

18 March 2021

**National Express Group PLC: Full Year Results for the year ended 31 December 2020****Resilience in adversity; prepared for recovery and growth****Overview**

Following a strong start to the year, 2020 was dominated by the impact of Covid-19 across all of our businesses as governments across the world curbed travel to restrict the spread of the virus. Our priorities were the safety and wellbeing of our customers and employees as well as protecting the financial position of the Group. Across the business we have reduced costs, exited certain contracts and accessed government support schemes, to ensure that when we emerge from the pandemic the Group will be leaner, fitter and financially stronger. Our confidence for the future has been reinforced by the improvement in EBITDA and cash generation we delivered in the fourth quarter, the strongest quarterly performance for the year. After taking action to strengthen the balance sheet, we have ample liquidity and headroom to lending covenants and the ability to continue to invest in the growth of the business. With lockdowns and restrictions still in place in many territories, the outlook for the current year and the timing of the recovery remain difficult to predict, but it is encouraging that we continue to win new and retain existing contracts. Furthermore, when travel restrictions have been lifted, we have seen a rapid recovery in demand.

**Financial summary**

	2020	2019	Change
Group Revenue	<b>£1.96bn</b>	£2.74bn	(28.7%)
Group EBITDA	<b>£186.6m</b>	£510.1m	(63.4%)
Group Underlying <sup>1</sup> Operating (Loss)/Profit	<b>(£50.8m)</b>	£295.3m	
Group Underlying <sup>1</sup> PBT	<b>(£106.1m)</b>	£240.0m	
Underlying basic <sup>1</sup> EPS	<b>(14.6p)</b>	34.5p	

**Statutory**

Group Operating (loss)/profit	<b>(£381.4m)</b>	£242.3m
Group PBT	<b>(£444.7m)</b>	£187.0m
Group PAT	<b>(£326.7m)</b>	£148.3m
Basic EPS	<b>(57.9p)</b>	27.6p

  

Free cash flow	<b>(£178.7m)</b>	£178.7m
Net debt <sup>2</sup>	<b>£941.6m</b>	£1,224.0m

**Financial and Operating highlights**

- Very strong performance pre pandemic, with revenue up 17% in the first two months
- Proactive engagement with customers and authorities to limit revenue reduction and wide-ranging cost reductions to limit avoidable losses
- Group EBITDA for the year of £186.6 million towards the top end of the guidance we gave in November
- After separately disclosed items, a statutory loss of £326.7 million
- Trajectory building with the fourth quarter being the strongest this year for EBITDA and with positive free cash flow generated in the second half
- Material structural cost savings in every division
- £1.9bn in cash and undrawn committed facilities
- Net debt reduced by £400 million in second half to £941.6 million
- C.£900 million of new contracts won across all Divisions including a first entry into Portugal
- Further progress on decarbonisation targets with the introduction of EV and hydrogen buses

**Ignacio Garat, National Express Group Chief Executive said:**

"I am immensely proud of the performance of the National Express team in tackling the challenges faced in the past year and I have been impressed by the professionalism and dedication of my colleagues across the Group, who have done an outstanding job in delivering safe and reliable services for our customers during the most testing of times.

I am also grateful for the support we have received from both customers and authorities, which demonstrates not only the essential nature of our services but also the strength of the relationships that we have built and the extent to which we are perceived as a trusted partner. This partnership approach, and the non-discretionary nature of the majority of our services positions us well for a strong recovery as travel restrictions are lifted in the months ahead. This is boosted by the sustainable cost savings made, and new contracts won during the period.

As a business we have an important role to play in modern society and I want us to continue to be at the forefront of the debate on climate change and the role we can play in social mobility. We have a strong and diverse international transport platform that has demonstrated its resilience in recent months. We have a clear set of priorities to ensure we will return to growth in a prudent and safe manner. We will be competing to win”

## Enquiries

*National Express Group PLC*

Chris Davies, Group Chief Financial Officer

0121 460 8655

Louise Richardson, Head of Investor Relations

07827 807766

*Maitland*

Neil Bennett

020 7379 5151

James McFarlane

07584 142665

**There will be a webcast presentation for investors and analysts at 9.00am on 18 March 2021. Details are available from Audrey Da Costa at Maitland.**

### Notes:

- 1. To supplement IFRS reporting, we also present our results on an Underlying basis to show the performance of the business before intangible amortisation for acquired businesses. Given the unprecedented nature of the Covid-19 pandemic in this period, we have also excluded certain costs arising as a direct consequence of the pandemic from Underlying results (detail is provided on 16). In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found on pages 23-24.*
- 2. 2019 net debt 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 closing net debt by £17.5 million compared with the previously reported figures.*

### Notes

Legal Entity Identifier: 213800A8IQEMY8PA5X34

Classification: 1.1 (with reference to DTR6 Annex 1R)

## Group Chief Executive's Statement

I was delighted to be appointed Chief Executive Officer in November 2020. Whilst I join the company in testing times, my first few months have served to reinforce my belief that National Express is a strong business, with a highly diversified international portfolio of quality businesses with a fantastic reputation for safety, operational excellence and customer service, led by strong management teams with powerful growth potential. I am also excited because public transportation plays a critical role in driving social mobility as well as tackling the environmental challenges of air quality and congestion in our cities.

The travel restrictions imposed across the world in response to the Covid-19 pandemic have taken a severe toll on public transport and as such, the financial results this year have been materially depressed. Notwithstanding the challenges imposed by lockdowns, our colleagues have done an outstanding job of keeping services running as and when restrictions have allowed, keeping customers safe and mobile, often with very short notice.

I am also proud to see the way our teams across the world made enormous efforts to assist with food parcel deliveries, emergency transit and numerous other valuable community services during periods of lockdown.

### Initial priorities

Early engagement with colleagues across the Group has been key. I have conducted nearly 200 one-to-one meetings with management and connected directly with over 2,000 employees at multiple levels in each of our businesses, in person where local conditions have allowed and also by virtual means. This has given me a great insight into how each business operates and I have been impressed by the passion and dedication of the colleagues I have met. I have also met and listened to key stakeholders, including shareholders, customers and government officials, all of whom have provided a valuable external perspective and given me an understanding of their expectations and desires. It is clear to me what our priorities are:

- to continue to protect the safety and welfare of both our customers and employees;
- to ensure that as we emerge from "lockdown" we maintain our strong operational platform and the highest standards of safety;
- to continue to remove unnecessary cost and maintain the savings we have already achieved; and
- to take decisive action where we have contracts and businesses that do not meet our returns criteria and exit them where necessary.

I am pleased to report that this is already underway and we have identified, and accelerated the execution of, divisional 'big deltas' that will drive further operational performance improvement in 2021. For example, in North America, we have launched the 'Driving Excellence' programme to standardise and optimise operating processes across School Bus depots with encouraging early signs of performance improvements. Running in parallel to these initiatives we will be retaining our focus on the relentless optimisation of capital deployment across the business. We have exited some non-core businesses in our North American Transit business and our small bus operation in Dundee.

Finally, whilst I do not believe there is a pressing need for radical change, I have initiated a wide-ranging business review to identify areas where we can improve our existing businesses and unleash the potential for sustainable growth. We want to ensure we "compete to win". The key areas we are looking at include:

- where we participate: identifying areas we can grow services in existing geographies as well as potential new geographies we should target;
- what we offer where we participate: what our go to market strategies need to be; and
- how we operate: optimising processes and better leveraging digital capabilities as the "NX way".

We will give further details of our plans once the reviews are complete.

### Assessing the business

As I said above, I believe National Express is a great business with many strengths and opportunities. We have three strong divisions, all with leading positions in their respective markets and with multiple growth opportunities ahead. There is a good balance of B2B and B2C services across the Group and a strong base of contracted revenue, an increasing proportion of which is subject to little or no demand risk.

The Group's long standing strategic priorities of operational excellence, leveraging technology, and driving compounding growth have delivered strongly over the years and lay a solid foundation for post-Covid recovery. The unrelenting focus on customer satisfaction and industry-leading safety credentials further underpin the strength of this business.

Building on a strong tradition of operational excellence, there is scope to narrow the span of performance across the Group – to learn from the best of internal class and to leverage these learnings more widely. We are continuing to implement greater standardisation of operating procedures and processes across the Group.

I also believe that digital will continue to play a key role in improving performance, both operationally and commercially. We have already seen great benefits as a result of the investments made in safety technology; customer facing applications such as enhanced websites, mobile apps and contactless payment systems; and commercial tools including our CRM and Revenue Management systems. Investment in these areas will continue.

## Beyond the numbers

National Express will continue to focus on growing revenue, profit and cash flow to generate superior shareholder returns, but our performance is rooted in something much deeper than simply generating financial results.

Public transport has a vital role to play in tackling the global challenge of climate change, with the provision of high quality, cleaner and greener buses and coaches providing solutions for congested and polluted cities and social mobility for their citizens. National Express has already announced its ambition to move to a fully zero emission fleet in the UK and we have made good progress in the last year with our first electric buses now running across our networks in the West Midlands. There are exciting developments coming for 2021, with Coventry as the first electric bus city and the mobilisation of an ambitious hydrogen bus operation in Birmingham. Our ambition for the UK is just the start and we will set similarly ambitious targets for all parts of the Group this year. We are already operating zero emissions vehicles in ALSA (where we are testing electric buses against hydrogen) and in North America where we are operating a trial operation in New York ahead of the Biden administration's ambitions regarding the electrification of 500,000 school buses.

Our impact goes wider than helping to reduce pollution and congestion. Safety is already deeply embedded within our culture and I see this as an ongoing priority for the benefit of both our customers and employees. It is pleasing to see the Group's safety excellence continuing to be recognised with both UK bus and coach retaining their five star ratings on safety audits conducted by the British Safety Council and the Director of Safety for WeDriveU being recognised as a "Rising Star of Safety" by the US National Safety Council.

National Express was the first public transport operator to become a Living Wage Foundation accredited employer and we need to ensure that we continue to provide well paid and rewarding careers for our staff. Our ongoing work on Diversity and Inclusion as part of a wider focus on employee engagement is equally important in ensuring we continue to attract, develop and retain the best people to continue to deliver great business results. We have increased the focus on employee communication in these unprecedented times, ensuring that despite home-working and furloughs, we continue to engage with our talented colleagues and are doing all we can to ensure consistent resumption on activities when restrictions are lifted.

## Looking to the future

This is a great business that was performing strongly ahead of the pandemic. We have acted swiftly and decisively, and we are well positioned to emerge strongly as the impact of Covid-19 recedes. Vaccination programmes are picking up pace and we see an improving trajectory in each of our businesses as the year progresses. None of the macro trends in favour of public transport have been changed by Covid-19 and there are three fundamental reasons for my optimism in the continued success of National Express.

Firstly, public transport matters. Put simply, well run, quality public transport can transform 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. In these unprecedented times, this kind of social mobility is even more important in enabling economic recovery by providing safe access to work, education, retail and leisure.

