263.3m) owing to vehicle suppliers, with the year-on-year increase reflecting growth capital additions in respect of new contracts such as Casablanca; the maintenance capital component has reduced, reflecting the capital reduction actions during the year.

The Group recorded a working capital outflow of £78.3 million for the year (2019: £42.0m outflow), the net of a £139.6 million outflow in the first half and a £61.3 million inflow in the second half.

Over the year as a whole, strong cash collection was more than offset by a decrease in payables, reflecting the cost saving measures implemented (the benefit of which is recorded in EBITDA), and a change in the mix of revenue away from cash-upfront passenger revenue to subsidies and compensation paid in arrears. The diversified nature of the Group's revenue streams and the predominantly government-backed or blue-chip profile of the customer base helps mitigate the potential credit risk impact of the pandemic on receivables, but we continue to keep it under close review. Consistent with previous periods the Group makes use of non-recourse factoring arrangements on receivables and advance payments. The usage of these arrangements was broadly unchanged on the previous year; the total draw down at the year end was £111.6 million (2019: £107.1m).

Net interest paid increased by £10.6 million to £56.0 million (2019: £45.4m), reflecting the final interest payment on the 2020 bond maturing in June (payable annually in arrears) whilst at the same time making interest payments on the new borrowings. This was partly offset by the benefit of lower draw down on the revolving credit facilities (RCFs), reflecting the strong liquidity position during the year.

The net impact of the factors outlined above was a free cash outflow of £178.7 million in the year (2019: £178.7m inflow), comprising an outflow of £193.0 million in the first half and an inflow of £14.3 million in the second half.

Growth capital expenditure of £35.3 million included vehicles to service new contracts in ALSA and North America, and infrastructure and other costs incurred with the mobilisation of new contracts in German Rail and ALSA. We made one acquisition early in the year, prior to the pandemic, of a coach company in the UK for upfront consideration of £25.3 million (net cash payments of £9.6 million plus the absorption of £15.7 million of borrowings) with up to a further £7.5 million of deferred payments. Subsequently we paused our acquisition strategy in order to conserve cash and protect liquidity within the business. In addition, deferred consideration paid in the period for acquisitions made in previous years was £27.3 million in respect of a number of acquisitions made in prior years, including Monroe School Transportation and Cook-Dupage Transportation.
In December, the Group sold its Dundee bus business to a Group with more scale in Scotland. The cash inflow of £4.4 million from disposals reflects the net of the proceeds from the sale of the Dundee business, plus the final settlement in respect of the sale of Ecolane in 2019.

A cash outflow of £126.9 million was recorded in respect of the items excluded from Underlying results as explained above. The Group received £725.6 million from a combination of the share placing in May 2020, delivering £230.1 million, and the hybrid issue in November 2020, which raised £495.5 million net of costs.
Other cash outflows of £54.3 million principally reflect the significant movement in the closing rate of Sterling against the Euro from 31 December 2019 to 31 December 2020, which increased the value of debt denominated in Euros.

Net funds inflow for the period of £282.4 million (2019: £58.8m outflow) resulted in net debt of £941.6 million (2019: £1,224.0m).

Reconciliation to statutory cash flow statement

Statutory cash generated from operations for the year was an outflow of £96.7 million (2019: £356.2m inflow) as shown in the Group Statement of Cash Flows and expanded further in note 13. Free cash flow for the year was an outflow of £178.7 million. A reconciliation of free cash flow to net cash flow from operating activities is set out on page 244.
The principal differences are that the free cash flow includes net maintenance capital expenditure (£215.9 million outflow) but excludes the cash outflow in respect of separately disclosed items.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns, reducing net debt to within our revised target range of 1.5x to 2.0x EBITDA and paying a growing dividend to shareholders. As previously guided, in light of the exceptional economic circumstances and conditions attaching to our amended covenants, the Group will not be paying a dividend in respect of 2020. Looking ahead, the Board recognises the importance of the shareholder returns and will reinstate the dividend when economic conditions permit and it is appropriate to do so. Such a decision will be based upon the Group's prevailing and expected free cash flow generation as well as gearing returning to within pre-amendment covenant levels.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating.
Both Moody's and Fitch twice reaffirmed their investment grade ratings during the year whilst revising the rating outlook to negative from stable in line with their views on the transport sector as a whole (Baa2/negative) and (BBB/negative).

In light of the impact of the pandemic on EBITDA generation, the Group has renegotiated its covenants. The gearing covenant has been waived by the lenders throughout 2020 and 2021, and will next apply as at 30 June 2022. The interest cover covenant has been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum net debt test during the waiver period. In addition the Group has agreed to pay no dividend during the period of the amendments if gearing exceeds 3.5x or interest cover is below 3.5x. At 31 December 2020, the gearing ratio was 5.1x (31 December 2019: 2.4x) on a reported basis and 6.4x on a covenant basis (the principal difference being that the impact of IFRS 16 is removed in the covenant basis). Interest cover at the end of the year was 2.7x (31 December 2019: 9.6x); this compares to an amended covenant of 1.5x. All covenants are on a pre-IFRS 16 basis.

At 31 December 2020, the Group had £2.8 billion of debt capital, committed facilities and Bank of England CCFF. Excluding the specific short-term Covid-related facilities, the average maturity is 5.2 years. At 31 December 2020, the Group's RCFs were undrawn and the Group had available a total of £1.9 billion in cash, undrawn committed facilities and the undrawn CCFF. The CCFF is available until 21 March 2021 to be drawn for 12 months. However, given the other committed funding facilities available to the Group and the ample liquidity headroom projected, including in downside scenarios, the Directors do not intend to draw upon it and will instead allow it to lapse.

The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 31 December 2020 £m	Headroom at 31 December 2020 £m	Maturity year
Core RCFs	495	–	495	2025
Short-term Covid-related RCFs	287	–	287	2021
2023 bond	400	400	–	2023
2028 bond	247	247	–	2028
Private placement	406	406	–	2027–2032
Private placement	71	71	–	2021
Leases	311	311	–	various
	2,217	1,436	781	
CCFF	600	–	600	2021
	2,817	1,436	1,381	
Cash and cash equivalents		(521)	521	
Total		**915**	**1,902**	

In the first half of the year the Group received the proceeds of the delayed draw US private placements, comprising £406 million of funding (translated at closing exchange rates) in a mixture of Sterling, Euro and US Dollar. To secure additional liquidity through the Covid-19 crisis, the Group obtained funding of up to £600 million under the Bank of England CCFF, of which £300 million was initially drawn in April and repaid in December. In addition, £287 million of additional short-term RCFs were secured. During the first half of the year, a £225 million Sterling bond and €250 million floating rate note matured and £100 million of term loans were repaid. In December a $100m term loan was repaid.

The Group also raised £726 million through equity or equity-like instruments: firstly through a share placing in May that raised £230 million, and secondly through the issuance of a hybrid instrument in November that raised £496 million. The hybrid instrument has been recorded within equity because the contractual terms allow the Group to defer coupon payments and the repayment of the principal amount indefinitely. The instrument has a coupon of 4.25%, which is payable annually. The coupon payments are treated the same as an equity dividend distribution, but will be deducted from earnings for the purposes of calculating earnings per share.

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

At 31 December 2020, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 31 December 2020, the proportion of Group debt at floating rates was 7% (2019: 24%).

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 schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2020 was £135.1 million (Dec 2019: £90.0m), with the increase being principally driven by a reduction in discount rates. The two principal plans are the UK Group scheme, which is closed to new accrual, and the West Midlands Bus plan, which remains open to accrual for existing active members only. The deficit repayments will be around £7 million per annum, rising with inflation, until 2026. The IAS 19 valuations for the principal schemes at 31 December 2020 were as follows:

- WM Bus: £141.6 million deficit (2019: £99.1m deficit); and
- UK Group scheme: £12.3 million surplus (2019: £14.2m surplus).

Fuel costs

Fuel cost represents approximately 7% of revenue. Clearly it is more complex than in previous years to forecast volume in the current environment, but based on 'base case' modelling, the Group is 99% hedged for 2021 at an average price of 38.3p per litre; around 60% hedged for 2022 at an average price of 30.2p; and around 25% hedged for 2023 at an average price of 29.9p. During the year, hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption due to the pandemic. As a result, accumulated fair value movements were recycled from other comprehensive income to the Income Statement. The resulting impact was an Income Statement charge of £17.3 million in the year which has been treated as a separately disclosed item.

Brexit

Given the diversified nature of our business model and the fact that we no longer run scheduled operations between the UK and the Continent, we do not believe that the recently agreed UK-EU trade agreement presents any direct material risk to our business. The main risks to the Group relate to suppliers of parts and vehicles, as we purchase some vehicles from European manufacturers for UK operations, and cross-border data sharing. We have active mitigation plans in place for these issues.

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 3% 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 2 to the Financial Statements on pages 149 to 151.

Outlook

With the continuing uncertainty of the impact of Covid-19 across the countries in which we operate, it remains difficult to forecast financial performance with any level of certainty. The going concern analysis outlined in note 2 to the Financial Statements on pages 149 to 151 provides a range of potential scenarios. In our base case we anticipate the macro situation to be similar in the first half of 2021 to the second half of 2020, with varying levels of lockdowns and travel restrictions remaining in place. Accordingly we anticipate performance in the first half of 2021 to be similar to that achieved in the second half of 2020. Our base case scenario assumes that vaccines will reduce infection rates by the summer, with a consequent lifting of travel restrictions allowing a steady recovery in revenue in the second half such that by December 2021 Group revenue recovers to levels similar to December 2019. Under this scenario we anticipate robust positive free cash flow in 2021 as EBITDA improves through the year and the capital expenditure reduction actions taken in 2020 take effect on the maintenance capital outflows.

Chris Davies
Group Chief Financial Officer
18 March 2021

ALSA

Francisco Iglesias
Chief Executive,
ALSA

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

With over 100 years' experience, it operates long-distance, regional and urban bus and coach services across Spain and in Morocco and Switzerland. In 2021, we will also start to operate urban bus services in Portugal. Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

Revenue
£559.3m
2019: £824.7m

Underlying Operating Profit
£6.7m
2019: £109.5m

Statutory Operating (Loss)/Profit
£(93.5)m
2019: £93.8m

Revenue
€629.3m
2019: €940.6m

Underlying Operating Profit
€7.5m
2019: €124.9m

Statutory Operating (Loss)/Profit
€(105.2)m
2019: €106.9m

Underlying Operating Margin
1.2%
2019: 13.3%

Pre-Covid

ALSA was performing very strongly ahead of the pandemic, with revenue up 23% in the first two months of the year, driven by underlying growth of over 6% boosted by the new contracts in Rabat and Casablanca and acquisitions made in 2019. Our Spanish business was performing strongly across all segments but particularly in long haul where revenue was up 7%, passenger journeys up 5% and occupancy up 2%.

Navigating the crisis

As the first lockdown hit, we saw an immediate impact with passenger numbers falling by more than 90% in Spain. Demand came back quickly when restrictions were lifted but reduced just as quickly when they were re-imposed. Overall for the year, passenger journeys were down by 44% in Spain, and were particularly badly impacted by restricted inter-regional travel on our long haul routes, with a 62% year-on-year reduction. Patronage in Morocco grew slightly, driven by the new contracts in Rabat and Casablanca. Overall, and taking into account the fact that around 40% of ALSA's revenue is protected, year-on-year revenue decline was 33%. Wide-ranging actions were taken in order to reduce operating costs, which helped to deliver Underlying Operating Profit of €7.5 million (2019: €124.9m) despite seeing revenue decline by over €310 million.
After accounting for separately disclosed items of €112.6 million, of which

€93.5 million represented one-off Covid-related exceptional items (detailed on page 24, the segmental result for the year was an operating loss of €105.2 million (2019: profit of €106.9m).

