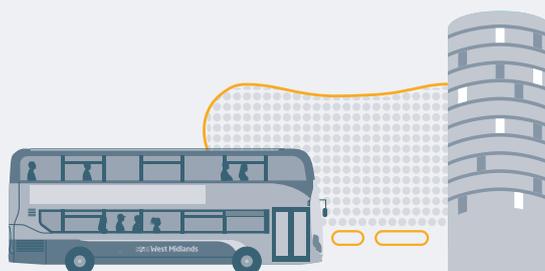


UK



Tom Stables
Managing Director,
UK and Germany

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

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

Revenue

£388.2m

2019: £599.7m

Underlying Operating Profit

£(49.0)m

2019: £85.0m

Statutory Operating (Loss)/Profit

£(99.4)m

2019: £84.1m

Underlying Operating Margin

(12.6)%

2019: 14.2%

Pre-Covid

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

Navigating the crisis

As the first lockdown hit in March, we saw an immediate impact in both bus and coach with passenger numbers dropping dramatically. At the peak of the lockdown our bus operations saw patronage fall by more than 80% with 47% of service operating, while in coach, the nationwide travel ban effectively cut demand to zero. Demand came back quickly when restrictions were lifted but reduced just as quickly when they were re-imposed. For the year as a whole, passenger numbers were down 47% in our bus operations and 71% in our core coach operations. Overall, and taking into account the fact that our bus operations received revenue support through the COVID-19 Bus Services Support Grant (CBSSG), revenue declined by 35% in the year to £388.2 million, with almost all of the

revenue decline seen in our coach operations, down 67%. Wide-ranging measures were taken to reduce variable costs, made all the more necessary due to the imposition of social distancing on public transport which has enforced occupancy well below levels required to break-even. This has been particularly acute in our coach business, with the decline in revenue for the UK as a whole of over £210 million resulting in an operating loss of £49.0 million (2019: operating profit £85.0m), all of which was driven by performance of coach. After accounting for separately disclosed items of £50.4 million, of which £49.9 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of £99.4 million (2019: profit of £84.1m).

Protecting staff and customers

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

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

Securing support

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

We have also made use of the Government's Covid Job Retention Scheme (CJRS) or 'furlough', most notably in our coach business where travel restrictions and lockdowns have severely reduced demand. In the first lockdown we suspended services for the whole of the second quarter and placed colleagues

onto the furlough scheme, up to 96% of coach employees at the peak. While a reduced and socially distanced service resumed over the summer, subsequent restrictions have seen more staff return to furlough with around 87% of coach employees currently furloughed. We also made use of the furlough scheme in bus in the second quarter when service levels were running at 47% of pre-Covid levels, but with service levels quickly returning to pre-Covid levels, this support was not required in the second half of the year.

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

Reducing the cost base

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

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

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

Supporting the community

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

Preparing for the future

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

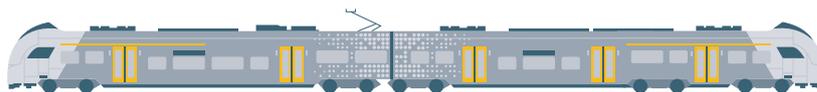
We restructured our non-scheduled coach operations to form a single operation, launching National Express Transport Solutions (NETS) to leverage our brand and presence in the fragmented commuter, corporate shuttle, private hire and holidays markets. And we are already seeing early success with a significant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

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

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

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

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



Germany

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

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

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

Reported revenue is up 52.8% to €156.6 million (2019: €102.5m), reflecting the start-up of two services in 2019 for Rhine-Ruhr Express (RRX) services, with a third service mobilised in December 2020. The Underlying Operating Loss of €5.5 million in 2020 compared with the 2019 Underlying Operating Profit of €5.7 million is driven by contract accounting.

In essence the positive adjustments to full lifetime contract profitability that were made in 2019 have been offset by a similar size reduction this year as we flow through the impact of the pandemic. Without these accounting adjustments, the business generated a small underlying operating profit in both years.

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

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