Secondly, Governments are looking for ways to retain the gains made in air quality in 2020. This will continue to drive Government policy commitments around clean air and public transportation funding such as the Birmingham Clean Air Zone, low emission zones (LEZs) already operating in Madrid and Barcelona and with plans being developed for all cities and towns with more than 50,000 inhabitants to set up LEZs by 2023, while in the US President Biden has declared a policy objective for all new school buses to be zero emission by 2030. All of these create growth opportunities for the Group.

Thirdly, we continue to see opportunities for further diversification, either from filling the spaces in our current markets with services we offer elsewhere (such as our entry into paratransit in the UK last year) or into new proximate markets such as Portugal and France. Throughout the pandemic, our strong reputation for service and safety and our close relationships with customers and partners has been demonstrated by new and retained contract wins and will continue to provide a great platform for future growth.

It is encouraging to see that when restrictions have been lifted, demand for our services has quickly returned and I am confident of a full recovery over time, with many of the actions we have taken in the past year resulting in a more efficient business able to grow at pace.

## Operating Review 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 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 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**  
Group CEO  
18 March 2021

## ALSA

Year ended 31 December	2020 m	2019 m
Revenue	<b>£559.3</b>	£824.7
Underlying Operating Profit	<b>£6.7</b>	£109.5
Statutory Operating (Loss)/Profit	<b>(£93.5)</b>	£93.8
Revenue	<b>€629.3</b>	€940.6
Underlying Operating Profit	<b>€7.5</b>	€124.9
Statutory Operating (Loss)/Profit	<b>(€105.2)</b>	€106.9
Underlying Operating Margin	<b>1.2%</b>	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 17, 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

Year ended 31 December	2020 m	2019 m
Revenue	£869.2	£1,230.1
Underlying Operating Profit	£12.4	£123.0
Statutory Operating (Loss)/Profit	(£176.0)	£88.0
Revenue	US\$1,116.0	US\$1,569.7*
Underlying Operating Profit	US\$15.9	US\$157.0*
Statutory Operating (Loss)/Profit	(US\$226.1)	US\$112.3
Underlying Operating Margin	1.4%	10.0%

\* 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 2019/2020 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 17) 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 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 2020 (CRSSA) – 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

Year ended 31 December	2020 £m	2019 £m
Revenue	388.2	599.7
Underlying Operating Profit	(49.0)	85.0
Statutory Operating (Loss)/Profit	(99.4)	84.1
Underlying Operating Margin	(12.6)%	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 18) 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 breakeven, 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

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 €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.

## Group Chief Financial Officer's review

### 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 <sup>1</sup> 2020 £m	Separately disclosed items <sup>1</sup> 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 23-24.

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.

<b>Government Covid-related cost support</b>	£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
<b>Total</b>	<b>54.9</b>

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.

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

<b>Directly attributable gains and losses resulting from the Covid-19 pandemic</b>	<b>Income Statement 2020 £m</b>	<b>Cash 2020 £m</b>
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	–
	<b>(262.5)</b>	<b>(109.6)</b>

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 (£8.8m credit) of other items principally comprising, in both the current and prior year, losses/gains on disposal of subsidiaries.

## Segmental performance

	<b>Underlying Operating (Loss)/Profit 2020 £m</b>	<b>Separately disclosed items 2020 £m</b>	<b>Segment result 2020 £m</b>	<b>Underlying Operating Profit 2019 £m</b>	<b>Separately disclosed items 2019 £m</b>	<b>Segment result 2019 £m</b>
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)
<b>Operating (loss)/profit</b>	<b>(50.8)</b>	<b>(330.6)</b>	<b>(381.4)</b>	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

	2020	2019
	£m	Re-presented £m
<b>Funds flow</b>		
Underlying Operating (Loss)/Profit	(50.8)	295.3
Depreciation and other non-cash items	237.4	214.8
<b>EBITDA</b>	<b>186.6</b>	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)
<b>Operating cash flow</b>	<b>(115.0)</b>	249.1
Net interest paid	(56.0)	(45.4)
Tax paid	(7.7)	(25.0)
<b>Free cash flow</b>	<b>(178.7)</b>	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
<b>Net funds flow</b>	<b>282.4</b>	(58.8)
<b>Net debt</b>	<b>(941.6)</b>	(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 representation 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 24. 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.

	Facility	Utilised at 31 December 2020	Headroom at 31 December 2020	Maturity year
	£m	£m	£m	
<b>Funding facilities</b>				
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	
<b>Total</b>		<b>915</b>	<b>1,902</b>	

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 worst case', and 'reverse stress tests' are detailed in note 1 to the Financial Statements on pages 31 to 33.

## 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 1 to the Financial Statements on pages 31 to 33 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

## Group wide risks

### Principal risks and uncertainties

The Group's principal risks and uncertainties summarised here are in line with those that are detailed in the 2020 Annual Report and Accounts:

- Pandemic: the risk that new virus mutations or problems with the delivery of the vaccine may delay the recovery or there may be lasting implications such as residual fear of travel; significantly less travel for shopping; or a material change in working patterns.
- Economic conditions: parts of the business may be adversely affected by economic conditions as discretionary travel in some areas of the business is historically correlated to GDP and employment.
- Political, geopolitical and regulatory changes: changes in political and regulatory environments can impact a regulated transport business through the operation of concessions; safety procedures; equipment specifications; employment requirements, and environmental procedures.
- Brexit: an economic downturn in the UK and/or the EU could adversely impact demand for our services; reduced travel to the UK could impact demand for our coach services at UK airports.
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.
- Alternative fuel vehicles: rapidly increased demand for alternative fuel vehicles (electric, hydrogen etc.) could require a significant change to infrastructure.
- Competition and market dynamics: increased competition from other modes of transport and/or in terms of increased price competition.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs; lack of available management talent/leadership skills which could inhibit growth; shortages in drivers and other key staff.
- Cyber security, IT failure and General Data Protection Regulations: loss of confidential data causing damage to brand reputation and incurring penalties; major IT failure causing severe or sustained disruption to the business.
- Terrorism: the longer term impact of terrorism attacks potentially softening demand for travel.
- Safety, litigation and claims: a major safety-related incident could impact the Group both financially and reputationally.
- Hazard risk: asset loss due to natural disaster which may also impact Group revenue and profits; widespread events such as extreme weather causing interruptions to operations and loss of revenue.
- Credit/financing risk: Group liquidity could be impacted by a material increase in borrowing costs; and a material tightening of credit markets.

### Cautionary statement

This Review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the Review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other events, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

### Chris Davies

Group Chief Financial Officer  
18 March 2021

## Alternative performance measures

In the reporting of financial information, the Group has adopted various Alternative Performance Measures (“APMs”). APMs should be considered in addition to IFRS measurements. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group’s performance. The key APMs that the Group focuses on are as follows:

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
<b>EBITDA</b>	Operating profit <sup>1</sup>	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking Underlying Operating Profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. This is illustrated in the Group Chief Financial Officer’s Report on page 18.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group’s gearing ratio.
<b>Gearing ratio</b>	No direct equivalent	The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates.  For covenant purposes the calculation excludes the impact of IFRS 16 as well as some other, smaller adjustments.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
<b>Free cash flow</b>	Net cash generated from operating activities	The cash flow equivalent of Underlying Profit After Tax.  A reconciliation of Underlying Operating Profit and net cash flow from operating activities to free cash flow is set out in the supporting tables below.	Free cash flow allows us and external parties to evaluate the cash generated by the Group’s operations and is also a key performance measure for the Executive Directors’ annual bonus structure and management remuneration.
<b>Net maintenance capital expenditure</b>	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations. It includes the capitalisation of leases inceptioned in the year in respect of existing business.  A reconciliation of capital expenditure in the statutory cash flow statement to net maintenance capital expenditure (as presented in the Group Chief Financial Officer’s Report) is set out in the supporting tables below.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group’s profit.
<b>Growth capital expenditure</b>	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth. It includes the capitalisation of leases inceptioned in the year in respect of new business.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
<b>Net debt</b>	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest).  The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 13.	Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.
<b>Underlying earnings</b>	Profit after tax	Is the Underlying Profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column.	Underlying earnings is a key measure used in the calculation of Underlying earnings per share.
<b>Underlying earnings per share</b>	Basic earnings per share	Is Underlying earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled.  A reconciliation of statutory profit to Underlying profit for the purpose of this calculation is provided within note 8 of the financial statements.	Underlying earnings per share is widely used by external stakeholders, particularly in the investment community.
<b>Underlying Operating Profit</b>	Operating profit <sup>1</sup>	Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column.	Underlying Operating Profit is a key performance measure for the Executive Directors’ annual bonus structure and management remuneration.

			It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
<b>Underlying Operating Margin</b>	Operating profit <sup>1</sup> divided by revenue	Underlying Operating Profit/(Loss) divided by revenue	Underlying Operating Margin is a measure used to assess and compare profitability. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders
<b>Return on capital employed (ROCE)</b>	Operating profit <sup>1</sup> and net assets	Underlying Operating Profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates.  The calculation of ROCE is set out in the reconciliation tables below.	ROCE gives an indication of the Group's capital efficiency and is a key performance measure for the Executive Directors' remuneration.

<sup>1</sup> Operating profit is presented on the Group income statement. It is not defined per IFRS, however is a generally accepted profit measure.

## Supporting reconciliations

	2020 £m	2019 £m
<b>Reconciliation of net cash flow from operating activities to free cash flow</b>		
Net cash flow from operating activities	(96.7)	356.2
Remove: Operating cash flows from discontinued operations	-	1.2
Remove: Cash expenditure in respect of separately disclosed items	126.9	7.2
Add: Net maintenance capital expenditure	(215.9)	(211.4)
Add: Other non-cash movements	(4.0)	11.6
Profit on disposal of fixed assets	11.0	13.9
Free cash flow	(178.7)	178.7

	2020 £m	2019 £m
<b>Reconciliation of capital expenditure in statutory cash flow to funds flow</b>		
Purchase of property, plant and equipment	(215.3)	(116.5)
Proceeds from disposal of property, plant and equipment	17.7	9.7
Payments to acquire intangible assets	(22.7)	(28.0)
Proceeds from disposal of intangible assets	2.3	1.5
Net capital expenditure in statutory cash flow statement	(218.0)	(133.3)
Add: capitalisation of leases inception in the year, less disposals	(33.2)	(102.8)
Net capital expenditure in the funds flow (presented in the Group Chief Financial Officer's Report)	(251.2)	(236.1)
<i>Split as:</i>		
Net maintenance capital expenditure	(215.9)	(211.4)
Growth capital expenditure	(35.3)	(24.7)

	2020 £m	2019 £m
<b>Reconciliation of ROCE</b>		
Statutory operating profit	(381.4)	242.3
Add back: separately disclosed items	330.6	53.0
Return – Underlying Operating (Loss)/Profit	(50.8)	295.3
Average net assets	1,294.3	1,148.6
Remove: Average net debt	1,082.8	1,203.4
Remove: Average derivatives, excluding amounts within net debt	5.1	(12.0)
Foreign exchange adjustment	63.9	35.8
Average capital employed	2,446.1	2,375.8
Return on capital employed	(2.1)%	12.4%



**Group Income Statement**  
**For the year ended 31 December 2020**

		Underlying result 2020 £m	Separately disclosed items (note 4) 2020 £m	Total 2020 £m	Underlying result 2019 £m	Separately disclosed items (note 4) 2019 £m	Total 2019 £m
Revenue	3	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)
<b>Group operating (loss)/profit</b>	3	<b>(50.8)</b>	<b>(330.6)</b>	<b>(381.4)</b>	295.3	(53.0)	242.3
Share of results from associates and joint ventures		(2.1)	–	(2.1)	0.4	–	0.4
Finance income	5	3.3	–	3.3	8.6	–	8.6
Finance costs	5	(56.5)	(8.0)	(64.5)	(64.3)	–	(64.3)
<b>(Loss)/profit before tax</b>		<b>(106.1)</b>	<b>(338.6)</b>	<b>(444.7)</b>	240.0	(53.0)	187.0
Tax credit/(charge)	6	29.3	88.7	118.0	(55.2)	16.5	(38.7)
<b>(Loss)/profit for the year</b>		<b>(76.8)</b>	<b>(249.9)</b>	<b>(326.7)</b>	184.8	(36.5)	148.3
(Loss)/profit attributable to equity shareholders		(82.1)	(249.6)	(331.7)	176.2	(35.1)	141.1
Profit/(loss) attributable to non- controlling interests		5.3	(0.3)	5.0	8.6	(1.4)	7.2
		<b>(76.8)</b>	<b>(249.9)</b>	<b>(326.7)</b>	184.8	(36.5)	148.3
<b>Earnings per share:</b>	8						
– basic earnings per share				(57.9)p			27.6p
– diluted earnings per share				(57.9)p			27.5p

Details relating to separately disclosed items are provided in note 4.