Protecting staff and customers

Our first priority was to protect our employees and customers, and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- the provision of Covid tests to nearly 7,000 employees in Spain and Morocco;
- new policies and processes rapidly deployed to facilitate remote working;
- the roll-out of 'For Your Health' and 'ALSA Helps You' weekly communications to all staff;
- the redesign and update of websites to feature travel restrictions, rules and recommendations for passengers, ALSA safety measures, changes and cancellations, and FAQs;
- revised communication on buses and stations enforcing the mandatory use of face masks and related safety guidelines, and reassuring passengers on air quality and renewal; and
- monitoring social distancing measures on fleet and stations through mystery shopper audits.

Securing support

In our urban bus operations in Spain, terms were renegotiated for our Madrid Consortium contracts such that revenue is based on mileage operated rather than passengers carried, meaning that all urban services in Spain as well as a proportion of regional services carry no demand risk. Across ALSA, therefore, over 40% of revenue is now sheltered from demand risk and this figure will increase once Casablanca is fully mobilised in 2021. We have also worked closely with the Ministry of Transport throughout the year to ensure that when successive lockdowns and travel restrictions were implemented and subsequently lifted, service levels on our regulated long haul routes were flexed to the appropriate level. Working with all the relevant authorities, we received revenue subsidies representing around 3% of revenue in 2020 and we will continue to work to secure further subsidies in 2021. In addition to the revenue support, in flexing service levels to meet changing levels of travel restriction, we have made use of the Government's ERTE (furlough) scheme to enable staffing levels to vary with volume. At the peak of the first lockdown, over 11,000 ALSA employees were furloughed.

Reducing the cost base

In addition to the temporary staff savings enabled by the ERTE scheme, we took rapid and decisive action to cut operating costs. Direct operating costs such as fuel and maintenance were reduced in line with service reduction and all discretionary costs were stopped. We also reconfigured services to utilise internal resources and hence materially reduced third party operator costs – a material saving that will continue into 2021. In addition, ALSA initiated a major restructuring programme to reduce central costs by up to 50%, the benefits of which will be fully felt in 2021. This initiative has involved a full review of central functions with the integration and streamlining of a number of teams to improve processes and increase efficiency. Together, the structural cost reductions across ALSA will reduce annual operating costs by €25 million.

Supporting the community

Throughout the crisis we have sought to provide assistance in the communities we serve, for example:

- the 'Travelling with a Companion' initiative provided free tickets for assistants accompanying passengers with learning disabilities;
- the 'Madrid Thanks You' initiative offering substantial discounts for key workers and medical staff;
- ALSA employees across Spain have delivered thousands of kilos of food parcels to food banks, homeless shelters and other emergency operations;
- we have supported a large number of employees in volunteering to support the Red Cross help people through the pandemic; and
- provision of buses to the army, to help transfer Covid patients and medical staff.

Preparing for the future

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have continued to win and retain contracts as well as taking a number of other actions in 2020 that position the business for a strong rebound once restrictions are lifted.

During the year we successfully completed the mobilisation of Rabat and mobilised the first phase of our largest urban bus contract in Casablanca (which made a positive profit contribution in its first year). We will complete mobilisation of our operations in Casablanca with 700 new buses to be delivered in 2021, the first 400 of which start service in March, transforming the quality and safety of transport for our customers in this city.

We have successfully opened new markets in 2020. We have provisionally won new contracts in Portugal in Lisbon and Porto, with revenue of €44 million per annum and limited demand risk, providing access to a new market for us. Both of these contracts are set to start operating in the fourth quarter of 2021 and run for seven years. We also successfully mobilised our first urban bus contract in France which started operating in December. We have a strong pipeline of opportunities for 2021, including further revenue protected contracts.

In Spain, we retained our CalPita regional concession in Galicia for a further 10 years, worth €96 million over the life of the contract. This is particularly significant as Galicia is a region where ALSA had no presence prior to the strategic acquisition of CalPita in 2018, and it is pleasing to see we now have a long-term foothold in this region. The long haul concession renewal process restarted in 2020 and was then subsequently cancelled, as the authorities absorb the impact of the pandemic on transport, with no stated intention to restart the process in the near term. This will allow a level of stability to build back service levels as travel restrictions are lifted.

We are working towards a greener future, with the ambition to be the environmental benchmark in public transportation in Spain. To that end, we have added a small number of electric buses in 2020 and are also trialling hydrogen buses in Madrid. Further investment is planned for 2021 and beyond as we progressively move our urban fleet to zero emission vehicles.

We have also continued to invest in improving our digital capabilities and during the year we have invested in a new website and customer app, with enhanced functionality, improved customer experience and faster purchasing. This helped drive digital revenue up to 48% of ALSA's total (up 7% year-on-year). 2021 will see digitalisation of sales extended to some regional routes and ALSA will join forces with Mastercard in a bid to promote social mobility in public transport, with contactless payment made via the ALSA app, driving further digitalisation of sales and further cost efficiencies.

North America

Gary Waits
Chief Executive,
North America

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

We operate in 33 US states and three Canadian provinces.

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

Our transit business operates predominantly paratransit services across the USA.

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

Revenue
£869.2m
2019: £1,230.1m

Underlying Operating Profit
£12.4m
2019: £123.0m

Statutory Operating (Loss)/Profit
£(176.0)m
2019: £88.0m

Revenue
$1,116.0m
2019: $1,569.7m[1]

Underlying Operating Profit
$15.9m
2019: $157.0m[1]

Statutory Operating (Loss)/Profit
$(226.1)m
2019: $112.3m

Underlying Operating Margin
1.4%
2019: 10.0%

[1] Revenue and Underlying Operating Profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Pre-Covid
North America was performing strongly ahead of the pandemic, with revenue up 16% in the first two months of the year, largely driven by continuing growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing revenue by over 20% in the first two months).

Navigating the crisis
As the first lockdown hit in March, we saw schools rapidly close with no services running from mid-March through to the end of the 2019/20 school year, while demand for our transit and shuttle services fell dramatically in the second quarter with volumes declining by around 75% and 85% respectively at the low point. As the second wave of Covid-19 cases hit in July, we saw significant delays to the school start back, with only 26% of schools returning fully. Whilst we have secured significant revenue from customers where services have not operated, this has resulted in a decline in revenue of 29% for the year. A series of measures were taken to reduce costs, which helped to deliver

Underlying Operating Profit of $15.9 million (2019: $157.0m) despite revenue declining by over $450 million. After accounting for separately disclosed items of $242.0 million, of which $200.1 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of $226.1 million (2019: profit of $112.3m).

Protecting staff and customers

Our first priority was to protect our employees and customers, and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- setting up the 'coronainfo' service to share our response to the virus and educate our employees on how to prevent its spread;
- establishing a crisis reporting protocol for all Covid-19 positive tests as well as potential exposures;
- establishing daily screening procedures to prevent those with symptoms from entering our workplace and criteria they must certify prior to returning to the workplace;
- establishing and communicating social distancing guidelines and maximum capacities for each work area;
- creating customised Covid-19 Prevention Plans at each depot;
- working with districts to establish protocols for social distancing and provision of sanitiser on our vehicles;
- thorough disinfecting of each bus twice daily and conducting spot-disinfecting of high-touch areas on the vehicle during routes; and
- spot-checks to enforce district and client procedures for wearing of masks by passengers.

Securing support

In school bus, we immediately engaged our customers on a contract by contract basis, negotiating and securing 61% of pre-Covid revenues for the second quarter. Ahead of the start back to the new school year, we agreed a tiered approach with any customers not returning to full classroom operating, explicitly linking services retained to revenue secured and temporarily laying off staff where revenue support was not forthcoming. Through the new school year we secured 73% of revenue with around 68% of services running in Q3, rising to 75% in Q4, through a combination of traditional and hybrid (mixture of traditional and online) learning.

In our transit operations, we worked with customers to amend contracts to allow for more flexibility to respond to rapid changes in volumes and demand including re-balancing of fixed and variable components of our remuneration. We renewed and expanded our Boston contract in 2020 with 150 more (customer supplied) vehicles and renegotiated contracts in Chicago, moving to a fixed fee plus variable rate model to mitigate risk under new or changing service levels. For the year as a whole across Transit, we ran around 61% of service (up to 72% by the year end) and secured 80% of pre-Covid revenue. In shuttle, the strength of our customer relationships saw us secure 80% of pre-Covid revenue despite only 24% of services operating.

We received a total of $24 million in government grants under the US CARES Act and the Canadian Emergency Wage Subsidy programme, with these grants helping to support the continued employment and retention of our drivers and support staff during the periods of reduction in service caused by the pandemic.

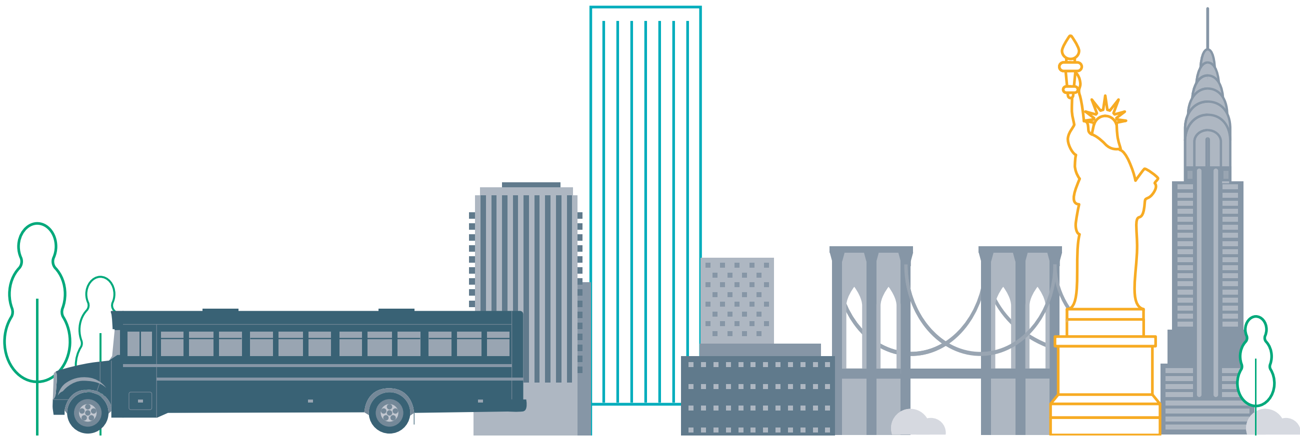
Reducing the cost base

We took swift action to reduce variable costs in line with service reductions. Where customers have not paid to retain staff, employees have been temporarily laid off, benefitting from improved welfare payments during the pandemic. At peak during the second quarter of 2020, we had temporarily laid off nearly 24,000 of our employees (over 80% of our workforce). In addition to flexing variable costs, we removed $20 million of annualised fixed costs, predominantly through a reduction in headcount in central and support roles. During the year we undertook a full review of the contracts within our transit operations, and have taken steps to sell or shut down those operations where we do not believe that we can recover the impact of the pandemic in a reasonable period of time. The contracts in this category related to regional coach, retail taxi operations and some low margin fixed route contracts.

Supporting the community

Through these testing times we have also supported our local communities in many ways, including:

- the delivery of over half a million meals across a number of states to vulnerable people and families in need;
- delivery of school homework packs and lesson plans in Tennessee and Kansas; and
- providing shuttle services for key workers to hospitals in Chicago and employees in the biotech and manufacturing sectors in California.



