

Safety & Environment Committee Report

Sir John Armitt CBE
Committee Chair



Safety, where we believe we are already an industry leader, remains our priority. Our zero emission fleet transition strategy and ambitious net zero and zero emission fleet targets demonstrate our desire to become an industry leader in combating climate change and poor air quality”

Primary role

To oversee the effectiveness of the Group’s safety, health & wellbeing and environment strategies, standards, policies, initiatives and targets, to assess the Group’s delivery and performance against them, and to monitor the Group’s exposure to, and management of, risk in these areas

The Committee’s terms of reference, reviewed and approved annually, are available on the Company’s website at www.nationalexpressgroup.com

Key responsibilities

- Monitor the Group’s safety, health & wellbeing and environment leadership, performance and culture
- Review the Group’s strategy and framework of standards, policies, targets and initiatives for managing safety
- Review the Group’s strategy, policies, targets and initiatives for managing its impact on the environment
- Review the Group’s performance against these matters and the external reporting of that performance

Activity highlights

- Monitored the Group’s performance against its safety standards, policies and targets, including consideration of new safety risks and measures being taken to mitigate them
- Reviewed major accidents and incidents and the action plans developed or lessons learned in response to them
- Reviewed the Group’s strategy to transition its global businesses’ fleets to zero emission and the new fleet zero emission targets set to drive delivery against this strategy
- Assessed the Group’s performance against its 7-year environmental KPIs
- Reviewed the Group’s TCFD disclosures included in this Annual Report

Membership, meetings and attendance

Committee member	Appointed	Resigned	Meetings attended/ meetings held
Sir John Armitt CBE (Chair) ¹	01.01.13	–	3/3
Jorge Cosmen	01.12.05	–	3/3
Matthew Crummack ²	06.05.15	–	3/3
Mike McKeon ²	03.07.15	–	3/3
Karen Geary ²	01.10.19	–	3/3
Ana de Pro Gonzalo ²	01.10.19	–	3/3
Carolyn Flowers ^{2,3}	01.06.21	–	2/3
Dr Ashley Steel ^{2,4}	01.01.16	3.12.21	3/3
Chris Muntwyler ⁵	01.06.11	31.12.21	3/3

¹ Company Chairman, independent on appointment

² Independent Non-Executive Director

³ Carolyn Flowers joined the Committee at the same time as her appointment to the Board on 1 June 2021. She participated in all the meetings of the Committee held in the year after she joined *

⁴ Dr Ashley Steel stood down from Committee when she stood down from the Board on 3 December 2021 but she attended all Committee meetings in the year prior to standing down *

⁵ Chris Muntwyler was co-opted as a non-Director member of the Committee throughout the year and stepped down from his role at the end of the year *

Other attendees: Company Secretary and, by invitation, Executive Directors, Group Safety Director and Group Sustainability Director

Further information about the Director Committee members is set out on pages 52 to 54

*** The Committee thanks Dr Steel and Mr Muntwyler for their significant contributions to the Committee and welcomes Ms Flowers to the Committee**

Dear fellow shareholder

I am pleased to present the Safety & Environment Committee Report for 2021. Safety, where we believe we are already an industry leader, remains our number one priority. Our zero emission fleet transition strategy and ambitious net zero and zero emission fleet targets, as described in this Report, demonstrate our desire to become an industry leader in combating climate change and poor air quality.

Safety

Safety governance

The Group CEO has overall responsibility for the Group's safety system and performance, supported by the Group Safety Director, Divisional CEOs and Divisional Safety Directors. The Committee's role is to review the effectiveness of the Group's safety system and report to the Board on the same.

Safety system

The Company has a well defined and developed safety system which operates across its global businesses. This system has its foundations in the Company's 'Driving Out Harm' programme which originated in 2011 and comprised the creation and implementation of a wide variety of driver and vehicle safety standards and constantly evolving safety initiatives. It was built upon in 2017 with the introduction of five new Global Safety Policies relating to speed management, driving evaluation, competence of driving evaluators, driver monitoring and driver performance management. These were fully implemented across the majority of the Group's operations by the end of 2020 but continue to be implemented in those cities and countries in which the Group has more recently commenced operations, such as Rabat and Casablanca in Morocco. The Committee is pleased with the progress made to date in these locations where the safety programme is already transforming the safety of passenger transport for the citizens of and visitors to such cities.

In response to the pandemic, the Group implemented a range of additional safety measures, focused on controlling the spread of Covid-19, which were summarised in last year's Committee Report. Some of these measures have become regular safety procedures, including the maintenance of protective screens between drivers and passengers, enhanced cleaning of vehicles and the fitment of enhanced air filtration systems on vehicles, which measures help to protect drivers and passengers alike from Covid-19 and other infectious diseases.