**Group Statement of Comprehensive Income  
For the year ended 31 December 2020**

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>(Loss)/profit for the year</b>	<b>(326.7)</b>	148.3
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Actuarial (losses)/gains on defined benefit pension plans	<b>(48.4)</b>	23.8
Deferred tax on actuarial movement	6 <b>10.8</b>	(4.3)
Losses on equity instruments classified as fair value through other comprehensive income	<b>(1.6)</b>	–
	<b>(39.2)</b>	19.5
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on retranslation of foreign operations	<b>34.5</b>	(109.1)
Exchange differences on retranslation of non-controlling interests	<b>0.7</b>	(1.9)
Exchange gains reclassified to Income Statement on disposal of subsidiaries	–	(1.0)
(Losses)/gains on net investment hedges	<b>(10.0)</b>	38.1
(Losses)/gains on cash flow hedges	<b>(50.3)</b>	10.8
Cost of hedging	<b>0.2</b>	1.0
Hedging losses/(gains) reclassified to Income Statement	<b>34.8</b>	(3.2)
Tax on exchange differences	6 <b>1.6</b>	(1.7)
Deferred tax on cash flow hedges	6 <b>3.8</b>	(2.5)
	<b>15.3</b>	(69.5)
<b>Comprehensive expenditure for the year</b>	<b>(23.9)</b>	(50.0)
<b>Total comprehensive (expenditure)/income for the year</b>	<b>(350.6)</b>	98.3
<b>Total comprehensive (expenditure)/income attributable to:</b>		
Equity shareholders	<b>(356.3)</b>	93.0
Non-controlling interests	<b>5.7</b>	5.3
	<b>(350.6)</b>	98.3

## Group Balance Sheet At 31 December 2020

	2020 £m	<sup>1</sup> 2019 £m
<b>Non-current assets</b>		
Intangible assets	1,851.8	1,901.8
Property, plant and equipment	1,233.2	1,348.2
Non-current financial assets	14.3	24.9
Investments accounted for using the equity method	15.6	17.9
Trade and other receivables	91.7	9.6
Finance lease receivable	10.6	3.6
Deferred tax assets	140.5	31.8
Defined benefit pension assets	12 12.3	14.2
<b>Total non-current assets</b>	<b>3,370.0</b>	<b>3,352.0</b>
<b>Current assets</b>		
Inventories	27.0	29.4
Trade and other receivables	391.7	496.8
Finance lease receivable	4.3	1.4
Derivative financial instruments	44.9	44.5
Current tax assets	2.6	1.6
Cash and cash equivalents	10 520.5	478.3
<b>Total current assets</b>	<b>991.0</b>	<b>1,052.0</b>
Assets classified as held for sale	11 18.8	4.3
<b>Total assets</b>	<b>4,379.8</b>	<b>4,408.3</b>
<b>Non-current liabilities</b>		
Borrowings	(1,313.0)	(1,091.0)
Derivative financial instruments	(10.6)	(9.6)
Deferred tax liability	(40.7)	(56.4)
Other non-current liabilities	(202.7)	(178.2)
Defined benefit pension liabilities	12 (147.4)	(104.2)
Provisions	(54.8)	(43.1)
<b>Total non-current liabilities</b>	<b>(1,769.2)</b>	<b>(1,482.5)</b>
<b>Current liabilities</b>		
Trade and other payables	(861.3)	(1,056.5)
Borrowings	(167.0)	(649.2)
Derivative financial instruments	(23.0)	(37.8)
Current tax liabilities	(2.2)	(8.8)
Provisions	(81.1)	(61.0)
<b>Total current liabilities</b>	<b>(1,134.6)</b>	<b>(1,813.3)</b>
<b>Total liabilities</b>	<b>(2,903.8)</b>	<b>(3,295.8)</b>
<b>Net assets</b>	<b>1,476.0</b>	<b>1,112.5</b>
<b>Shareholders' equity</b>		
Called-up share capital	30.7	25.6
Share premium account	533.6	532.7
Own shares	(3.5)	(6.0)
Hybrid reserve	497.6	–
Other reserves	367.8	130.7
Retained earnings	9.6	391.4
Total shareholders' equity	1,435.8	1,074.4
Non-controlling interests in equity	40.2	38.1
<b>Total equity</b>	<b>1,476.0</b>	<b>1,112.5</b>

<sup>1</sup> Prior year balances have been represented to reclassify IFRIC 12 liabilities from borrowings to trade payables, see note 1 for further information

**I Garat**  
Group Chief Executive

**C Davies**  
Group Chief Financial Officer

18 March 2021

**Group Statement of Changes in Equity  
For the year ended 31 December 2020**

	Share capital £m	Share premium account £m	Own shares £m	Hybrid reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlli ng interests £m	Total equity £m
At 1 January 2020	25.6	532.7	(6.0)	–	130.7	391.4	1,074.4	38.1	1,112.5
Loss for the year	–	–	–	–	–	(331.7)	(331.7)	5.0	(326.7)
Comprehensive expense for the year	–	–	–	–	13.0	(37.6)	(24.6)	0.7	(23.9)
Total comprehensive expense	–	–	–	–	13.0	(369.3)	(356.3)	5.7	(350.6)
Shares issued (net of transaction costs)	5.1	0.9	–	–	224.1	–	230.1	–	230.1
Shares purchased	–	–	(3.9)	–	–	–	(3.9)	–	(3.9)
Own shares released to satisfy employee share schemes	–	–	6.4	–	–	(6.4)	–	–	–
Share-based payments	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Tax on share-based payments	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Issuance of hybrid instrument (net of transaction costs)	–	–	–	495.5	–	–	495.5	–	495.5
Accrued payments on hybrid instrument	–	–	–	2.1	–	(2.1)	–	–	–
Deferred tax on hybrid instrument payments	–	–	–	–	–	0.4	0.4	–	0.4
Dividends paid to non- controlling interests	–	–	–	–	–	–	–	(1.6)	(1.6)
Other movements with non-controlling interests	–	–	–	–	–	(2.5)	(2.5)	(2.0)	(4.5)
<b>At 31 December 2020</b>	<b>30.7</b>	<b>533.6</b>	<b>(3.5)</b>	<b>497.6</b>	<b>367.8</b>	<b>9.6</b>	<b>1,435.8</b>	<b>40.2</b>	<b>1,476.0</b>

In May 2020, the Group issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1m and as the share issue qualified for merger relief under Section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve rather than the share premium account. At the same time, the Group directly issued 428,782 ordinary shares of 230p each to members of the Board and executive management team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares has been recorded in share premium.

In November 2020, the Group issued a Sterling denominated hybrid instrument of £500m, with an annual coupon rate of 4.25%. The contractual terms of the instrument allow the Group to defer coupon payments and the repayment of the principle indefinitely. However any deferred payments must be made in the event of a dividend distribution. The terms also allow for the instrument to be redeemed at the option of the Group at five years after issue (first call date) and 10 years (second call date), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or change of control). As the Group has the unconditional right to avoid transferring cash or another financial asset in relation to the instrument, it is classified in Equity. The annual coupon rate is fixed for the first five years, and thereafter reset according to the specific terms of the issuance. The net proceeds were £495.5m.

**Group Statement of Changes in Equity  
For the year ended 31 December 2020**

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2019	25.6	532.7	(7.0)	196.4	426.6	1,174.3	22.9	1,197.2
Change in accounting policies <sup>1</sup>	–	–	–	–	(9.5)	(9.5)	–	(9.5)
At 1 January 2019 (restated)	25.6	532.7	(7.0)	196.4	417.1	1,164.8	22.9	1,187.7
Profit for the year	–	–	–	–	141.1	141.1	7.2	148.3
Comprehensive expense for the year	–	–	–	(67.6)	19.5	(48.1)	(1.9)	(50.0)
Total comprehensive income	–	–	–	(67.6)	160.6	93.0	5.3	98.3
Shares purchased	–	–	(6.2)	–	–	(6.2)	–	(6.2)
Own shares released to satisfy employee share schemes	–	–	7.2	–	(7.2)	–	–	–
Share-based payments	–	–	–	–	5.6	5.6	–	5.6
Tax on share-based payments	–	–	–	–	0.5	0.5	–	0.5
Reclassification in reserves	–	–	–	1.9	(1.9)	–	–	–
Dividends	–	–	–	–	(78.3)	(78.3)	–	(78.3)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(1.5)	(1.5)
Recognition of liabilities with non-controlling interests	–	–	–	–	(100.0)	(100.0)	–	(100.0)
Acquisitions and disposals of non-controlling interests	–	–	–	–	–	–	9.6	9.6
Other movements with non-controlling interests	–	–	–	–	(5.0)	(5.0)	1.8	(3.2)
At 31 December 2019	25.6	532.7	(6.0)	130.7	391.4	1,074.4	38.1	1,112.5

<sup>1</sup> Opening balances in 2019 were restated for the adoption of IFRS 16 'Leases'