Preparing for the future

Clearly, the new administration's pledge to get children back into schools in its first 100 days is a very positive development, as is the desire to electrify the entire nation's fleet of school buses. Funding packages are being finalised to help drive both of these outcomes.

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have continued to win and retain contracts. In addition, although revenue will be reduced as a result of the transit exits, the elimination of loss-making and low margin contracts as well as the impact of restructuring and sustainable cost control will improve ongoing profitability.

We won significant new school bus contracts in Boise, Idaho (150 buses); Fairbanks, Alaska (10-year contract, 150 buses); a 90-bus contract in Oakland, California; a 70-bus contract in Norwalk, Connecticut; a 100-bus contract in House Springs, Missouri; and most recently another 10-year contract in Alaska which starts in 2022. In addition, we won a 100-bus school bus contract where a small operator went into liquidation (in New York) and another where a competitor fell out with the customer in dealing with Covid-19 pressures (in Michigan, 60 buses). We also won a capex-light paratransit contract in Fresno, California, for up to five years. These wins were partially offset by losses of contracts where we could not meet expected returns thresholds; our overall retention rate was 91%.

In terms of school bus bidding, during the 2020/21 bid season we secured rate increases on expiring contracts of 3.8% which translated into 3.1% across the full portfolio, compared with average wage increases of 2.7%. In the current bid season for the school year 2021/22, 28% of the portfolio is expected to go to bid with some likely to negotiate extended contracts, and initial signs are positive on both pricing and wage demands. Earlier in the year, we saw an increase in the number of school boards contacting us to explore potential outsourcing of their in-house services. Not surprisingly, in the last few months, school boards have focused on the day-to-day challenges of school restart and changing requirements in the face of rising Covid cases. Going forward, we believe that the pressures brought about by Covid-19 with regard to logistical challenges and school board budgets are likely to see some school boards move to outsource their school bus services. This, in combination with the ongoing pressure on smaller operators, should provide opportunities for future growth.

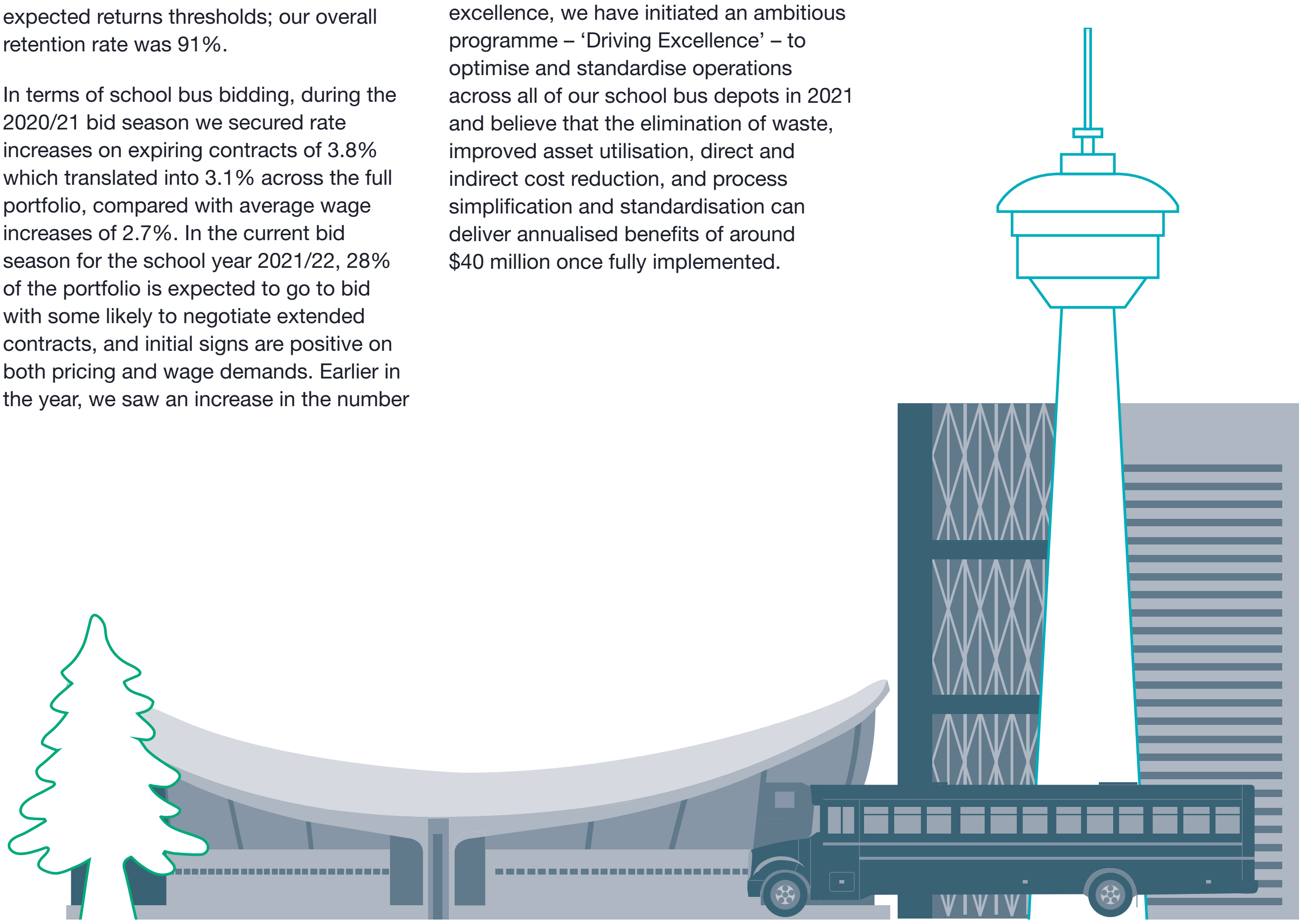
We continue to see plenty of growth opportunities in our shuttle business, where our customers are continuing to grow and are taking on additional office space to accommodate a growing workforce, despite some level of continued home-working. We have continued to win new shuttle contracts, most notably a five-year contract with Genentech, as well as a five-year contract with Gilead Sciences (further expanding our reach into the pharmaceutical sector), and have increased our exposure to the universities sector, winning a five-year contract with Princeton University. We see significant scope to expand in both the universities and hospitals sectors, with a strong pipeline of bid opportunities in the next 12 months.

Building on our tradition of operational excellence, we have initiated an ambitious programme – 'Driving Excellence' – to optimise and standardise operations across all of our school bus depots in 2021 and believe that the elimination of waste, improved asset utilisation, direct and indirect cost reduction, and process simplification and standardisation can deliver annualised benefits of around $40 million once fully implemented.

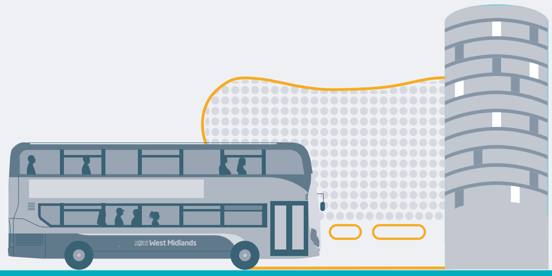
Finally, significant funding packages have been made available under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA), December 2020, which will underpin the profitable recovery in our sectors:

- the extension and expansion of the Employee Retention Tax Credit (ERTC) will help to maintain the flexibility in the cost base to respond to changing service across schools;
- transportation-specific packages include funding for multiple modes of transport, the most pertinent to us being $2 billion in relief for coaches and school buses; and $14 billion to provide operational aid to transit agencies; and
- education funding of $82 billion to be used on a variety of services that underpin the ongoing functionality of school districts, colleges and universities.

In addition there are numerous local funding packages to assist with the electrification of the fleet.



UK



Tom Stables
Managing Director,
UK and Germany

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

In 2020, we have introduced the first of our electric vehicles into the fleet, and it is our ambition to be zero carbon emissions in our bus business by 2030 and in our coach business by 2035.

Revenue
£388.2m
2019: £599.7m

Underlying Operating Profit
£(49.0)m
2019: £85.0m

Statutory Operating (Loss)/Profit
£(99.4)m
2019: £84.1m

Underlying Operating Margin
(12.6)%
2019: 14.2%

Pre-Covid

Our UK business was performing well ahead of the pandemic, with revenue up by 5% in the first two months of the year. Broad-based growth in both our bus and coach businesses was augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

Navigating the crisis

As the first lockdown hit in March, we saw an immediate impact in both bus and coach with passenger numbers dropping dramatically. At the peak of the lockdown our bus operations saw patronage fall by more than 80% with 47% of service operating, while in coach, the nationwide travel ban effectively cut demand to zero. Demand came back quickly when restrictions were lifted but reduced just as quickly when they were re-imposed.
For the year as a whole, passenger numbers were down 47% in our bus operations and 71% in our core coach operations. Overall, and taking into account the fact that our bus operations received revenue support through the COVID-19 Bus Services Support Grant (CBSSG), revenue declined by 35% in the year to £388.2 million, with almost all of the revenue decline seen in our coach operations, down 67%. Wide-ranging measures were taken to reduce variable costs, made all the more necessary due to the imposition of social distancing on public transport which has enforced occupancy well below levels required to break-even. This has been particularly acute in our coach business, with the decline in revenue for the UK as a whole of over £210 million resulting in an operating loss of £49.0 million (2019: operating profit £85.0m), all of which was driven by performance of coach. After accounting for separately disclosed items of £50.4 million, of which £49.9 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of £99.4 million (2019: profit of £84.1m).

Protecting staff and customers

Our first priority was to protect our employees and customers and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- nightly fogging to deep clean vehicles and introduction of UVC air-con filtration systems;
- reconfiguring vehicle layouts to allow reduced seating capacity to comply with social distancing requirements;
- enforcing social distancing and mandatory wearing of face masks for customers on board, at bus stops and in our bus and coach stations;
- redesigning boarding procedures for coach passengers;
- monitoring passenger numbers on board buses, implementing dynamic duplicate services where necessary for social distancing;
- securing priority Covid testing for bus drivers as front-line key workers;
- temperature screening of employees and customers before boarding our coach services;
- installing protective screens on vehicles for drivers and in coach stations for customer facing staff; and
- issuing weekly email updates to all colleagues including latest health and safety advice and FAQs.

Securing support

In our UK bus operations we have proactively engaged and worked closely with Transport for West Midlands (TfWM) and the Department for Transport (DfT) to ensure the appropriate levels of service were provided in a socially distanced environment in line with changing travel restrictions. Funding was secured through the CBSSG to enable services to run at break-even, with the DfT recognising the vital role bus services provide for local communities and economies. Even at the peak of the first lockdown we operated 47% of services, rising to 103% of pre-pandemic service levels in the third quarter. With patronage close to 60% of pre-pandemic levels in the autumn, we have consistently operated services at a higher occupancy level than the industry average.

We have also made use of the Government's Covid Job Retention Scheme (CJRS) or 'furlough', most notably in our coach business where travel restrictions and lockdowns have severely reduced demand. In the first lockdown we suspended services for the whole of the second quarter and placed colleagues onto the furlough scheme, up to 96% of coach employees at the peak. While a reduced and socially distanced service resumed over the summer, subsequent restrictions have seen more staff return to furlough with around 87% of coach employees currently furloughed. We also made use of the furlough scheme in bus in the second quarter when service levels were running at 47% of pre-Covid levels, but with service levels quickly returning to pre-Covid levels, this support was not required in the second half of the year.