**Group Statement of Cash Flows**  
**For the year ended 31 December 2020**

		2020 £m	2019 £m
<b>Cash generated from operations</b>	13	<b>(31.0)</b>	438.2
Tax paid		<b>(8.1)</b>	(25.0)
Interest paid		<b>(64.7)</b>	(65.7)
Interest received		<b>7.1</b>	8.7
<b>Net cash flow from operating activities</b>		<b>(96.7)</b>	356.2
<b>Cash flows from investing activities</b>			
Payments to acquire businesses, net of cash acquired	11b	<b>(9.6)</b>	(108.3)
Deferred consideration for businesses acquired	11b	<b>(27.3)</b>	(14.8)
Proceeds from the disposal of business, net of cash disposed	11b	<b>4.4</b>	21.7
Purchase of property, plant and equipment		<b>(215.3)</b>	(116.5)
Proceeds from disposal of property, plant and equipment		<b>17.7</b>	9.7
Payments to acquire intangible assets		<b>(22.7)</b>	(28.0)
Proceeds from disposal of intangible assets		<b>2.3</b>	1.5
Payments to settle net investment hedge derivative contracts		<b>(15.7)</b>	(26.9)
Receipts on settlement of net investment hedge derivative contracts		<b>10.9</b>	15.9
Payments relating to associates and investments		<b>(0.1)</b>	(5.3)
<b>Net cash flow from investing activities</b>		<b>(255.4)</b>	(251.0)
<b>Cash flows from financing activities</b>			
Share issue proceeds <sup>1</sup>		<b>230.1</b>	–
Issuance of hybrid instrument <sup>2</sup>		<b>495.5</b>	–
Lease payments		<b>(97.7)</b>	(91.1)
Increase in borrowings		<b>732.3</b>	414.1
Repayment of borrowings		<b>(940.5)</b>	–
Payments to settle foreign exchange forward contracts		<b>(39.8)</b>	(45.9)
Receipts on settlement of foreign exchange forward contracts		<b>18.8</b>	66.7
Purchase of own shares		<b>(3.9)</b>	(6.2)
Contribution from non-controlling interests		<b>–</b>	3.1
Acquisition of non-controlling interests		<b>(4.0)</b>	(1.8)
Dividends paid to non-controlling interests		<b>(2.2)</b>	(0.7)
Dividends paid to shareholders of the Company	7	<b>–</b>	(78.3)
<b>Net cash flow from financing activities</b>		<b>388.6</b>	259.9
<b>Increase in cash and cash equivalents</b>		<b>36.5</b>	365.1
Opening cash and cash equivalents		<b>478.3</b>	117.7
Increase in cash and cash equivalents		<b>36.5</b>	365.1
Foreign exchange		<b>5.7</b>	(4.5)
<b>Closing cash and cash equivalents</b>	10	<b>520.5</b>	478.3

<sup>1</sup> Net of transaction fees totalling £5.3m

<sup>2</sup> Net of transaction fees totalling £4.5m

**Notes to the Consolidated Accounts  
For the year ended 31 December 2020**

**1 Basis of preparation**

The results are based on the Group Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These results are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

**Going concern**

These Financial Statements have been prepared on the going concern basis under the historical cost convention, except for the recognition of derivative financial instruments, financial assets at fair value through other comprehensive income and contingent consideration.

In adopting the going concern basis, the Directors have considered the Group's

- business activities;
- principal risks and uncertainties as set out on page 22;
- exposure to the range of potential impacts of Covid-19 and also the depth and length of support provided by customers and governments; and,
- financial position, liquidity position and borrowing facilities as set out in the Group Finance Director's report within these Financial Statements.

The Group entered the Covid-19 pandemic in a strong liquidity position and this was further strengthened with an additional £190 million of bank loans and £230 million proceeds from the share placing in May 2020, and then a further £500 million (gross of fees) from the issuance of a hybrid instrument in November 2020. As at 31 December 2020, and also as of the date of publishing these Financial Statements, the Group had a total of £2.8 billion of debt capital, committed facilities and Bank of England Covid Corporate Finance Facility (CCFF), as set out in the Group Finance Director's report. At 31 December 2020 the Group had £1.9 billion in cash, undrawn committed facilities and CCFF available to it. For the purposes of the going concern assessment the Directors have excluded the £600 million CCFF when determining liquidity headroom and, whilst the Group can draw upon it up until 21 March 2021 for 12 months, the Directors are currently intending to allow it to lapse. The Directors have also not assumed any renewal or replacement of the £357 million of borrowing facilities that are currently scheduled to mature between now and the end of March 2022; any renewal or replacement of these, as well as any amounts issued under the £600 million CCFF programme, would provide further upside to the liquidity headroom in the Group's going concern assessment.

The Group has positive relationships and regular dialogue with its lenders. Certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. For the 30 June and 31 December 2021 test dates, the gearing covenant has been waived by the lenders and the interest cover covenant has been amended to a minimum of 1.5x and 2.5x at 30 June and 31 December 2021 respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test (up to and including Q1 2022), a £1.6 billion maximum net debt test as at 30 June and 31 December 2021 and a restriction on dividend payment until normal covenant arrangements are back in place. All covenants are assessed on a pre-IFRS 16 basis.

The Directors continue to have a high degree of confidence in the long-term prospects. The Group has been winning contracts over recent months, with a strong pipeline of further opportunities. Whilst the pandemic has had a profound and rapid impact on travel patterns, with a shift away from public transport, this is not, in our view, sustainable as economies recover. Infrastructure constraints have not disappeared and climate change is rising in the public conscience and on government agendas. Clean, safe and efficient public transport is a clear solution, and this provides a strong backdrop for long-term growth for the Group.

## 1 Basis of preparation continued

Notwithstanding the positive long-term outlook, the pandemic has clearly had an unprecedented impact on the Group and on the transport sector in general, and there is uncertainty over the pace of recovery in revenue over the short-term. In every country in which the Group principally operates, nationwide lockdowns of varying lengths were imposed from March 2020 and this resulted in the Group's revenue reducing by more than 50% year-on-year during the months of April and May 2020. As lockdown restrictions eased during the summer of 2020 we saw a steady improvement in activity levels, passenger numbers and revenue; Group revenue steadily recovered to around 30% down year-on-year by September. However, in response to second waves of Covid-19 governments re-imposed lockdowns and mobility restrictions. The UK Government announced in late October 2020 that the virus was spreading through England at a faster rate than their worst case scenario; a situation that was echoed elsewhere in the main countries in which the Group operates. The re-imposition of lockdowns and restrictions have not had as severe an impact on the Group's revenue as the initial lockdowns in Q2, but they have slowed down the pace of recovery. The second half of 2020 has turned out to be very close, in terms of both our assumptions on the external environment and our projections of the Group's financial results, to the reasonable worst case we set out at the time of publishing the half year Financial Statements in August. By December 2020 the Group's revenue remained circa 30% down year on year. The positive developments on vaccines, along with increased scale (relative to the initial outset of the pandemic) of governments' test and trace capabilities and wider abilities to contain the virus, bode well for the medium term recovery.

Our observations of, and responses to, the impact of the pandemic over recent months, along with our latest expectations of its continued impact over the going concern assessment period, have been carefully considered in arriving at an updated base case and reasonable worst case. We have then corroborated our own assumptions with external references, such as the predictions published by the IMF and OECD. The Directors have reviewed the base case and reasonable worst case projections, along with reverse stress tests. These scenarios and stress tests were used to evaluate liquidity headroom and compliance with revised covenants.

The key assumptions in the base case scenario are as follows:

- In the first half of 2021, a continuation of the circumstances observed in late 2020 and in early 2021: lockdowns and mobility restrictions with reduced commuting and consumer reticence for discretionary travel, along with continued social distancing mandated on UK public transport.
- In the second half of 2021 vaccines start to make a material impact on infection rates in the countries in which the Group principally operates, with a consequent lifting of mobility restrictions allowing a steady recovery in revenue such that by December 2021 group revenue recovers to close to what it was in December 2019 (although on a like-for-like basis, i.e. excluding new business or contracts, would remain below 2019).
- In Q1 2022 Group revenue is assumed to have recovered to be higher than it was in Q1 2019, albeit still below on a like-for-like basis.
- In the UK, a national lockdown is assumed for the first quarter of 2021, with the coach network fully shut down during that period.
- In North America school bus c.40% of schools remain closed for the entirety of the first half; an increased proportion of closures compared to Q4 2020. Closed schools continue to pay contribution towards costs, in order for us to minimise the number of employees that we lay off, at broadly the same levels as in Q4 2020. All schools assumed to be open after the summer break.
- Government support continues to be available as follows:
  - Job retention schemes in UK until end of April 2021, utilised in coach but not in bus.
  - Job retention scheme available in Spain at the enhanced level until May 2021 and then at pre-pandemic levels of support thereafter for the remainder of the assessment period.
  - US government funding available during H1 2021 at similar levels to 2020 to contribute to benefits for employees temporarily laid-off.
  - The Covid-19 Bus Services Support Grant ("CBSSG") continues to operate in the UK for the first part of the year, after which it is assumed to be replaced by a support scheme to pay for bus operators to maintain certain service levels until passenger levels return to close to pre-pandemic levels.
    - Covid-19 compensation provided by authorities in Germany and Spain on the same basis as provided in 2020; principally in H1.
- Substantial cost saving initiatives including group-wide reductions in administrative and managerial headcount. The majority of these cost saving initiatives have already been implemented or are already in progress.
- A partial unwind (cash inflow) of the negative working capital movement incurred in 2020; reflecting an increase in passenger revenue (and a reduction in subsidies, compensation or grants paid in arrears), along with an increase in payables as activity levels increase.



## 1 Basis of preparation continued

The key assumptions in the reasonable worst case scenario are as follows:

- Covid-19 vaccines are ineffective or are delayed, such that they do not have any impact on infection rates until late in the year.
- Lockdowns and severe mobility restrictions apply across the majority of the year and, accordingly, Group revenue for 2021 does not improve from 2020, and is therefore 25%-30% down on 2019 (even greater on a like-for-like basis), followed by a much slower recovery in Q1 2022 than assumed in the base case.
- 20% of schools remain closed in North America after the summer break.
- The UK Coach network is closed for the majority of the first half.
- Materially lower levels of government support available across the Group, including no revenue support from 1<sup>st</sup> July 2021. This is partially mitigated by reducing service levels in order to reduce costs.
- No partial unwind of the negative working capital movement incurred in 2020; reflecting continued lower levels of payables combined with delays in collection of receivables.

Against this reasonable worst case the Group has applied mitigations in the form of further reductions in expenditure, over and above those reflected in the base case. The majority of these further cost savings have already been identified and can be swiftly implemented should the reasonable worst case scenario occur. Whilst the cost savings in the base case and reasonable worst case would involve restructuring activity, they do not involve significant structural changes to the Group.

In the base case and reasonable worst case scenarios the Group has a strong liquidity position over the next 12 months. The monthly cash consumption in the reasonable worst case is projected to average c.£40 million at the peak adverse point; this compares with £1.9 billion of liquidity as at 31 December 2020, or £1.3 billion excluding the £600 million CCFF. In the base case and reasonable worst case scenarios the Group also has headroom on all of its revised covenant tests.

In addition to the base case and reasonable worst case scenarios, the Directors have reviewed reverse stress tests, in which the Group has assessed the set of circumstances that would be necessary for the Group to either breach the limits of its borrowing facilities or breach any of the covenant tests.

In applying a reverse stress test to liquidity the Directors have concluded that the set of circumstances required to exhaust it are so extreme as to be considered clearly remote.