In total, we have received revenue support of £83.2 million through the CBSSG in England, with a further £1.5 million from the equivalent arrangement in Scotland, together with cost support of £27.1 million through the CJRS. In partnership with TfWM, we are also currently in negotiations with the DfT to secure future funding through new recovery partnerships whilst the impact of Covid-related travel restrictions and social distancing persists.

Reducing the cost base

In addition to the temporary staff savings enabled through the Government's CJRS, we took rapid action to cut operating costs, most notably in our coach operations where operating costs have been reduced wherever possible to reflect service reductions. Whilst the most significant cost saving was in payments made to third party coach operators, we have provided specific Covid support grants to these operators to cover a proportion of their fixed costs. We believe that without making these payments to our partner operators, a number of them would have gone out of business with significant implications for service resumption once restrictions are lifted.

In addition, we introduced a number of cost initiatives which will also flow into 2021 and beyond, including: the closure of our Bordesley depot, with all employees and services transferred to other sites; the consolidation of our coach and bus head offices into one single site, providing not only cost savings but also better opportunities for collaborative working; network redesigns enabling more efficient services; the outsourcing of non-core functions such as cleaning and fuelling; and further digitalisation efficiencies through digital tickets and also engineering processes. These combined initiatives should deliver annualised cost savings of around £30 million.

We also made the strategic decision to dispose of our small, remote bus operations in Dundee.

Supporting the community

Throughout the crisis we have provided assistance to the communities we serve: our NEAT operations provided direct shuttle services for NHS workers to hospitals; transported the children of key workers to school; delivered food parcels to vulnerable children and families in need; and most recently, we have been transporting vulnerable and elderly people to vaccination centres.

Preparing for the future

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have taken a number of actions in 2020 that position our UK businesses for growth once restrictions are lifted.

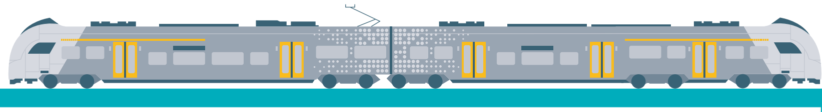
We restructured our non-scheduled coach operations to form a single operation, launching National Express Transport Solutions (NETS) to leverage our brand and presence in the fragmented commuter, corporate shuttle, private hire and holidays markets. And we are already seeing early success with a significant pick-up in advance holiday bookings – with nearly three times the normal level of advance bookings seen in the first two months of the year, with customer confidence boosted by the rapid roll-out of vaccines across the UK.

Our NETS business secured a major contract for employee shuttle services with a major retailer. Significantly, this is the first time this retailer has contracted with a single supplier for these services. Our accessible transport business, NEAT, has won new contracts outside of the West Midlands for the first time, extending the footprint into Warwickshire with two new contracts – and we see further opportunities ahead in this £900 million market. Bus has won some small new contracts and tenders as well as launching a number of new commercial routes, including an express service from Walsall to Wolverhampton.

Our coach operations have had to be very agile in the last year in response to constant changes in travel restrictions, with services flexing up and down, often at very short notice. Bolstered by these learnings coach stands ready to rapidly ramp up services once restrictions are lifted, and our experience in the last year demonstrates that there is pent-up demand for our services. Our investment over the years in network management tools and processes means that we can dynamically optimise as the service scales back and we are targeting an 8% reduction on annualised network costs as we build back to full scale to deliver c.£10 million of the cost savings noted above.

We have made good progress on our environmental ambitions. Not only have we launched the first 29 electric buses (EVs) on our bus networks in the West Midlands, but working in partnership with TfWM, Coventry is set to become the first electric bus city in the UK. This will secure funding for up to 170 EVs, with the new fleet starting to be delivered in 2022, not only bringing significant environmental benefits to Coventry but also reducing operating costs in our business. We are also delighted to have won the bid to operate 20 new hydrogen Platinum buses in Birmingham, all funded by Birmingham City Council (BCC), and entering service later in 2021. We continue to work with the Mayor, Councils and TfWM to secure additional funding for further zero emission buses, with the ambition for the West Midlands to become the first zero emissions region in the UK. June 2021 will see the launch of the Clean Air Zone in Birmingham and we are working closely with both BCC and TfWM to optimise the modal shift away from cars onto buses.

The investment we have made in digital in recent years is continuing to drive a greater proportion of sales via digital platforms, with over 70% of customers now purchasing digital tickets in bus, helping to reduce costs. 2021 will see the launch of new and more flexible contactless products with weekly and three-day price capping, adding to our already popular daily capped product (the first and largest of its kind outside London), making it easier and cheaper for customers to travel on our services. And we have raised the level of digital capability across the UK, implementing a common UK website platform which has enabled rapid roll-out of new websites across each of our businesses, improving the performance and security of our websites and lowering costs.



Germany

National Express has been operating rail services in Germany since Dec 2015.

We operate a number of lines in North-Rhine-Westphalia through our contracts for Rhine Munster Express and Rhine-Ruhr Express.

The German regional and urban rail market is worth around 9 billion Euros, with contracts awarded by regional passenger transport authorities.

Reported revenue is up 52.8% to €156.6 million (2019: €102.5m), reflecting the start-up of two services in 2019 for Rhine-Ruhr Express (RRX) services, with a third service mobilised in December 2020. The Underlying Operating Loss of €5.5 million in 2020 compared with the 2019 Underlying Operating Profit of €5.7 million is driven by contract accounting.
In essence the positive adjustments to full lifetime contract profitability that were made in 2019 have been offset by a similar size reduction this year as we flow through the impact of the pandemic. Without these accounting adjustments, the business generated a small underlying operating profit in both years.

As an immediate response to the pandemic, services on our networks were reduced to around 70% of pre-Covid levels in March and April. However, since May, our rail operations have run services at 100% of their pre-Covid levels with 29 million passenger journeys made during the year.

Our German Rail operations have built on their reputation for high performance and reliability with the successful mobilisation of the third service in our RRX contract; crucially ensuring no issues on driver recruitment and training; and helping to further strengthen our relationship with the local passenger transport authorities (PTAs); positioning the Group well for future growth.

Strategic Report
Corporate Governance
Financial Statements
Additional Information

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

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

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

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

Risk management framework

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

Defence	Responsibility	Actions
Oversight	Board	– Sets strategic objectives – Determines overall risk culture and appetite – Establishes organisational structure with defined lines of responsibility, delegated authorities and clear operating processes – Reviews and approves Group Risk Register, Risk Appetite Statement and Emerging Risk Register, two or three times annually
	Audit Committee	– 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

Risk appetite

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

Zero tolerance

The Group has zero tolerance for risk which may impact:

- the safety of our employees, customers or the general public;
- our reputation and brand; and/or
- our legal and regulatory compliance.

Core business/ operational excellence

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

Technology

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

Strategic growth/M&A

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

Prioritising and reporting risks

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

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

Covid-19

The Covid-19 pandemic has had a significant impact on the public transport sector with mobility significantly restricted by lockdowns across the world. The Group has limited the impact of the pandemic by renegotiating contracts, entering in new arrangements with transport authorities and other customers to continue to operate on a pay-per-mile basis, and taking swift and decisive cost reductions.

Whilst there is good reason to believe that the deployment of vaccination programmes, and the development and introduction of new therapeutic treatments and drugs will speed recovery from the pandemic, the risk remains that new virus mutations or problems with the delivery of the vaccine may delay the recovery. We have introduced a new moderate likelihood, significant impact risk to cover both a materially slower recovery than base forecasts and lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home.

Emerging risk

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

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

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

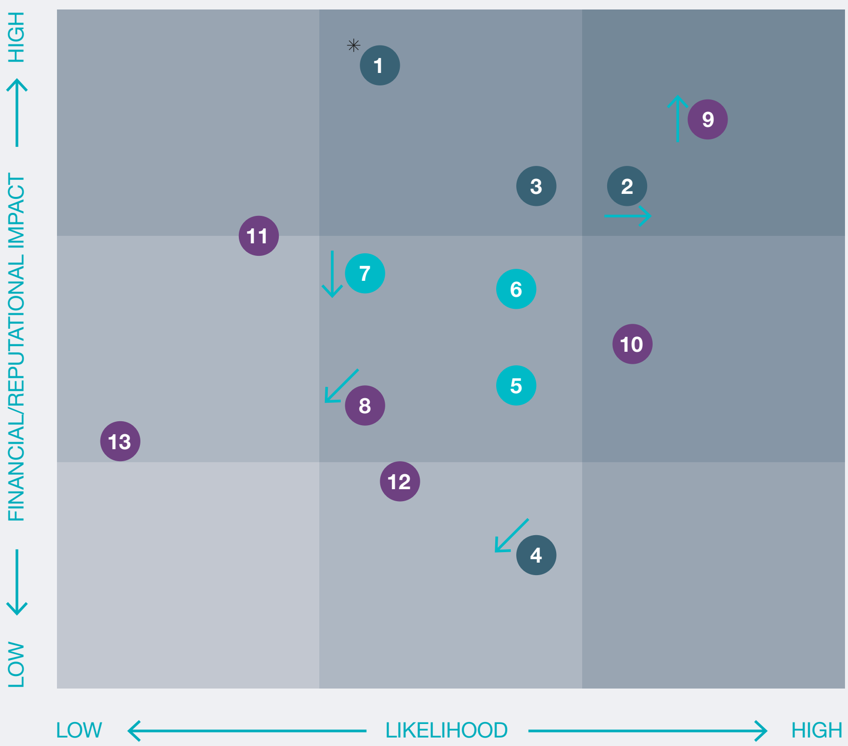
As part of the process to identify emerging risks, Group businesses continue to monitor events that may develop anywhere in the world which have the potential to become global (e.g. a health pandemic, political conflict, climate/weather catastrophes) or to impact the markets where the Group operates.

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. There are four risks that currently fall into the latter category.

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

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

Principal risk matrix



Macro/external risks
1 Extended Covid-19 impact
2 Economic conditions
3 Political/geopolitical/regulatory landscape
4 Brexit

Strategic risks
5 Changing customer expectations in a digital world
6 Alternative fuel vehicles (AFVs)
7 Competition and market dynamics

Operational risks
8 Attraction/retention of talent/HR/labour relations
9 Cyber/IT failure/General Data Protection Regulation (GDPR)
10 Terrorism
11 Safety, litigation and claims
12 Natural catastrophe/extreme weather/loss of key facility
13 Credit/financing

Key
↑ Denotes movement in risk during the year
✳ New risk

Principal risks and uncertainties

Macro/external risks

Key

- Core business/ operational excellence
- Strategic growth/ M&A
- Increase in risk during the year
- Technology
- New risk in the year
- Reduction in risk during the year

Risk	Potential impact	Management/mitigation	Opportunity	Change in risk in the year
1 Extended Covid-19 impact	– Once restrictions are lifted and mobility recovers, there may be lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home	– Re-balance investment across our portfolio in the short term, e.g. less reliance on airport work – Remain flexible to scale service up and an down in line with changing demand – Continued focus on customer service, highlighting the benefits to society of quality public transport – Relentlessly work with customers and staff to ensure safety is paramount	– The Group's leadership positions in many diverse and attractive markets are likely to strengthen, as other operators are unable to withstand the impact of the pandemic – When the world emerges out of the pandemic it will be confronted with the need to power an economic recovery with high quality, cleaner and greener public transport at its heart. The alternative is inefficient, congested towns and cities with dirty air.	– This is a new risk for 2020
2 Economic conditions	– Declining economic conditions, particularly following the current pandemic, potentially impact demand for discretionary travel – Improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs	– Geographical diversification of the Group provides a natural hedge to some economic risk – Strategic plans are stress tested for differing economic and pandemic scenarios – Strong strategic focus on people/talent management and recruitment/retention – Delivery of excellence in service and operations	– Despite a generally unsettled and a deteriorating economic outlook due to the pandemic, private consumption and demand conditions for public transport, particularly urban, continue to be strong – Higher unemployment rates relieve pressure on staff costs and turnover	– Due to the pandemic, economic growth is expected to slow or even reverse in our major markets in the short to medium term
3 Political/ geopolitical/ regulatory landscape	– Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency – Franchise renewal risk in Spain – UK bus franchising or alternative models – Financial or reputational cost of failure to comply with changing regulations or legislation	– 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	– Political and social pressure continues to grow on congestion and clean air, which favours public transportation – Increasing city regulation and investment in bus and Bus Rapid Transit (BRT) schemes – Continued liberalisation of markets in many territories	– The Spanish franchise renewals process has paused and is the process is being reviewed – Continued strengthening of our relationships with key political stakeholders and our reputation as a high quality, innovative partner – Birmingham's Draft Transport Plan is pro public transport, demonstrating the direction of travel amongst enlightened local authorities – Significant support of public transport by governments during the pandemic
4 Brexit	– An economic downturn in the UK could adversely impact demand for our services – Reduced travel volumes to/from UK airports could affect demand for our UK coach services – Supply chain disruptions could result in respect of imports from the EU	– Ongoing close monitoring of specific Brexit-related risk issues – Geographical diversification reduces Group-level risk; exposure to the UK market is less than 25% of total revenue – Supply chains risk assessed	– Not applicable	– Whilst the achievement of a deal between the EU and the UK has eliminated much of the uncertainty, the full impact of the changes continues to create risks, albeit significantly more limited

Key

- Core business/operational excellence
- Strategic growth/M&A
- Increase in risk during the year
- Technology
- New risk in the year
- Reduction in risk during the year

Strategic risks

	Potential impact	Management/mitigation	Opportunity	Change in risk in the year
5 Changing customer expectations in a digital world	– 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	– Comprehensive digital strategies developed in each division – Divisional 'digital scorecards' are reviewed monthly by the Group Executive Committee to monitor the effectiveness of various digital channels – Developing strategies for demand responsive services – Oversight by Chief Digital Officer	– Leadership in adopting new technologies will enhance our service to existing customers and attract new ones – Millennials are an increasingly important target market and more inclined to use public transportation if the service is right	– Innovation programmes implemented in North America, UK and Spain are improving the customer digital experience – Continued increases in bookings through online and digital mobile platforms – Continued roll-out of ticketless operations
6 Alternative fuel vehicles (AFVs)	– Increasing popular, political and customer demand for alternative fuel (electric, hydrogen etc.) vehicles – Transition involves potentially material changes in financing, maintaining and operating the assets, creating execution risk – Requires significant change to infrastructure	– Environmental leadership with pledge to never again buy a diesel bus in the UK and launch electric vehicle procurement competition in UK coach. Ambition to reach zero emissions in UK bus by 2030 and UK coach by 2035 – Cross-division executive leadership of AFV strategy – Close engagement with new and existing original equipment manufacturers – Pilot testing in a number of areas	– AFVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment – Total Cost of Ownership equivalence versus net present value (NPV) by around 2024 – Commitments in other divisions	– Electric vehicles entered service in Coventry, Birmingham and Bilbao – EV pilot project underway in New York – First autonomous electric bus service in Madrid university campus
7 Competition and market dynamics	– Competition arises from direct price competition; inter-modal (e.g. coach vs. 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	– 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	– 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	– Operators without strong financial position and backing are more unlikely to survive in the current climate, reducing competition

Key

- Core business/ operational excellence
- Strategic growth/M&A
- Increase in risk during the year
- Technology
- New risk in the year
- Reduction in risk during the year

Operational risks

Risk	Potential impact	Management/mitigation	Opportunity	Change in risk in the year
8 Attraction/ retention of talent/HR/ labour relations (Core business/operational excellence; Technology; Strategic growth/M&A; Increase in risk during the year)	– Lack of available management talent/ leadership skills can inhibit growth – Shortages in drivers and other key staff can disrupt operations and lead to wage and benefits cost inflation – Increased unionisation and/or poor labour relation presents increased risk of strike or operational disruption	– 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	– Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities	– Higher unemployment levels in key markets due to the pandemic have led to lower pressures on recruitment, retention and cost inflation – Established diversity and inclusion programmes
9 Cyber/IT failure/ General Data Protection Regulation (GDPR) (Technology; Strategic growth/M&A; Increase in risk during the year)	– Major IT failure could disrupt operations and lead to loss of revenue, especially in the coach businesses – Data compromise involving a loss of customer information could result in reputational damage and significant remedial costs – Breach of the EU General Data Protection Regulation (GDPR) or the US California Consumer Privacy Act (CCPA) could result in a regulatory investigation and financial losses	– Continuous investment in organisational and technical measures to protect data assets – Revised cyber security strategy aligned with the threat landscape (including the Covid-19 pandemic) – Regulatory compliance plans in place, tailored to each division's exposure (GDPR or CCPA)	– Strengthened resilience against cyber threats and IT outages increases awareness and leverage of technology across the Group	– The pandemic, and in particular the material rise in home-working, has led to an increase in remote access exploitations and phishing campaigns – An adaptable cyber security programme supported improvements in our resilience and risk management
10 Terrorism (Core business/operational excellence; Technology; Strategic growth/M&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	– Close liaison with government agencies and industry partners – Major incident/emergency plans are developed in all divisions – Insurance coverage is available and in place for some terrorism-related risks – Risk assessment of any new business growth opportunity	– n/a	– UK Government threat level increased from 'substantial to 'severe' in November (but returned to 'substantial' in February 2021) – In Spain and the USA the threat levels have remained unchanged

Key

Core business/ operational excellence

Strategic growth/M&A

Increase in risk during the year

Technology

New risk in the year

Reduction in risk during the year

	Potential impact	Management/mitigation	Opportunity	Change in risk in the year
11 Safety, litigation and claims	– 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 – Covid-related claims from employees or customers – Non-compliance with regulations can create legal and financial risk	– Very strong safety culture – Dedication to leading edge safety technology – PPE and other anti-Covid procedures in place across the Group – Appropriate insurance coverage for accident-related claims to employees and third parties with experienced claims management and legal teams in each division – All divisions have established safety audit programmes, validated by Group internal audit – Full adherence to government guidelines and regulation regarding Covid-19, and continued monitoring of change to relevant legislation	– Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering	– The pandemic has resulted in new, or broadened, claims exposures including claims from passengers or employees who contract Covid-19 – The Group was able to achieve satisfactory insurance renewals due to our commitment to safety and to effective litigation/ claims management
12 Natural catastrophe /extreme weather /loss of key facility	– Loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss and lost revenue – Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged	– 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	– n/a	– Continued general increase in extreme weather events around the globe, including hurricanes, storms and wildfires
13 Credit/ financing	– Contract-based operations such as North America and Spanish urban are exposed to late or non-payment risk from customers, impacting Group liquidity – 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	– Close monitoring of receivables and appropriate provisions made for possible non-collection – Strong relationships with a number of banks – Continued monitoring and scenario analysis over covenants – Appropriate liquidity maintained through committed bank facilities, finance lease programmes and debt capital market issuances	– Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth	– Bank facility (RCF) extended for a further year – £190 million one-year committed bank facilities executed in response to Covid-19 – £600 million commercial paper available under the HM Treasury and Bank of England's CCFF programme; this will be allowed to lapse in March 2021 – £230 million equity placing – £500 million hybrid issuance to structurally reduce net debt – Lending covenants amended/waived until December 2021

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 3% 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 eight 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 whilst private car ownership is beginning to decline; the gap will be filled by public transport
- Even following the pandemic, public transport is fundamental to the long-term solution for the urban challenges of congestion and poor air quality; our ambition to be the world's greenest transport company places us at the forefront of this opportunity

We invest in the business to secure its future:

- Over the five years prior to 2020, 90% of free cash flow has been reinvested into the business
- We invest in technology to allow customers to access our products at competitive prices and to deliver our services safely and efficiently
- We continue to selectively bid for and win new business; notable wins over recent months include contracts in Lisbon and Porto that mark our entry into the Portuguese urban bus market, new employee shuttle contracts in WeDriveU and new school bus contracts

The Group has strong liquidity, with £1.9 billion of cash and undrawn facilities available as at 31 December 2020. £0.6 billion of this is the Bank of England CCFF, which the Directors will allow to lapse in March 2021, given the strong liquidity position. The Group's credit rating is investment grade.

Principal risks and assessment period

The Board reviewed the Group's principal risks (pages 38-41), looking at each risk's impact, likelihood and the timeframe over which the risk was likely to reduce Group cash flows. On this basis, the highest impact and highest likelihood risks were considered in modelling a severe but plausible downside to assess the Group's future viability.

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

- Pandemic: the impact of Covid-19 is expected to have substantially subsided in any scenario
- Regulatory: the outcome of the majority of the major Spanish concessions renewals is expected to have become more certain
- Brexit: the immediate and medium-term impact of Brexit will be felt

Assessment of viability

In assessing viability the Directors have considered the Group's three-year 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 and the Group's estimates of the impact of Covid-19, using external forecasts (such as those published by the IMF and OECD) to help inform the shape of these assumptions.

Covid-19 assumptions

We have specifically 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; rather, we have modelled a protracted recovery from the current pandemic due to weaker-than-expected efficacy of the vaccines and/or shortages in their availability and/or new strains of the virus.

In this downside scenario we assume that Group revenue (on a like-for-like basis) does not recover to pre-pandemic levels until the end of 2022; this is broadly a year later than our base case. This is in line with the OECD's downside forecasts, as of late 2020, for recovery in global GDP.

The base case assumes that there will be government support in 2021; this is detailed in the going concern assumptions in note 1 to the Financial Statements. No government support beyond pre-pandemic levels is assumed beyond 2021 in any scenario.

All other stress tests

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

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

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

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

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

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

Conclusion

In the unlikely event of this concurrence of events, the Board would mitigate through reduced operating costs and capital expenditure. During assessment, the Group's continued cash generation, access to liquidity and funding, and mitigation actions demonstrated that it could tolerate the impact of the risk scenarios without exhausting liquidity or breaching covenants. However, if the concurrence of events listed above were to collectively occur, the covenant headroom would be narrow in the second year. Should a covenant amendment be required, the Directors consider it likely that one would be granted, given the strength of the relationships with lenders, the support provided to date and the fact that the covenant amendment would only be required as a result of temporary Covid-19-induced EBITDA pressure, whilst liquidity remained robust and long-term prospects continued to be strong.