Covenants that include EBITDA as a component are more sensitive to reverse stress testing, because of the material impact that events or actions outside of the control of the Group, such as government-imposed lockdowns or withdrawal of government or customer support, can have on short-term revenue. The Directors have therefore conducted in-depth stress testing on the interest cover covenant, being the only covenant test during the going concern period that contains an EBITDA component. In doing so, a key assumption is the consideration and application of all cost mitigations that would be within the Group's control, and indeed that the Directors would have no alternative but to pursue, if faced with a short-term material EBITDA reduction and no lender support to amend or waive EBITDA-related covenants; this is a key assumption. Taking this into account the Directors concluded that the circumstances that would be necessary for covenants to be breached were remote.

In any case, should there be a more severe set of circumstances than those assumed in the reasonable worst case, the Group could also have a number of further mitigations available to it including: deeper and broader cost cutting measures, seeking further amendments or waivers of covenants, the renewal or replacement of borrowing facilities maturing in the next 12 months, raising further equity, sale and leaseback of vehicles, disposal of properties and disposal of investments or other assets.

In conclusion, the Directors have a reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Financial Statements. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements for the year ended 31 December 2020.

### Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for changes arising from new standards and amendments to existing standards that have been adopted in the current year.

Inter-Bank Offered Rate ("IBOR") Reform – Phase 1 (amendments to IFRS 9, IAS 39 and IFRS 7) were issued in September 2019 and were applied for the first time with effect from 1 January 2020. The Group does not hold any derivative financial instruments linked to IBOR rates such as LIBOR and EURIBOR that expire beyond 31 December 2021, therefore no existing hedge relationships have been affected as a result of adopting this amendment.

## 1 Basis of preparation continued

The Group has also early adopted Covid-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment gives lessees the option not to assess whether a Covid related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

The following other amendments and interpretations have been applied for the first time with effect from 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting

These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group makes certain adjustments to the statutory profit measures in order to derive many of its alternative performance measures (APMs). The Group's policy is to exclude items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods. The Group's policy remains unchanged from prior periods, however has been clarified to confirm how these adjustments are identified. The Board believes that making these adjustments to profit gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures. These measures are consistent with how business performance is measured internally by the Board and Executive Committee.

### Prior year representation

In September 2019 the Group entered into a service concession arrangement with a Moroccan transport authority for the operation of public transport bus services. The infrastructure used in the agreement comprised public service vehicles. During December 2019, the Group acquired a number of vehicles, totalling £17.5m, subject to a lease arrangement. The right-of-use asset was correctly presented within infrastructure intangibles. However the liability for these leases was recorded in lease liabilities within borrowings, whereas in accordance with IFRIC 12 should have been recorded as a financial liability within contract liabilities.

This has been corrected by representing each of the financial statement line items for the prior period as follows:

	31 December 2019 (Reported) £m	31 December 2019 (Represented) £m
Trade and other payables (current)	(1,052.9)	(1,056.5)
Trade and other payables (non-current)	(164.3)	(178.2)
Borrowings (current)	(652.8)	(649.2)
Borrowings (non-current)	(1,104.9)	(1,091.0)
<b>Total liabilities</b>	<b>(3,295.8)</b>	<b>(3,295.8)</b>
<b>Net debt</b>	<b>(1,241.5)</b>	<b>(1,224.0)</b>

As this was a Balance Sheet reclassification there is no impact to operating profit, earnings per share or any other primary statements.

## 1 Basis of preparation continued

### Use of judgements and estimates

In preparing the Group Financial Statements, the critical judgements and key sources of estimation uncertainty made by management in applying the Group's accounting policies have been re-evaluated in light of Covid-19. The key judgements and estimates are the same as those applied in the previous financial year, together with the following updates:

#### i) Critical accounting judgements

##### Separately disclosed items

The Directors believe that the profit and earnings per share measures before separately disclosed items provide additional useful information to shareholders on the performance of the Group. These measures are consistent with how business performance is measured internally by the Board and the Group Executive Committee. The classification of separately disclosed items requires significant management judgement after considering the nature, cause of occurrence and the scale of the impact of that item on reported performance. These definitions have been applied consistently year-on-year, with additional items due to, and certain directly attributable expenses resulting from the Covid-19 pandemic. Specifically, judgement has been required to identify incremental costs associated with the pandemic that are not expected to arise in future periods and do not form part of the underlying operating activities of the Group. Note 4 provides further details on current year separately disclosed items.

#### Going concern

In concluding that the going concern assessment without material uncertainties was appropriate the Directors have made a number of significant judgements as detailed on pages 31 to 33.

#### ii) Key sources of estimation uncertainty

##### Impairment of property, plant and equipment and intangibles

Determining whether assets are impaired requires an estimation of the value in use of the cash-generating units and requires the entity to estimate the future cash flows expected to arise, the growth rate to extrapolate cash flows into perpetuity and a suitable discount rate in order to calculate present value. Cash flow projections involve the use of estimates, notably revenue levels, operating margins and the proportion of operating profit converted to cash in each year. Given the level of headroom in ALSA and the volatility of inputs to the discount rate (particularly the beta and equity risk premiums including country-specific risk premiums), long term growth rates and short term cash flow projections, we consider impairment to be a new key source of estimation uncertainty with respect to our ALSA division. The key assumptions used and their sensitivities are included in note 9.

##### Valuation of put liability

In conjunction with the acquisition of WeDriveU, Inc. during 2019 the Group issued put options to the seller to sell the remaining shares. The first tranche of put options, for 10% of the equity of WeDriveU, has been exercised at 31 December 2020 and will be settled in 2021. There are put options over the remaining 30% of equity exercisable in two tranches from 2021 to 2022, and each tranche can be rolled over if not exercised, up to 31 December 2022 at the latest. At the 31 December 2020 the put liability was £63.0m (2019: £96.8m). The put liability valuation is sensitive to EBITDA forecasts, particularly given the disruption due to the pandemic, discount rates and the expected timing of exercise. Changes in these estimates could significantly impact the liability.

The put liability assumes that all of the remaining options (totalling 30% of the equity of WeDriveU) will be exercised at the final opportunity, being 31 December 2022. The table below shows on an indicative basis the Income Statement and Balance Sheet sensitivity of the put liability to reasonably possible changes in key assumptions. The sensitivity analysis below is based on a change in assumption while holding all other assumptions constant.

	2020 £m
<b>Increase/(decrease) in put liability and loss/(gain) in Income Statement</b>	
20% increase in EBITDA	9.7
20% decrease in EBITDA	(9.7)
0.5% increase in discount rate	(0.4)
0.5% decrease in discount rate	0.5
Timing of exercise (December 2021 – 10%; December 2022 – 20%)	(3.8)

## 1 Basis of preparation continued

### Onerous contract provisions

Onerous contract provisions arise where the unavoidable costs of meeting the obligations under the applicable contracts exceed the economic benefits expected to be received. The estimation of the provisions involves the use of forecast

information, which includes inputs such as passenger revenues and the level of fixed and variable costs. The key area of estimation uncertainty is in respect to the forecast of passenger revenues, in particular the extent to which the pandemic has a lasting effect on passenger revenue. Consequently this is considered to be a new significant estimate in 2020. At the 31 December 2020 onerous contract provisions totalled £38.0m (2019: £nil). A 10% decrease in passenger revenues, whilst holding all other assumptions flat, would have increased the Income Statement charge by £34.1m in the year and resulted in a £33.1m increase to the closing Balance Sheet position.

### Pensions

The determination of the defined benefit obligation of the UK defined benefit pension scheme depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. At the 31 December 2020 the UK defined benefit pension liability was £141.6m (2019: £99.1m). The key area of estimation uncertainty is in respect to the discount rate, and in particular the volatility of corporate bond yields in response to the pandemic. Whilst the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may significantly change the pension obligation. The Group makes assumptions concerning the assumptions with the assistance of advice from independent qualified actuaries. Details of the assumptions are set out in note 12, to these Financial Statements, along with their sensitivities.

## 2 Exchange rates

The most significant exchange rates to UK Sterling for the Group are as follows:

	<b>2020 Closing rate</b>	<b>2020 Average rate</b>	2019 Closing rate	2019 Average rate
US Dollar	<b>1.37</b>	<b>1.28</b>	1.33	1.28
Canadian Dollar	<b>1.74</b>	<b>1.72</b>	1.72	1.69
Euro	<b>1.12</b>	<b>1.13</b>	1.18	1.14

If the results for the year to 31 December 2019 had been retranslated at the average exchange rates for the year to 31 December 2020, North America would have achieved underlying operating profit of £122.2m on revenue of £1,222.5m, compared with underlying operating profit of £123.0m on revenue of £1,230.1m as reported, and ALSA would have achieved a underlying operating profit of £111.0m on revenue of £836.1m, compared with underlying operating profit of £109.5m on revenue of £824.7m as reported.

## 3 Revenue and segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide. Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. Group financing activities and income taxes are managed on a group basis and are not allocated to reportable segments.

Central functions is not a reportable segment but has been included in the segmental analysis for transparency and to enable a reconciliation to the consolidated Group.

### 3 Revenue and segmental analysis continued

#### (a) Revenue

Revenue is disaggregated by reportable segment, class and type of service as follows:

Analysis by class and reportable segment:	2020					Total £m
	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	
UK	24.1	194.1	135.7	26.1	8.2	388.2
German Rail	–	38.5	94.5	–	6.2	139.2
ALSA	134.1	276.3	106.7	27.9	14.3	559.3
North America	826.4	–	–	24.6	18.2	869.2
Central functions	–	–	–	–	–	–
<b>Total revenue</b>	<b>984.6</b>	<b>508.9</b>	<b>336.9</b>	<b>78.6</b>	<b>46.9</b>	<b>1,955.9</b>

Analysis by major service type:

Passenger transport	984.6	508.9	336.9	78.6	24.9	1,933.9
Other products and services	–	–	–	–	22.0	22.0
<b>Total revenue</b>	<b>984.6</b>	<b>508.9</b>	<b>336.9</b>	<b>78.6</b>	<b>46.9</b>	<b>1,955.9</b>

Included in grants and subsidies is £84.7m (2019: nil) revenue recognised in the UK in respect of the Covid Bus Services Support Grant (CBSSG) in England and Covid Support Grant (CSG) in Scotland. Under these schemes, grant income may be claimed by operators of local bus services in England and Scotland to close the shortfall of revenue earned by them during the period affected by Covid-19 and the costs incurred by them in that period. The grant income is recognised in the Income Statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (i) the Group will comply with the conditions attaching to the grant and (ii) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the review process.

Also included in grants and subsidies is £15.6m (2019: nil) additional subsidies in Germany in respect of the Federal Framework Regulation on Aid to Public Transport. Under this arrangement, additional subsidies may be claimed by public transport operators in Germany to compensate for the loss of passenger revenue due to Covid-19. Similarly, a further £15.3m (2019: nil) was recognised in ALSA from Public Transport Authorities to compensate for revenue shortfalls due to Covid-19. In both cases subsidy income has been recognised in the same period in the Income Statement to match the period in which the related shortfall of revenue occurred and to the extent there is reasonable certainty that the Group has complied with the conditions.