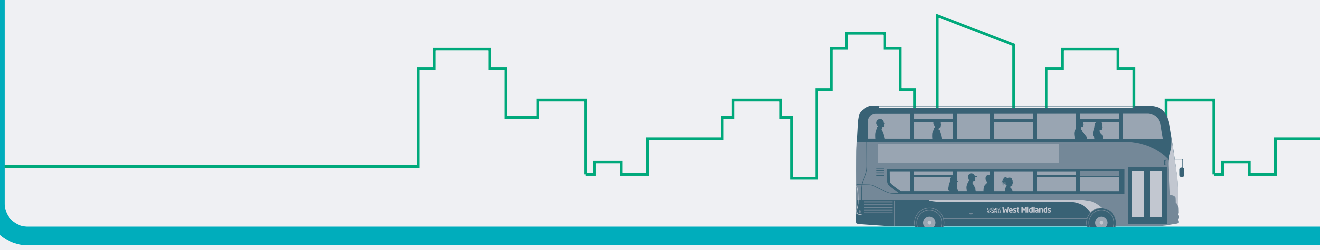
Viability Statement

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	Environment page 51 Safety & Environment Committee Report pages 90 to 94 Environmental performance data pages 48 to 51
Employees	– Equal Opportunities & Diversity Policy – Workplace Rights Policy	Social capital pages 53 to 54
Human rights	– Human Rights Policy – Modern Slavery Policy – Whistleblowing Policy – Privacy Policy	Social capital pages 53 to 54 Audit Committee Report pages 83 to 86
Social matters	– Rather than a specific policy, our approach to social matters is framed by our Community and Environment Value	Social capital page 53 to 54
Anti-corruption and anti-bribery	– Anti-bribery and Corruption Policy – Purchasing Policy	Social capital page 53 to 54 Audit Committee Report pages 83 to 86
Policy implementation, due diligence and outcomes	– Anti-bribery and Corruption Policy – Purchasing Policy	Corporate Governance pages 56 to 75 (including Board activity during the year page 62 and Audit Committee Report pages 83 to 86)
Principal risks and impact on business activity		Risk management pages 36 to 41 Audit Committee Report page 83 to 86
Description of business model		Our business model page 14 to 15
Non-financial key performance indicators		Key performance indicators pages 18 to 19 Environmental performance data pages 48 and 51



Engaging our stakeholders

Our partnership approach to stakeholder relations

Our drive to be a trusted partner to all our stakeholders is rooted in our Purpose. We form relationships based on mutual understanding and respect and, by engaging meaningfully, we gain valuable insights which influence decision-making at every level of the business from the Board to local management teams. Acting on these insights helps us continuously improve what we offer to stakeholders, further reinforcing this virtuous circle.

How our Board of Directors engages with and has regard to stakeholder views

While the majority of engagement with stakeholders takes place within the business divisions and is led by divisional management, the Company's Board engages directly with certain stakeholders, as described on pages 67 to 72 of the Corporate Governance Report. The Company's Directors are also kept regularly appraised of all stakeholders' views through divisional reports to the Board, so that Directors are able to have regard to such views in their decision-making, as illustrated by reference to various stakeholders' interests in our Section 172(1) statement on pages 46 and 47 of this Strategic Report.

Our people

Our greatest asset is our experienced, diverse and dedicated workforce. Their commitment drives the delivery of a safe and reliable transport service. We are committed to personal development, ensuring colleagues are appropriately supported and rewarded for all they do.

They told us they value

- A workplace that values diversity, champions inclusion and respects the rights of all employees
- Opportunities for progression
- Fair pay and reward
- Health, safety and wellbeing

How we engage with them

Engagement is executed locally against global policies:

- Frequent newsletters and feedback opportunities in each division
- Regular corporate communications to keep colleagues informed about how the Group is performing
- Regular communication with local management
- Wellbeing pulse surveys
- Diversity and inclusion surveys
- Open and constructive dialogue with trade unions

Engagement focus in 2020

With the unprecedented changes in working practices driven by our response to the pandemic we significantly increased engagement:

- Enhanced health and safety briefings for front-line workers
- Support for remote working practices to balance childcare/home-schooling etc.
- Wellbeing support during periods of furlough
- More frequent business updates

The value of engagement

The overwhelming feedback from our colleagues was praise for our response to the pandemic and specifically how we have engaged them. We believe we have maintained and even enhanced our colleagues' trust, resulting in a more engaged workforce which will reinforce talent retention.

Links to our KPIs

FWI
Passenger journeys

Passengers

As a public transport company, our ongoing success is grounded in continuing to exceed passengers' expectations for safe and reliable services at a fair price on clean and increasingly green vehicles.

They told us they value

- Safe and reliable services at a fair price
- Consistent service performance that builds trust
- Prompt and pragmatic response to changing demands
- Open and honest communication, especially during times of uncertainty and disruption

How we engage with them

Engagement is tailored to specific segments in each market and is increasingly digital in nature:

- Increased communication via websites, apps and social media, particularly on service changes
- Rapid updates on travel restrictions and up-to-date advice on health and safety measures
- Continual review of customer feedback via customer service centres
- Ongoing customer panels and focus groups

Engagement focus in 2020

We increased engagement with our passengers as government responses to the pandemic have materially impacted our services:

- Reassurance of safety measures for passengers
- No quibble reimbursement for cancelled travel
- Continuous, real-time updates on service changes

The value of engagement

Our passengers have communicated a pent-up demand for our services providing a strong base from which to rebuild revenue once restrictions are lifted. Throughout the pandemic, we have seen positive feedback on how we have run our services.

Links to our KPIs

FWI

Customers

Public transit authorities, school boards and other corporates are key customers and we aim to earn their loyalty by providing safe, reliable and great value services transportation solutions on clean and increasingly green vehicles.

They told us they value

- Safe and reliable services that represent great value for money
- Consistent delivery that builds trust
- Accurate and open dialogue about successes and challenges
- A good company, giving something back

How we engage with them

Given the nature of our business, customer relationships are managed locally in each division:

- Direct bilateral dialogue with school board, transport authority and corporate customers
- Engagement through existing and newly created industry bodies
- Ongoing customer surveys tailored to understand the impact of the pandemic and our response

Engagement focus in 2020

We have been in near constant contact with our customers to understand their changing needs in the context of the pandemic:

- Reassurance on safety measures for passengers
- Flexing services and schedules in line with changing travel restrictions
- Negotiating support packages to enable us to retain colleagues where services are not running

The value of engagement

We have received praise for communication levels during the pandemic and we believe we have preserved and even enhanced customer relationships through the crisis. This should provide a strong platform for growth once travel restrictions are removed.

Links to our KPIs

FWI
Passenger journeys

Governments & regulators

Public transit authorities, in addition to being customers in some cases, are key partners through their role of setting transport policies and providing grant funding for transport initiatives. Regulators also monitor the high standards we operate by.

They told us they value
- Safely delivering reliable transport services for communities
- A partner to help to solve the challenges of congestion, carbon, clean air and inclusive growth
- Broader positive community impact

How we engage with them
We engage in dialogue with central and local government departments and transport authorities in each market in which we operate both as a company and through industry associations:
- Bus Alliance in the West Midlands
- Transport for London (for UK coach)
- North America Transit Alliance
- National Student Transport Association
- CONFEBUS for the Spanish transport industry

We also comply with our reporting obligations to regulators

Engagement focus in 2020
Engagement has centred around working together to respond to the pandemic:
- Clarifying evolving laws and guidance on travel restrictions and associated safety guidelines
- Securing critical funding for transport providers and their employees adversely affected by government-imposed travel restrictions
- Evolving partnership models to speed the introduction of zero emission buses and associated infrastructure

The value of engagement
We have received significant positive support from governments and feedback from elected members who have recognised our people as key workers. We believe our partnership approach has been reinforced and rewarded which will assist us to deliver our strategy going forwards.

Links to our KPIs
FWI
Passenger journeys
GHG emissions

Suppliers

Our suppliers, which range from large multinational companies to small independently run businesses, partner with us in delivering innovative solutions for our customers from the latest in zero emission buses to cutting edge technology development.

They told us they value
- A long-term partner, investing in collaborative innovation
- Fair engagement and payment terms
- A responsible and sustainable supply chain

How we engage with them
Dedicated relationship managers for Group-wide suppliers coordinated through our central procurement team:
- An e-procurement platform is utilised to assist robust supply chain tenders
- Structured contract reviews are conducted to monitor and improve service levels
- In our UK coach business, 60% of the network is run by third party operators who we supported during shut-downs

Engagement focus in 2020
We have worked closely with our suppliers to mitigate the impact of the pandemic on the Company's resources:
- Delaying orders
- Extending payment terms and adjusting contracts to reflect changed circumstances
- Developing critical new supplier relationships with PPE suppliers
- Supporting third party coach operators in the UK with exceptional funding whilst the UK coach network was mothballed

The value of engagement
We have reduced capital expenditure at a critical time, created new relationships and reaffirmed existing relationships with key suppliers.
In addition, we have enabled smaller operators to survive the crisis, facilitating restart once restrictions are lifted.

Links to our KPIs
ROCE

Investors & debt holders

Efficient access to capital is critical to the long-term sustainability of our business and the delivery of our Vision and Purpose.

They told us they value
- Clarity of strategy and business model
- Consistent financial performance and returns
- Financial risk management and protection of investment grade rating
- Strong reputation and leadership on sustainability and 'ESG' performance

How we engage with them
The Group CEO and CFO, supported by Treasury and Investor Relations, maintain an active ongoing relationship with key investors:
- Financial results presentations and roadshows
- Dynamic investor relations programme with upwards of 100 meetings per year
- Periodic market updates when considered helpful
- Remuneration Committee Chair engages with major shareholders on Directors' remuneration

Engagement focus in 2020
Engagement has materially increased around Covid-related financing activities:
- Regular equity market updates as Covid scenarios evolved
- Seeking amendments to debt covenants
- Raising new financing both from equity shareholders and a debut hybrid issuance
- Incremental quarterly financial reporting to debt investors
- Our new CEO meeting with many of our major shareholders

The value of engagement
We have retained the confidence of equity and debt investors and strengthened our relationships with them, raising fresh capital and securing continued access to financial support.

Links to our KPIs
Underlying operating profit
Free cash flow
ROCE

Communities

As a public transport operator, we provide social mobility, transporting people to work, education and leisure activities and helping to combat air pollution and congestion as we make the modal shift away from single occupancy vehicles more attractive.

They told us they value
- Safe and affordable transport services
- Broader positive community impact
- Opportunities for rewarding employment

How we engage with them
Each division has well established partnerships with charities and community organisations. We support the delivery of their work via funding or employee volunteering, including the following:
- The Youth Promise in the UK
- Partners Beyond the Bus in North America
- ALSA's Integra Foundation partnership
- Our own National Express Foundation – helping young people to succeed in life

Engagement focus in 2020
Across the Group, we have supported communities broadly in response to the pandemic:
- Providing free shuttle services to hospitals for hospital staff
- Providing additional shuttle services for patients to and from healthcare facilities
- Delivering food parcels on behalf of local authorities

The value of engagement
By providing safe and affordable public transport solutions we are supporting social mobility in the communities we serve

Our support for charity partners funds the delivery of many social and community support services.

Links to our KPIs
GHG emissions

Our Section 172(1) Statement

In accordance with Section 172(1) Companies Act 2006, the Company's Directors must act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

Long-term consequences
The likely consequences of any decision in the long term

Employees
The interests of the Company's employees

Other stakeholders
The need to foster the Company's business relationships with suppliers, customers and others

Community and Environment
The impact of the Company's operations on the community and environment

Reputation
The desirability of the Company maintaining a reputation for high standards of business conduct

Acting fairly between shareholders
The need to act fairly as between members of the Company.

Board decision		Section 172(1) factor
Further investment in health and safety	From early in the pandemic, the Board approved the implementation of additional health and safety measures to protect customers and colleagues from Covid-19. These included the distribution of PPE, enhanced cleaning regimes, social distancing measures and working from home measures. More detail of these measures is included in the Safety & Environment Committee Report. This was particularly important for customers using, and colleagues providing, essential transport services throughout the pandemic.	Other stakeholders, Employees, Reputation, Community and Environment, Long-term consequences
Temporary shut-down of certain operations and furlough or lay-offs of colleagues	During lockdowns in the UK and Spain, the Board endorsed the shut-down or significant reduction of those of the Group's operations which involve discretionary travel, including the UK coach network and parts of the ALSA long haul coach network. During these times, the Board also endorsed use of the UK Government furlough scheme and the similar Spanish Government scheme for colleagues working in businesses affected by government-mandated travel restrictions. Where North America school boards, transit authorities and shuttle customers requested reduced services, the Board endorsed the reduction of these operations, with colleagues temporarily laid off with access to government enhanced unemployment benefits.	Employees, Other stakeholders, Long-term consequences
Strong liquidity and Balance Sheet protection, via increased debt facilities, equity placing, debt covenant amendments and hybrid issuance	In March 2020, the Board approved the Group securing £600 million of additional short-term standby debt facilities. In May 2020, the Board resolved to undertake a placing of new shares, raising £235 million of new equity funding. In May and July 2020, the Board approved amendments to the covenants in the Group's principal debt facilities and note programmes. In late September 2020, the Board approved the issue of a hybrid instrument, raising £500 million of new debt funding, treated as equity for accounting and debt covenant purposes.	Long-term consequences, Acting fairly between shareholders
Careful capital allocation via investment in core businesses and cessation or sale of non-core businesses	The Board approved a selected number of new investments by the Company in its core businesses and the cessation or sale of non-core assets. It also approved the cessation of trading or sale of certain non-core assets.	Long-term consequences, Employees, Community and Environment

The Board's decisions are naturally made only after careful consideration of all relevant factors which include, but are not limited to, those specified in Section 172(1) Companies Act 2006. They also naturally include:

Financial Impact
The financial impact of decisions

In a year dominated by the challenges of the Covid-19 pandemic, many of the Board's principal decisions were taken in direct response to those challenges and the table below demonstrates which factors were considered and how those factors influenced the decisions taken.

Nature and impact of consideration of Section 172(1) factors

The Board believed that, as a direct result of decisions to invest more in Covid-19 related health and safety measures:
- fewer customers and colleagues would be exposed to Covid-19 in the short term;
- the Group's reputation as a trusted service provider and responsible employer would be maintained; and
- the Group would play its part in the vital efforts to reduce the spread of Coronavirus in the community.

such that:
- in the longer term, customer loyalty would be better preserved, and colleagues' physical and mental wellbeing would be better protected; and
- the additional costs involved in taking such measures would be more than offset by the benefits derived.

The Board decided that the temporary shut-down of certain transport services:
- was vital to reduce the variable costs and cash outflow connected with such services whilst the revenue from them was severely curtailed; and
- was in direct response to reduced customer demand and, where appropriate, after discussion and agreement with customers.

The Board also approved the use of furlough schemes or temporary lay-off of colleagues as this was key to the prospect of saving colleagues' jobs in the longer term and protecting local communities in this way.

Both measures were crucial self-help measures, the taking of which were key to our ability to maintain support from our debt and equity investors.

As shut-downs and associated furloughs/lay-offs could result in the Group losing market share and the goodwill and loyalty of customers and colleagues alike in the longer term, the Board further authorised the resumption of the majority of its transport services as quickly as possible.

Early in the pandemic when it was unclear how severe its impact might be, the Board determined that the Group should:
- raise additional short-term standby debt facilities too enhance access to cash should the need arise; and
- raise the maximum equity capital it could in accordance with Pre-Emption Group Guidelines (19.99%) via the quickest, most efficient means (a placing) to bolster the Balance Sheet and place the Group in the best possible position in the short and longer-term. In doing so:
  - it mandated its placing agents to comply with the Pre-Emption Group's and the FRC's guidelines on placing new shares as far as possible with institutional shareholders in proportion to their existing shareholdings; and
  - proceeded with the placing at a price of 230 pence per share, which was not at a discount to the market price so did not disadvantage retail shareholders unable to participate in the placing.

As the pandemic continued, the Board further determined that the Group should:
- secure amendments to its debt covenants to protect against their potential breach and secure ongoing access to the Group's major longer-term debt; and
- issue a new hybrid instrument to provide longer-term funding to refinance some of its maturing debt, to reduce gearing and strengthen the Balance Sheet

both of which measures:
- maintained the Group's ability to fund both its short-term response to the pandemic and its longer-term strategy; and
- reduced the prospect having to turn again to the equity markets for access to capital, potentially via a rights issue which would have diluted the holdings of those shareholders unable to take up their rights.

Throughout the pandemic, the Board was selective about how limited capital was allocated.

It approved the successful bids for, and capital investment in new North America school bus contracts in Alaska, Idaho and New York, ALSA's successful bids for new contracts in Lisbon and Porto and the UK bus business' successful bid for funding for new electric vehicles, as:
- contract wins would assist in delivering the Group's long-term strategy of growth and also enable us to foster relationships with new school board and transit authority customers and create new job opportunities; and
- investment in electric vehicles would assist in achieving the Group's targets to reduce its global carbon emission and to deliver on its promise never to buy another diesel bus in the UK.

The Board also approved the cessation of trading by the Group's small North America coach business, the cancellation of certain loss-making contracts and the sale of the Dundee bus business, as such decisions were important for the longer term ensuring the Group's more constrained capital resources could be dedicated to, and its US and UK management teams could focus on, our core businesses.

Environmental, Social and Governance

How we manage Environmental, Social and Governance (ESG) issues is not an 'add on' to how we operate, but at the heart of our business.

Focusing on our values

Our Vision is to be the world's premier mass transit operator with services offering leading safety, reliability and environmental standards that customers trust and value. This Vision is rooted in our Belief that driving modal shift to high quality mass transit is fundamental to a clean, green and prosperous future.

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

We believe our Values still provide the best framework to deliver on our Vision and Purpose. They are well embedded in our business, and form the basis of our culture.

Safety
The safest mass transit operator in the communities we serve

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

Customers
The most trusted and valued mass transit partner

People
The place to work in mass transit

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

Contributing to Sustainable Development Goals

In 2015, the United Nations set its 2030 Agenda for Sustainable Development. Through this Agenda, 17 Sustainable Development Goals (SDGs) were adopted by UN member states to provide a framework to tackle the most pressing challenges the world faces. Successful delivery of the 2030 Agenda requires multiple stakeholders to take clear action to achieve the SDGs.

We have considered how our Vision, Purpose and Values align with the SDGs and how we can support their delivery. We have identified five of the targets across three goals where we can contribute to the their achievement. The table below lists them and the associated Group metric.

SDG Goal	Selected target	Group metric
	3.6. By 2020, halve the number of global deaths and injuries from road traffic accidents	FWI / million miles
	8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	Commitment to real Living Wage or 10% above national minimum wage where Living Wage does not exist
	8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	Workplace Rights Policy and FWI / million miles target
	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons	Passenger numbers
	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management	CO_2 / million passenger km

ESG priorities guided by the SASB Materiality Map®

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

SASB dimension	Category	Summary	Our response
Environment	GHG emissions	Direct (Scope 1) greenhouse gas (GHG) emissions that a company generates through its operations.	Public transport remains the best solution to cut emissions from travel. Encouraging modal shift to public transport takes more private vehicles off the roads. Reduction on GHG emissions is one of our KPIs and a key metric of our LTIP scheme
	Air quality	Air quality impacts resulting from pollutants such as oxides of nitrogen (NOx), oxides of sulphur (SOx) and particulate matter.	We are committed to making public transport cleaner and greener. During 2020 we progressed our commitment to invest in zero emission vehicles, with trials in Spain, the UK and the USA.
Social capital	Access and affordability	Ensure broad access to products and services, specifically in the context of underserved markets and/or population groups.	Improving the accessibility and affordability of public transport is central to our business. Our services enable social mobility by providing good value travel solutions.
	Quality and safety	Offer products and/or services that meet customer expectations with respect to their health and safety characteristics.	During 2020, in addition to our existing high safety standards, we introduced a range of new measures to manage social distancing and increase cleaning regimes.
Human capital	Labour practices	Minimum wage policies and provision of benefits which influence how employees are attracted, retained and motivated.	We take our duties to our 48,000 employees very seriously and measure our progress frequently through employee engagement surveys. We believe that our employees should be well rewarded for the job they do and continue to be a real Living Wage accredited employer, paying at least 10% above the national minimum wage in every market.
	Employee health and safety	Create and maintain a safe and healthy workplace environment that is free of injuries, fatalities and illness.	The safety of our people is a priority. Our Driving Out Harm initiative has created a strong safety culture which is evidenced by our low level of incidents.
Governance	Critical incident risk management	Identify, understand, and prevent or minimise the occurrence of low probability, high impact accidents and emergencies.	We have a strong system of controls to manage and mitigate all types of risk, including the Board's review of Group-wide risk; the Audit Committee's reviews of divisional risk; and the Safety & Environment Committee's oversight of activities.

Environmental

Community and Environment

Ambition

The world's greenest mass transit operator

Aim (the NX Difference)

To deliver our ambition we target:

- industry leadership on the shift to zero emission vehicles
  - UK bus to be solely zero emission by 2030
  - UK coach to be solely zero emission by 2035
  - Progressing our zero emission plans for ALSA and North America

Approach (the NX Promise)

A year ago we reset our Vision and Purpose which made clear our ambition to lead modal shift from cars to multi-modal services on clean and green vehicles. That remains our ambition and as we set out on pages 12-13, this is fundamental to post-pandemic recovery and a safe, green and prosperous future.

We track our broader progress against our environmental plans using six environmental KPIs – three UN Sectoral Decarbonisation Approach (SDA) 'science-based' targets relating to total and traction carbon emissions and energy usage, and three 'non-science-based' targets relating to building-specific carbon emissions, water usage and non-hazardous waste to landfill volumes. These KPIs target improvement against the Group's baseline performance in 2018 over a seven-year performance period from 2019 to 2025.

External recognition

The Group's environmental credentials are also being recognised externally, for example via the Green Economy Mark given by the London Stock Exchange, the AA ESG Rating awarded by MSCI and the 'low risk' ESG score conferred by Sustainalytics.

Progress during the year

Reduced mobility during the pandemic highlighted the vast improvement in air quality that can be made by removing large numbers of vehicles from the roads and also highlighted how people still need to connect with their work, leisure, family and friends. It highlighted the importance of the Group's Vision and purpose of leading a modal shift away from cars to high quality mass transit and confirmed that our environmental ambitions must remain a key priority as we offer a solution to the otherwise competing demands of air quality and mobility.

During 2020, we took our next steps towards achieving a zero emission fleet. In the UK, we took delivery of our first 29 double-deck electric vehicles (EVs) and placed an order for 20 hydrogen-powered buses, in partnership with Birmingham City Council, to trial their use in normal service. In North America, we started our first electric school bus trial in White Plains, NY. The trial is helping us assess their operational capabilities and inform discussions with other school boards which are keen to improve their environmental footprint. Our North America shuttle operation has also introduced EVs to serve some of its contract customers. ALSA has introduced EVs in Bilbao and Madrid, and is launching trials in Almeria and Oviedo. These first steps we have taken across the divisions are providing valuable learning which is helping to shape our future operational and procurement plans.

Our progress against our environmental targets is set out in our environmental performance appendix on pages 238 to 240. This includes our report on our GHG emissions. Whilst the Group's total carbon emissions in absolute terms dropped significantly in 2020 due to the reduction in operations due to the pandemic, they increased when measured on a per passenger kilometre basis due to significantly reduced load factors. We expect to progress further against these measures in 2021 and 2022 once Covid-19 related restrictions change.

Social capital

Community & Environment

Ambition

A trusted partner to the communities we serve

Aim (the NX Difference)

To deliver our ambition we target:

- 1% of PBT invested in community activities every year; and
- stakeholder surveys demonstrating high trust scores.