In German Rail, at the commencement of the Rhine-Münster Express (RME) contract in 2015 a fixed amount of subsidy was agreed with the PTA for the life of the contract and the amount recognised each year was measured by considering the proportion of contract costs incurred at each balance sheet date. As it does every year, the Group has re-forecast the contract out-turn and re-assessed the estimate of the stage of completion. As a result of Covid-19 this year the re-assessment resulted in revenue recognised in previous years totalling £5.2m being reversed and re-phased to later years.

Analysis by class and reportable segment:	2019					Total £m
	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	
UK	41.4	464.2	54.8	14.2	25.1	599.7
German Rail	–	49.8	35.7	–	4.4	89.9
ALSA	207.8	492.7	18.3	56.7	49.2	824.7
North America	1,126.9	–	–	83.3	19.9	1,230.1
Central functions	–	–	–	–	–	–
<b>Total revenue</b>	<b>1,376.1</b>	<b>1,006.7</b>	<b>108.8</b>	<b>154.2</b>	<b>98.6</b>	<b>2,744.4</b>

Analysis by major service type:

Passenger transport	1,376.1	1,006.7	108.8	154.2	52.5	2,698.3
Other products and services	–	–	–	–	46.1	46.1
<b>Total revenue</b>	<b>1,376.1</b>	<b>1,006.7</b>	<b>108.8</b>	<b>154.2</b>	<b>98.6</b>	<b>2,744.4</b>

There are no material inter-segment sales between reportable segments.

### 3 Revenue and segmental analysis continued

#### (b) Operating (loss)/profit

Operating (loss)/profit is analysed by reportable segment as follows:

	Underlying operating loss 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
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
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
Central functions	(16.0)	27.5	11.5	(27.2)	–	(27.2)
<b>Operating (loss)/profit</b>	<b>(50.8)</b>	<b>(330.6)</b>	<b>(381.4)</b>	295.3	(53.0)	242.3
Share of results from associates and joint ventures	(2.1)	–	(2.1)	0.4	–	0.4
Net finance costs	(53.2)	(8.0)	(61.2)	(55.7)	–	(55.7)
<b>(Loss)/profit before tax</b>	<b>(106.1)</b>	<b>(338.6)</b>	<b>(444.7)</b>	240.0	(53.0)	187.0
Tax credit/(charge)			118.0			(38.7)
<b>(Loss)/profit for the year</b>			<b>(326.7)</b>			148.3

Further information on separately disclosed items is provided in note 4.

#### 4 Separately disclosed items

The Group reports underlying measures because they provide both management and stakeholders with useful additional information about the financial performance of the Group's businesses.

The total separately disclosed items before tax for the year ended 31 December is a net charge of £338.6m (2019: £53.0m). The items excluded from the underlying result are:

	2020 £m	2019 £m
Intangible amortisation for acquired businesses (a)	(52.6)	(53.0)
Directly attributable gains and losses resulting from the Covid-19 pandemic (b)	(262.5)	–
Restructuring costs (c)	(14.0)	(8.8)
Other separately disclosed items (d)	(1.5)	8.8
<b>Separately disclosed operating cost items</b>	<b>(330.6)</b>	(53.0)
Interest charges directly resulting from the Covid-19 pandemic (e)	(8.0)	–
<b>Total separately disclosed items</b>	<b>(338.6)</b>	(53.0)

##### a) Intangible amortisation for acquired businesses

Consistent with previous periods the Group continues to classify the amortisation for acquired intangibles as a separately disclosed item.

##### b) Directly attributable gains and losses resulting from the Covid-19 pandemic

As a result of the Covid-19 pandemic and in order to improve the transparency and usefulness of the financial information, the Group has identified a net expense of £262.5m relating to directly attributable gains and losses resulting from the pandemic. The net result relates to five separately identifiable areas of accounting judgement and estimates as follows:

	2020 £m
One-off costs, cancellation charges and compensation payments (i)	(46.4)
Discontinuation of fuel trades (ii)	(17.3)
Onerous contract provisions and associated impairment (iii)	(133.4)
Re-measurement of the WeDriveU put liability (iv)	33.9
Impairments and associated charges (v)	(99.3)
	<b>(262.5)</b>

#### **4 Separately disclosed items continued**

These items are considered to be separately disclosed items as they meet the Group's definition, being both significant in nature and value to the results of the Group in the current period. The impact that Covid-19 has had on underlying trading, such as the impact of lost revenue, is not recognised within separately disclosed items.

Further charges are anticipated during 2021 to reflect actions that will be taken as a direct result of the length of time that any government restrictions or safety requirements are in place, and customer behaviour is impacted.

##### **(i) One-off costs, cancellation charges and compensation payments (£46.4m expense)**

The Group incurred a total of £15.9m of one-off charges primarily relating to incremental health and safety costs, legal and professional fees relating to a) the arrangement of the Bank of England's CCFF and b) covenant waivers on the Group's banking facilities, and transaction costs associated with the cancellation of projects and acquisitions.

In addition, to maintain and secure the Group's supply base in order to be able to rapidly and flexibly increase capacity as demand picks up, the Group made a number of compensatory payments to third party coach operators totalling £12.7m.

The Group also incurred costs from penalties (whereby the pandemic prevented it from fulfilling certain contractual obligations), the write-off of receivables (where settlement arrangements were reached with customers) and from making a provision for employee compensation claims as a consequence of Covid-19.

##### **(ii) Discontinuation of fuel trades (£17.3m expense)**

Hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption, as a result of the impact of Covid-19. This resulted in a £17.3m expense being recycled from Other Comprehensive Income to the Income Statement.

For the remaining effective hedges, gains or losses on the derivatives continue to be recognised in Equity and on settlement are recycled to the Income Statement against the respective operating expense, and are not included in separately disclosed items.

##### **(iii) Onerous contract provisions and associated impairment (£133.4m expense)**

As a result of the pandemic, the Group undertook a review of its contracts with customers, and recorded onerous contract provisions totalling £105.7m across the Group, of which £64.8m was utilised in the current year. The majority of these contracts had only one to two years remaining and given the impact of Covid-19 on these contracts the Group considered it probable that the contract losses could not be recovered over the remaining contract term. In conjunction with these contracts, customer contract intangibles, property, plant and equipment and costs to fulfil a contract, totalling £15.7m, were impaired.

In last year's notes to the Financial Statements, a contingent liability was disclosed with respect to the Rhine- Ruhr Express contract in German Rail on the basis that the Directors considered that it was possible, but not probable, that it could be loss making in the future. Consideration for the Group's services under this contract is fixed, with profitability dependent on the value of operating costs incurred by the Group. Following the launch of the third and final line in December 2020, and reflecting the pandemic impact over the short to medium term, as well as the updated outlook for operating costs, the latest assessment resulted in the impairment of contract costs recorded within intangibles, totalling £16.8m, after which the contract was assessed to be profitable over the remaining term.

In addition, following the termination of a contract in North America, a previously recognised onerous contract provision of £6.5m was released in full and property, plant and equipment of £1.7m dedicated to the contract were impaired.

##### **(iv) Re-measurement of the WeDriveU put liability (£33.9m gain)**

The put liability, resulting from the acquisition of WeDriveU, is required to be re-measured at each reporting date. The gain of £33.9m has been derived from an internal valuation, using forecast earnings over the exercise period. Whilst the valuation previously assumed that the put options would be exercised in full at the latest possible date (31 December 2022), the vendor has now given notice to exercise put options over 10% of the equity of WeDriveU (with settlement expected during the first half of 2021). The remaining put options (over 30% of the equity) are assumed to be exercised at the end of 2022.

Whilst WeDriveU was broadly tracking as expected prior to Covid-19, some level of re-measurement may have arisen if new growth opportunities had not materialised. However the most significant driver for the gain is the adjustment to the short term earnings as a result of the pandemic. Consequently the gain has been categorised as part of the overall impact due to Covid-19.

#### 4 Separately disclosed items continued

##### (v) Impairments and associated charges (£99.3m expense)

In addition to the Group's goodwill impairment test and the identification of assets relating to onerous contracts, the Group reviewed its non-current assets to assess whether the impact of the pandemic and the subsequent restructuring activity changed the usage of such assets. Furthermore, during the year the Group decided to exit certain contracts or lines of business that were anticipated to be low margin over the medium term and/or that were now considered less strategically relevant. Accordingly, any dedicated assets associated with these contract or lines of business were identified and assessed for impairment, after first considering if they could be re-used or repurposed.

The overall result of this review was the impairment of £67.5m of property, plant and equipment, including £63.0m public service vehicles. In addition, £7.3m of goodwill and £23.3m of intangible assets were impaired, including £21.7m of customer contracts.

##### c) Restructuring costs

During the period, the Group incurred £14.0m of costs in respect of group-wide restructuring initiatives and redundancies, as part of the Group's mitigations against the adverse impact of the pandemic on profit and cash.

During the prior year, the Group incurred restructuring and redundancy costs in North America following changes in the management of school bus and transit businesses and other associated costs.

##### d) Other separately disclosed items

The Group has recognised an expense of £0.8m in respect of equalisation of Guaranteed Minimum Pensions (GMP). In October 2018 the High Court ruled that GMP should be equalised between men and women. Whilst in 2018 the Group equalised benefits for existing members, a further High Court ruling in November 2020 provided further detail and this resulted in the charge recognised in the year.

During the prior year the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. A net gain of £8.8m, after transaction costs was recognised. In the current year, this gain was reduced by £0.6m relating to the final settlement of amounts that were held in escrow.

##### e) Interest charges

Interest charges of £8.0m primarily relate to fees associated with the gearing covenant waiver on the Group's US private placement and banking facilities and the Bank of England's CCFF programme. The CCFF facility was unutilised during the period and not used to underpin the Group's underlying operating activities. Consequently these charges are not considered to be an underlying finance cost of the Group.

#### 5 Net finance costs

	2020 £m	2019 £m
Bond and bank interest payable	(36.3)	(40.9)
Lease interest payable	(12.6)	(12.8)
Other interest payable	(4.3)	(4.7)
Unwind of discounting	(1.6)	(2.7)
Net interest cost on defined benefit pension obligations	(1.7)	(3.2)
<b>Finance costs before separately disclosed items</b>	<b>(56.5)</b>	<b>(64.3)</b>
Separately disclosed finance costs (note 4)	(8.0)	–
<b>Total finance costs</b>	<b>(64.5)</b>	<b>(64.3)</b>
Lease interest income	0.6	0.2
Other financial income	2.7	8.4
<b>Net finance costs</b>	<b>(61.2)</b>	<b>(55.7)</b>
Of which, from financial instruments:		
Financial assets measured at amortised cost	0.7	0.8
Financial liabilities measured at amortised cost	(51.3)	(57.1)
Derivatives	2.0	7.6
Loan fee amortisation	(1.7)	(1.3)



## 6 Taxation

### (a) Analysis of taxation (credit)/charge in the year

	2020 £m	2019 £m
<b>Current taxation:</b>		
UK corporation tax	(8.4)	7.7
Overseas taxation	10.1	20.4
Current income tax charge	1.7	28.1
Adjustments with respect to prior years – UK and overseas	(1.8)	(7.0)
<b>Total current income tax (credit)/charge</b>	<b>(0.1)</b>	<b>21.1</b>
<b>Deferred taxation:</b>		
Origination and reversal of temporary differences	(119.6)	20.9
Adjustments with respect to prior years – UK and overseas	1.7	(3.3)
<b>Deferred tax (credit)/charge</b>	<b>(117.9)</b>	<b>17.6</b>
<b>Total tax (credit)/charge for the Group</b>	<b>(118.0)</b>	<b>38.7</b>
The tax (credit)/charge for the Group is disclosed as follows:		
Tax (credit)/charge on profit before separately disclosed items	(29.3)	55.2
Tax credit on separately disclosed items	(88.7)	(16.5)
	<b>(118.0)</b>	<b>38.7</b>

In the current year, the tax credit on separately disclosed items of £88.7m (2019: £16.5m) comprises an £11.5m tax credit on intangibles and £77.2m tax credit on tax deductible expenditure included in separately disclosed items.

The tax relief relating to intangible amortisation is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

### (b) Tax on items recognised in Other Comprehensive Income or Equity

	2020 £m	2019 £m
<b>Current taxation:</b>		
Current tax charge on exchange movements offset in reserves	–	1.7
	–	1.7
<b>Deferred taxation:</b>		
Deferred tax (credit)/charge on actuarial losses/(gains)	(10.8)	4.3
Deferred tax (credit)/charge on cash flow hedges	(3.8)	2.5
Deferred tax credit on foreign exchange differences	(1.6)	–
Deferred tax credit on accrued Hybrid instrument payments	(0.4)	–
Deferred tax charge/(credit) on share-based payments	1.6	(0.5)
	<b>(15.0)</b>	<b>6.3</b>

## 7 Dividends paid and proposed

	2020 £m	2019 £m
<b>Declared and paid during the year</b>		
Ordinary final dividend for 2019 paid of nil per share (2018: 10.17p)	–	51.9
Ordinary interim dividend for 2020 of nil per share (2019: 5.16p)	–	26.4
	–	78.3
<b>Proposed for approval (not recognised as a liability at 31 December)</b>		
Ordinary final dividend for 2020 of nil per share (2019: 11.19p per share)	–	57.1

In the period, due to the impact of the Covid-19 pandemic and associated business and economic uncertainty the Group cancelled its final 2019 dividend of 11.19p per share, which would have been due on 12 May 2020.

A final dividend has not been proposed for the current period.

## 8 Earnings per share

	2020	2019
Basic earnings per share	(57.9)p	27.6p
Underlying basic earnings per share	(14.6)p	34.5p
Diluted earnings per share	(57.9)p	27.5p
Underlying diluted earnings per share	(14.6)p	34.4p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders, a loss of £333.8m (2019: £141.1m profit) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust which are treated as cancelled. Earnings attributable to equity shareholders is inclusive of amounts accruing to the holders of the hybrid instrument and is calculated as follows:

	2020	2019
	£m	£m
(Loss)/profit attributable to equity shareholders	(331.7)	141.1
Accrued payments on hybrid instrument	(2.1)	–
<b>Earnings attributable to equity shareholders</b>	<b>(333.8)</b>	<b>141.1</b>

For diluted EPS, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The reconciliation of basic and diluted weighted average number of ordinary shares is as follows:

	2020	2019
Basic weighted average shares	576,031,523	510,435,913
Adjustment for dilutive potential ordinary shares <sup>1</sup>	–	2,433,486
<b>Diluted weighted average shares</b>	<b>576,031,523</b>	<b>512,869,399</b>

<sup>1</sup> Potential ordinary shares have the effect of being anti-dilutive in 2020 and therefore have been excluded from the calculation

The underlying basic and underlying diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33 since, in the opinion of the Directors, they reflect the underlying performance of the business' operations.

The reconciliation of the earnings and earnings per share to their underlying equivalent is as follows:

	2020			2019		
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Earnings attributable to equity shareholders	(333.8)	(57.9)	(57.9)	141.1	27.6	27.5
Separately disclosed items	338.6	58.8	58.8	53.0	10.4	10.3
Separately disclosed tax	(88.7)	(15.4)	(15.4)	(16.5)	(3.2)	(3.2)
Separately disclosed non-controlling interests	(0.3)	(0.1)	(0.1)	(1.4)	(0.3)	(0.2)
<b>Underlying (loss)/profit attributable to equity shareholders<sup>1</sup></b>	<b>(84.2)</b>	<b>(14.6)</b>	<b>(14.6)</b>	<b>176.2</b>	<b>34.5</b>	<b>34.4</b>

<sup>1</sup> Includes amounts accruing to the holders of the hybrid instrument

## 9 Goodwill and Impairment

Consistent with previous years, goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	2020	2019
	£m	£m
UK	52.6	29.0
North America	652.7	679.4
ALSA	820.1	778.1
	<b>1,525.4</b>	<b>1,486.5</b>

## 9 Goodwill and Impairment continued

The impairment assessment has been performed on North America and ALSA as these cash generating units contain 97% of the Group's goodwill.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows into perpetuity	
	2020	2019	2020	2019
North America	7.6%	6.3%	3.1%	2.9%
ALSA	8.3%	7.3%	3.0%	2.5%

The discount rates increased significantly in the year but remain no higher than they were in 2018.

The key estimates applied in the impairment review are the forecast level of revenue, operating margins and the proportion of operating profit converted to cash in each year. Forecast revenue and operating margins are based on past performance and management's expectations for the future, including an estimate of the continuing impact of the Covid-19 pandemic. A growth rate for each division has been consistently applied in the impairment review for all cash-generating units based on current forecasts and long-term country-specific GDP growth rates. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital (WACC), principally derived from external sources. Capital expenditure is projected over the first three years using a detailed, contract-by-contract level forecast of the capital requirements of the Group for new and replacement vehicles and other assets. In the extrapolation of cash flows into perpetuity (the "terminal value"), capital expenditure is assumed to be a 1:1 ratio to depreciation.

The value in use of the North America division exceeds its carrying amount by £633.6m (2019: £1,371.6m, 2018: £424.9m). The reduction in the excess of the value in use over the carrying amount is due to the discount rate returning back to what it was in 2018.

The value in use of the ALSA division exceeds its carrying amount by £266.8m (2019: £424.9m, 2018: £139.5m).

The assumptions used to derive the cash flow projections over the first three years of the impairment assessment are consistent with those used for the going concern and viability assessments, for which the assumptions are detailed in note 1 (for the going concern assessment). In summary, the base case projections assume Group revenue recovers to pre-pandemic levels in 2022 whereas the downside scenario assumes this is a year later, in 2023. However, whilst the pace of recovery due to the pandemic in the next one to two years could differ from that modelled, the vast majority of the value in use is in the terminal value, which is derived by applying the growth rate to the terminal year cash flow projection. Beyond the uncertainty over the medium term recovery, the Directors do not currently assume there to be any long-term net adverse impact from the pandemic. Applying the downside scenarios used for going concern or viability assessments does not materially alter the amounts by which the value in use exceeds the carrying amount.

### Sensitivities to key and other assumptions

#### (i) North America

For North America, sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 2.1% (2019: 3.0%) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 2.2% (2019: 3.2%).

In addition, for North America, a reduction in operating profit margin of 2.8% (2019: 3.9%) will result in the value in use of the division being equal to its carrying amount.

#### (i) ALSA

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 1.1% (2019: 1.5%) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 1.1% (2019: 1.5%).

A reduction in ALSA's operating profit margin of 1.6% (2019: 1.9%) will result in the value in use of the division being equal to its carrying amount.

Management have also performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the key assumptions would have on the recoverable amount of the ALSA division. In combination, a 20% reduction in the cash flows in 2021 and 2022, a 1.0% reduction in the long term growth rate and a 1.0% increase in the pre-tax discount rate would lead to a £168m impairment in ALSA.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts and therefore that goodwill is not impaired.

## 10 Cash and cash equivalents

	2020	2019
	£m	£m
Cash at bank and in hand	131.9	111.2
Overnight deposits	49.7	2.1
Other short-term deposits	338.9	365.0
<b>Cash and cash equivalents</b>	<b>520.5</b>	<b>478.3</b>

## 11 Business combinations, disposals and assets held for sale

### (a) Acquisitions - UK

During the period, the UK division acquired 100% control of Lucketts Group, a coach operator in Hampshire, England.

The fair values of the assets and liabilities acquired were as follows:

	£m
Intangibles	1.0
Property, plant and equipment	11.8
Inventory	0.3
Trade and other receivables	1.7
Cash and cash equivalents	5.2
Borrowings	(15.7)
Trade and other payables	(2.8)
Provisions	(0.6)
Deferred tax liabilities	(1.2)
<b>Net assets acquired</b>	<b>(0.3)</b>
Goodwill	22.6
<b>Total consideration</b>	<b>22.3</b>
<b>Represented by:</b>	
Cash consideration	14.8
Deferred consideration	7.5
	<b>22.3</b>

Trade and other receivables had a fair value and a gross contracted value of £1.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £0.2m.

Goodwill of £22.6m arising from the acquisition consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £7.5m. The Group is required to pay contingent consideration on pre-determined EBITDA thresholds being met over a rolling three year period, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £7.5m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired business contributed £7.0m of revenue and a £3.8m loss to the Group's result for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on the first day of the financial year, the Group's revenue for the year would have been £1,959.2m and the Group's operating loss would have been £380.8m.

### (b) Acquisitions – further information

Deferred consideration of £0.2m was paid in the period relating to acquisitions in the UK in earlier years. Total cash outflow in the period from acquisitions in the UK division was £9.8m, comprising consideration for current year acquisitions of £14.8m and deferred consideration of £0.2m, less cash acquired in the businesses of £5.2m.

In North America and ALSA deferred consideration of £26.9m and £0.2m respectively was paid in the period relating to acquisitions in earlier years.

## 11 Business combinations, disposals and assets held for sale continued

In addition, during the period there was an increase in the provisional fair values of businesses acquired in prior years of £0.7m and £2.3m in the North America and ALSA divisions respectively, with a resultant decrease in goodwill. These changes included a net reduction in the borrowings acquired of £0.1m.

Total acquisition transaction costs of £0.4m were incurred in the year to 31 December 2020 (2019: £5.7m).

The Group measures deferred contingent consideration at fair value through the profit and loss and by reference to significant unobservable inputs i.e. classified as level 3 in the fair value hierarchy. The significant unobservable inputs used to determine the fair value of the contingent purchase consideration are typically forecast earnings or estimating the likelihood that contracts will be renewed over a fixed period.

The fair value movement in deferred contingent consideration in the year is as follows:

	2020 £m
<b>Fair value:</b>	
At 1 January	49.0
Additions in the year	7.5
Payments during the year	(27.3)
Fair value movement in the year	(1.2)
Foreign exchange	0.8
<b>At 31 December</b>	<b>28.8</b>

### (c) Disposals

On 31 December 2020, the Group disposed of its 100% interest in Tayside Public Transport Co Limited, a provider of bus transportation services in Dundee, Scotland, in exchange for cash. A loss of £0.1m was recognised and comprises gross cash consideration of £11.8m less transaction costs of £1.3m, working capital adjustment of £0.4m and net assets of £10.2m. Total cash inflow in the period from the disposal was £7.2m, comprising consideration of £11.8m, less transaction costs settled of £0.1m and cash disposed in the business of £4.5m.