Approach (the NX Promise)

Across the Group, we engage with the communities in which we operate in a number of ways. This takes the form of financial donations, gifts in kind or through employee volunteering. Each division has its own approach to community engagement which reflects local needs and priorities. A common theme is our support for young people – helping them to progress and succeed in life.

Aside from the specific initiatives we support, we recognise that our core activity – in providing great value multi-modal services – supports social mobility in the communities we serve.

Progress during the year

Despite the restrictions which Covid-19 imposed, we have continued in 2020 to progress community initiatives within the divisions.

In North America, we launched Partners Beyond the Bus which links each depot to support a local cause. Local teams are able to build a relationship with a cause which is relevant to them, and provide support through volunteering or fundraising.

ALSA continued its partnership with the Integra Foundation which provides work experience placement leading to permanent jobs for people who are social excluded or have a disability. By 2020 we had provided employment for 40 people through this partnership.

In the UK, our partnership with The Prince’s Trust continues to support the development of young people. With Covid-19 changing how fundraising events took place, we switched our provision of coaches for the Trust’s Palace to Palace cycle ride to sponsorship of participant thank-you packs.

With Covid-19 creating specific needs to support vulnerable and shielding people, we mobilised our employees to provide assistance. In Spain, the UK and North America, vehicles were repurposed to provide transport for the health services and to make food deliveries. This support was publicly recognised and appreciated by many of our local stakeholders.

Safety

Ambition

The safest mass transit operator in the communities we serve

Aim (the NX Difference)

To deliver our ambition we target:

- zero responsible fatalities;
- an annual reduction in FWI/million miles; and
- the leading safety credential in each market.

Approach (the NX Promise)

Safety remains our top priority. We seek to achieve our ambition through clear process and policies, investment in technology and systems, and a culture that prioritises safety.

Our Group CEO has overall responsibility for safety, supported by the Group Safety Director divisional leadership teams. Oversight of our safety performance sits with the Safety & Environment Committee. Details of how it conducts this role and the activity it has carried out during 2020 are included the Safety & Environment Committee Report on pages 238 to 240.

Progress during the year

During 2020, we continued to progress and update our well established safety systems as well as introduce additional procedures and measures in response to the pandemic.

Our Driving Out Harm initiative, introduced in 2011, encompasses our policies and procedures and drives our safety culture over time. As part of its progression, in 2017 we launched five new Global Safety Policies (GSPs) covering a number of driver and vehicle standards with a target to fully implement these by the end of 2020. Despite the additional work needed to address Covid-19, we achieved this target.

We also continued the roll-out of the Lytx DriveCam driver monitoring and coaching system across our global fleet, and extended risk profiling which creates risk scores for individuals. In UK coach, we were able to introduce a driver fatigue alert system into more than 400 vehicles. This has already lead to a 50% reduction in fatigue-related safety events.

To measure our safety performance we use a Fatalities and Weighted Injuries (FWI) index, based on a approach used by the UK rail industry. During 2020 we adjusted the index to remove non-responsible minor injuries, and have restated the prior year figures to reflect this.

Our score for 2020 was 1.824 (0.004 on a normalised million-mile basis) which is marginally higher that the score for 2019, which at 1.780 (or 0.003 on a normalised million-mile basis) was our best ever FWI score. Whilst this higher score is disappointing it is significantly better than our historical performance.

Social capital continued

Customers

Ambition

The most trusted and valued mass transit partner

Aim (the NX Difference)

To deliver our ambition we target:

- industry-leading customer scores in: net promoter (or equivalent); value for money; and reliability;
- growing organic patronage or customers in each division; and
- the industry's best and easiest to integrate customer platforms.

Approach (the NX Promise)

Customers lie at the heart of our business, and maintaining their loyalty is key to our success. Everything we do focuses on exceeding our customers' expectations for safe, clean and reliable services at a fair price.

Where we provide services for public transit authorities, school boards or corporate clients, we aim to earn and retain their loyalty through the delivery of first-class transportation solutions tailored to their needs.

We constantly review our performance to ensure the quality of delivery, and invest in new technology to improve the customer experience.

Progress during the year

Our focus on delivering an excellent customer experience remained unchanged in 2020, but Covid-19 brought about new priorities as we adapted our services to facilitate social distancing and enhanced our cleaning regimes. Our approach to the pandemic is set out on pages 10 to 11 and also in the Safety & Environment Committee Report on pages 90 to 94.

Whilst we needed to suspend or reduce our services at points during the year, we continued to progress projects which will enhance customer experience in future – particularly through technology:

- ALSA launched a new website and new customer app improving usability, and made its digital tickets clearer and easier to understand
- In the UK, the customer websites for bus and NEAT moved across to the same common platform as coach delivering improved performance and better usability. Over 70% of bus customers are now using digital tickets and paper travelcards have been retired
- In North America, new technology included the introduction of Zonar tablets to use Tyler Drive routing software. This optimises routes and punctuality which benefits our students. We survey our school board customers annually, and in 2020 saw our highest increase in CSCs achieving the maximum score of five

Human capital

People

Ambition

The place to work in mass transit

Aim (the NX Difference)

To deliver our ambition we target:

- industry-leading employee satisfaction scores;
- Investor in People status (or equivalent) in each division;
- a 'Best Place to Work' credential; and
- recognition as the industry leader in equality.

Approach (the NX Promise)

We firmly believe that delivering our Vision and Purpose is only possible if National Express is a good place to work. We recognise that our workforce is our greatest asset and we want each of our 48,000 employees to reach their full potential and to give their best. By investing in and rewarding our people appropriately, and engaging with them in strategy, we will continue to grow and succeed.

We recognise the value of a diverse and inclusive workforce which reflects the communities we serve, and have a clear strategy in place to increase our diversity at all levels.

Progress during the year

In 2020, we refreshed our Group diversity and inclusion strategy to promote further diversity and greater inclusion across the whole business. This strategy set 1, 3 and 10 year targets for which each division has developed detailed and measurable plans which reflect the shape of their workforce. In the UK, this work will progress in 2021 using the Stronger Together strapline. Similar initiatives are being progressed in the other divisions.

As a consequence of the pandemic, many people were furloughed as services were halted. For those who continued to work there were new health and safety measure to adopt. Due to the unprecedented situation, we focused more on wellbeing in the year, increased the frequency of colleague communication and promoted the use of the Employee Assistance Programme in North America and the UK and the 'ALSA Helps You' facility for ALSA employees. We also introduced more frequent surveys to assess the wellbeing of colleagues and identify concerns. More details on how we supported our employees are included in the Safety & Environment Committee Report on page 90.

We continue to operate fair pay structures which reflect the markets in which we operate. The Group has a long-standing commitment to pay the higher real Living Wage in the UK and in other countries to pay at least 10% above the prevailing national minimum wage.

Gender diversity at end of 2020

Directors

Senior managers

All employees

There is more information on page 79 about our commitment to diversity and inclusion including how we are progressing our Group wide strategy.

Excellence

Ambition

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

Aim (the NX Difference)

To deliver our ambition we target:

- the highest excellence credential in each country;
- 100% on-time performance; and
- zero in service failures.

Approach (the NX Promise)

We aim to lead the market in delivering excellence, which helps to increase standards and also drive revenue growth, margin progression and cash generation.

To become the trusted leader in our markets, we have to achieve operational excellence, day in, day out. This can only be achieved if we have the right supporting systems and processes in place in our business.

Our Delivering Excellence programme has continued to embed a culture of excellence across the Group by drawing on examples of best practice both within our existing businesses and adopting them from external organisations.

Progress during the year

Our Delivering Excellence team continued to drive a number of initiatives during the year. A significant focus was on improving the processes which manage employee scheduling and drive payroll costs in North America.

Across the Group our drive for excellence has resulted in recognition from a number of external bodies. ALSA received the European Sport and Healthy Company Award in 2020 awarded by ACES Europe for the ‘For your Health’ program.

Our UK bus and coach businesses retained five-star ratings in their British Safety Council audits.

In North America, 20 of our maintenance teams received Blue Seal of Excellence awards from the National Institute for Automotive Service Excellence – recognising the quality and standards we demand.

Our Group policies are published on our website at www.nationalexpressgroup.com

Progress towards reporting against TCFD

The Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), was set up to define how reporting could take account of climate-related issues. The Group will incorporate the TCFD recommendations fully into reporting next year. The table below gives an overview of where we stand today.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Climate-related risks and opportunities are managed as an integral component of strategy and performance at every level in the business. As a leading provider of public transport we have a fundamental Belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future. Our Purpose and strategy are rooted in this Belief. Oversight of climate-related issues is provided by the Safety & Environment sub-committee of the Board, details of which are on pages 90 to 94. Progress in 2020 has been slower than planned as we have diverted resources to dealing with the pandemic and reduced all non-mandatory expenditure. In 2021, to drive alignment through the organisation we have created an executive ESG committee to coordinate and review Group-wide activities and we will be appointing a Group Head of Environment to ensure that momentum is rebuilt.

Strategy

Disclose the actual and potential impacts of climate-related risks and on the Group's businesses strategy and financial planning, where such information is material.

The increased political and social focus on climate change presents a significant opportunity for the Group as modal shift to public transport is an imperative. The Group has made material investments to this end such as the significant ongoing investment in the corporate shuttle market in North America to continue to drive commuters out of cars.

Whilst modal shift is, in and of itself, beneficial to the environment, our Community and Environment Value sets out our ambition to be "the world's greenest mass transit operator; a trusted partner to the communities we serve" and the Group is making significant investments into further reducing emissions across the fleet. Last year we committed to never buy another diesel bus in the UK and during 2020 our UK business took delivery of its first 29 double-deck electric buses and placed an order for an initial 20 new hydrogen fuel cell electric vehicles (FCEV). With Coventry winning government funding as one the two first all-electric bus cities in the UK, we expect to shortly be able to place orders for over 100 buses to enter service in the first half of 2022.

Outside of the UK, pilot schemes are in place in North America with our White Plains depot running a small fleet of electric school buses to test performance and other sites are considering pilots; whilst in ALSA we have deployed hybrid and lower emission vehicles (including six electric vehicles) in 2020. Zero Emission Vehicles are currently more expensive to purchase than diesel buses although we believe the total lifetime cost of ownership to be similar. We are working on innovative funding schemes with a number of organisations across the Group on options to increase the pace of change.

During 2021, we will further develop our Group environment strategy and from this work commit to targets across the rest of the Group to supplement those made last year for the UK business.

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks.

Climate-related risk management is part of the integrated risk management process outlined on pages 36 to 41. The Group prioritised climate risk and opportunity assessment within the existing 'emerging risk' processes and has engaged with Sustainalytics to understand how stakeholders perceive the Group's exposure to climate-related risk.

During 2021, we intend to develop specific climate change scenarios for input into existing risk and viability models.

Metrics and targets

The metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

In 2019, the Group adopted an SDA (Sectoral Decarbonsiation Approach) methodology. This methodology is the only approach with transport sector-specific metrics, using climate science to set targets relevant to our industry. With an initial seven-year reporting period (from a 2018 baseline) our new targets met the 2018 Intergovernmental Panel on Climate Change (IPCC) goal of controlling the increase in global warming to below 2° Celsius (2DS). Three-year milestones along this path were agreed and committed to as an LTIP input.

The intention of this approach is that the absolute targets are reviewed regularly as technology and forecasting methods improve, and may need to change to stay in line with the 2DS, or if that 2DS level itself needs to change.

Further information on metrics and targets is on pages 18 to 19 in the Strategic Report.

Our 2020 Strategic Report, from the inside front cover to page 54, has been reviewed and approved by the Board.

Ignacio Garat
Chief Executive Officer
National Express Group
18 March 2021