On 24 July 2019, the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. The retained investment was accounted for as a financial asset at fair value through other comprehensive income. A gain of £8.8m was recognised within separately disclosed items representing net consideration of £30.3m, less net assets disposed of £22.5m and exchange gains recycled from the currency translation reserve totalling £1.0m. Total cash inflow in 2019 was £21.7m.

During 2020 and subject to the Group having fulfilled its obligations under the sales agreement, including the finalisation of the closing accounts, consideration held in escrow was returned to the Group totalling £3.5m. Closing adjustments resulted in a reduction of the original gain of £0.6m and which has been recognised in separately disclosed items during the year for consistency. Transaction expenses totalling £6.3m were settled during 2020. Total cash outflow in the year from the disposal was £2.8m. No further cash flows are expected in 2021.

### (d) Assets held for sale

In ALSA, a building with a carrying value of £18.8m met the held for sale criteria of IFRS 5 at 31 December 2020.

In the prior year two buildings in North America were held for sale. These buildings were sold during 2020 and proceeds equal to the carrying value were receipted. The carrying value of the buildings at 31 December 2019 was £4.3m.

## 12 Pensions and other post-employment benefits

### (a) Summary of pension benefits and assumptions

The UK division (UK) and National Express Group PLC (the Company) both operate defined benefit pension schemes.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and maintains a small defined benefit scheme for National Express Services Limited. These post-employment benefits have been combined into the 'Other' category.

The UK, the Company and North America also operate or contribute into a number of defined contribution schemes.

For the Company defined benefit scheme, having completed a buy-in transaction in 2018, the defined benefit obligations are fully insured. Consequently the Company has no obligation to make any further payments into the scheme.

## 12 Pensions and other post-employment benefits continued

In 2020, the UK division agreed a new six-year annual deficit plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2024 with an average contribution of £7.6m per annum. The plan remains open to accrual for existing members only.

The assets of the defined benefit schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

The Group expects to contribute £7.7m into its defined benefit pension plans in 2021.

The total pension cost charged to underlying operating loss in the year for the Group was £11.2m (2019: £10.3m), of which £6.7m (2019: £6.4m) relates to the defined contribution schemes.

The defined benefit pension (liability)/asset included in the Balance Sheet is as follows:

	2020 £m	2019 £m
Company	12.3	14.2
<b>Pension assets</b>	<b>12.3</b>	<b>14.2</b>
UK	(141.6)	(99.1)
Other	(5.8)	(5.1)
<b>Pension liabilities</b>	<b>(147.4)</b>	<b>(104.2)</b>
<b>Total</b>	<b>(135.1)</b>	<b>(90.0)</b>

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations as follows:

	2020		2019	
	UK	Company	UK	Company
Rate of increase in salaries	2.5%	–	2.5%	–
Rate of increase of pensions in payment	2.4%	2.9%	2.1%	2.9%
Discount rate	1.3%	1.4%	2.0%	2.1%
Inflation assumption (RPI)	3.0%	2.9%	3.0%	2.9%
Inflation assumption (CPI)	2.4%	2.3%	2.1%	2.0%
Post-retirement mortality in years:				
Current pensioners at 65 – male	19.9	22.4	19.8	22.3
Future pensioners at 65 – male	21.3	23.7	21.2	23.6
Current pensioners at 65 – female	23.2	25.1	23.0	24.9
Future pensioners at 65 – female	24.7	26.6	24.5	26.4

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

	UK	Company	UK	Company
	2020 £m	2020 £m	2019 £m	2019 £m
(Increase)/decrease in the defined benefit obligation				
Effect of a 0.5% increase in pensions in payment	(27.6)	–	(25.5)	–
Effect of a 0.5% increase in the discount rate	35.8	–	31.5	–
Effect of a 0.5% increase in inflation	(32.0)	–	(28.5)	–
Effect of a 1 year increase in mortality rates	(18.5)	–	(14.0)	–

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK and Company schemes, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

### 13 Cash flow statement

#### (a) Reconciliation of Group (loss)/profit before tax to cash generated from operations

	2020 £m	2019 £m
Total operations		
(Loss)/profit before tax	(444.7)	187.0
Net finance costs	61.2	55.7
Share of results from associates and joint ventures	2.1	(0.4)
Depreciation of property, plant and equipment	223.6	203.1
Intangible asset amortisation	69.0	59.7
Amortisation of fixed asset grants	(2.9)	(1.3)
Gain on disposal of property, plant and equipment	(8.7)	(10.3)
Gain on disposal of intangible assets	(2.3)	(3.6)
Share-based payments	0.2	6.4
Decrease/(increase) in inventories	2.9	(2.6)
Decrease/(increase) in receivables	56.6	(75.0)
(Decrease)/increase in payables	(122.7)	53.4
Decrease in provisions	(22.9)	(26.7)
Separately disclosed items <sup>1</sup>	278.0	–
Cash flows relating to separately disclosed items	(120.4)	(7.2)
<b>Cash generated from operations</b>	<b>(31.0)</b>	<b>438.2</b>

<sup>1</sup> Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'

#### (b) Analysis of changes in net debt

Net debt is an alternative performance measure which is not defined or specified under the requirements of International Financial Reporting Standards. Please refer to the Alternative Performance Measures on page 23 for further information.

	At 1 January 2020 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2020 £m
<b>Components of financing activities:</b>						
Bank and other loans <sup>1</sup>	(184.5)	171.3	(11.3)	1.9	(0.9)	(23.5)
Bonds	(1,081.9)	448.4	–	(12.0)	(1.5)	(647.0)
Fair value of interest rate derivatives	3.3	–	–	–	(2.3)	1.0
Fair value of foreign exchange forward contracts	(20.4)	21.0	–	4.0	–	4.6
Cross currency swaps	11.7	(2.4)	–	(15.0)	–	(5.7)
Net lease liabilities <sup>2</sup>	(385.0)	97.7	(4.3)	1.4	(21.1)	(311.3)
Private placements	(68.3)	(407.9)	–	(3.6)	3.0	(476.8)
<b>Total components of financing activities</b>	<b>(1,725.1)</b>	<b>328.1</b>	<b>(15.6)</b>	<b>(23.3)</b>	<b>(22.8)</b>	<b>(1,458.7)</b>
Cash	111.2	18.9	0.7	1.1	–	131.9
Overnight deposits	2.1	47.6	–	–	–	49.7
Other short-term deposits	365.0	(30.7)	–	4.6	–	338.9
<b>Cash and cash equivalents</b>	<b>478.3</b>	<b>35.8</b>	<b>0.7</b>	<b>5.7</b>	<b>–</b>	<b>520.5</b>
Other debt receivables	2.4	(1.2)	–	–	–	1.2
Remove: fair value of foreign exchange forward contracts	20.4	(21.0)	–	(4.0)	–	(4.6)
<b>Net debt<sup>3</sup></b>	<b>(1,224.0)</b>	<b>341.7</b>	<b>(14.9)</b>	<b>(21.6)</b>	<b>(22.8)</b>	<b>(941.6)</b>

<sup>1</sup> Net of arrangement fees totalling £2.4m on bank and other loans

<sup>2</sup> Net lease liabilities is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

<sup>3</sup> Excludes accrued interest on long-term borrowings

Short-term deposits relate to term deposits repayable within three months.

### 13 Cash flow statement continued

Borrowings include non-current interest-bearing borrowings of £1,313.0m (2019: £1,091.0m).

Other non-cash movements include lease additions and disposals of £21.1m (2019: £89.5m) and a £1.7m net reduction from the amortisation of loan and bond arrangement fees (2019: £0.7m). A £2.3m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £0.9m fair value increase in bonds and a £1.4m fair value increase in private placements.

	At 1 January 2019 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements <sup>4</sup> £m	At 31 December 2019 <sup>4</sup> £m
Components of financing activities:						
Bank and other loans <sup>1</sup>	(9.0)	(169.8)	(0.7)	(5.1)	0.1	(184.5)
Bonds	(852.4)	(244.6)	–	13.4	1.7	(1,081.9)
Fair value of interest rate derivatives	6.6	–	–	(0.2)	(3.1)	3.3
Fair value of foreign exchange forward contracts	(6.8)	(20.8)	–	7.2	–	(20.4)
Cross currency swaps	(0.2)	–	–	–	11.9	11.7
Net lease liabilities <sup>2</sup>	(356.3)	91.1	(42.6)	12.3	(89.5)	(385.0)
Private placements	(73.7)	–	–	4.4	1.0	(68.3)
<b>Total components of financing activities</b>	<b>(1,291.8)</b>	<b>(344.1)</b>	<b>(43.3)</b>	<b>32.0</b>	<b>(77.9)</b>	<b>(1,725.1)</b>
Cash	74.6	36.8	4.3	(4.5)	–	111.2
Overnight deposits	1.9	0.2	–	–	–	2.1
Other short-term deposits	41.2	323.8	–	–	–	365.0
<b>Cash and cash equivalents</b>	<b>117.7</b>	<b>360.8</b>	<b>4.3</b>	<b>(4.5)</b>	<b>–</b>	<b>478.3</b>
Other debt receivables	2.1	0.3	–	–	–	2.4
Remove: fair value of foreign exchange forward contracts	6.8	20.8	–	(7.2)	–	20.4
<b>Net debt<sup>3</sup></b>	<b>(1,165.2)</b>	<b>37.8</b>	<b>(39.0)</b>	<b>20.3</b>	<b>(77.9)</b>	<b>(1,224.0)</b>

<sup>1</sup> Net of arrangement fees totalling £2.7m on bank and other loans

<sup>2</sup> Opening balances were restated for the adoption of IFRS 16 'Leases'. The closing balance is inclusive of finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

<sup>3</sup> Excludes accrued interest on long-term borrowings

<sup>4</sup> Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables, see note 1 for further information

#### (c) Reconciliation of net cash flow to movement in net debt

	2020 £m	<sup>1,2</sup> 2019 £m
Increase in cash and cash equivalents in the year	36.5	365.1
Cash (outflow)/inflow from movement in other debt receivables	(1.2)	0.3
Cash inflow/(outflow) from movement in debt and leases liabilities	291.5	(366.6)
Change in net debt resulting from cash flows	326.8	(1.2)
Change in net debt resulting from non-cash movements	(44.4)	(57.6)
<b>Movement in net debt in the year</b>	<b>282.4</b>	<b>(58.8)</b>
Opening net debt <sup>1</sup>	(1,224.0)	(1,165.2)
<b>Net debt</b>	<b>(941.6)</b>	<b>(1,224.0)</b>

<sup>1</sup> Opening balances in 2019 were restated for the adoption of IFRS 16 'Leases'

<sup>2</sup> Closing balances in 2019 have been represented to correct the presentation of IFRIC 12 financial liabilities, see note 1 for further information