While we hope the worst of the pandemic is behind us and stronger government-imposed measures to control Covid-19 are not reintroduced, our operations have been adept at implementing new protective measures when and as the need has arisen. This has given the Committee and the Board assurance on how well the business is able to respond to changing safety risks and in turn we trust it will give our passengers confidence to either carry on, begin or return to using our services.

The Group also continues to be alert to the emergence of new safety risks and to devise appropriate plans to mitigate their effects. For example, during the year we have seen significant driver shortages across a number of our operations, but particularly those in North America due to the after-effects of the pandemic on the general labour market and Covid infection rates still causing higher than normal absence rates in our own workforce. As in other industries, staff shortages place more pressure and more responsibility on those staff who remain at work which, in our industry, could reduce their focus on safety. Having identified this risk, specific plans were put in place to mitigate it, including by reducing the non-safety related responsibilities of staff to ensure safety can remain their priority. The Committee reviewed and approved these plans.

Safety performance

The Committee assesses the Group's safety performance by reference to a number of KPIs which include:

- the Group's FWI Index score, which measures and weights according to severity all responsible major, minor and lost time injuries and any responsible fatalities;
- the Group's Preventable Accidents score, which counts the number of vehicle accidents that should, by compliance with the safety system, have been capable of being prevented; and
- the Group's DriveCam Driver Risk score, which counts the number of driver risk incidents recorded by the DriveCam technology on the Group's fleet.

Both the target scores for these KPIs, which were set by reference to the Group's (best ever) 2019 FWI Index score and its 2019 (last normal year of operation pre-Covid-19) Preventable Accidents and DriveCam Driver Risk scores – which targets also comprised the safety targets in Executive Directors' and senior managers' 2021 bonuses – and the actual scores achieved in respect of 2021 are set out in the table below:

KPI Target and 2021 Bonus Target	Bonus Weighting	Target Score	Actual Score
Group FWI Index score (per million miles)	5%	0.003	0.006
Group Preventable Accidents score	5%	14.38 ¹	13.62
Group DriveCam Driver Risk score	5%	2400.70	1504.78

¹ The 2021 target Group Preventable Accidents score has been restated from that reported in the Company's 2020 Annual Report to include the Casablanca operations to ensure a like-for-like basis of calculation with the 2021 actual score

Although clearly disappointing that the Group did not achieve its target Group FWI Index score, the actual 2021 Group FWI Index score still represented the Group's third best ever score in 11 years, reflecting the stretching nature of the target and the Group's continuous investment in, and relentless focus on, safety. The significant positive impact of that investment and focus over the last 11 years is illustrated by the graph below:

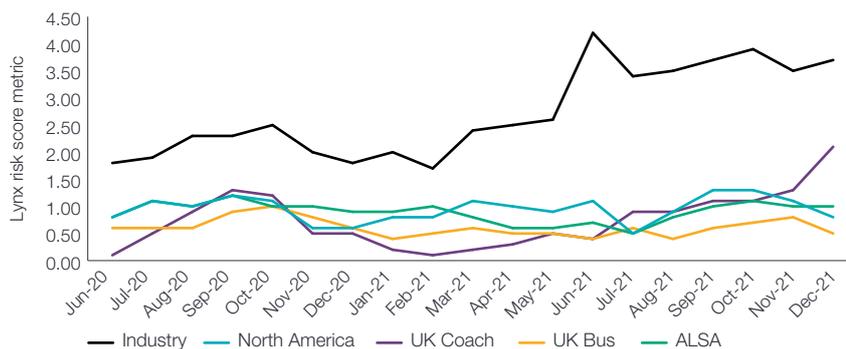
FWI per million miles operated



Safety & Environment Committee Report continued

The Committee was pleased to see achievement of the Group’s Preventable Accidents target score and noted that the Group had in 2021 the lowest number of high severity incidents on record. The Committee was also impressed by the achievement of the target for, and significant year-on-year improvement in, the Group’s DriveCam Driver Risk score, noting that Lytx (which owns and manages the DriveCam technology on behalf of its clients) advised that the Group is 52% less risky on average than the Lytx Transit Industry Network (comprised of more than 75,000 vehicles). The Group’s divisions’ impressive DriveCam Driver Risk performance, as compared with this Lytx Transit Industry Network, during the 18 months to the end of 2021 is illustrated by the graph below:

NX DriveCam Driver Risk vs Lytx Transit Industry Network



To demonstrate the Group’s continued commitment to safety, its divisions will continue to include a range of safety targets in their divisional management bonus plans, including a divisional FWI metric which will be re-positioned as a gateway to payout of the whole safety element of divisional managers’ bonuses. To enable the Company’s Executive Directors to retain their focus on the Group’s holistic safety performance, 15% of their 2022 bonuses will be based on the Group’s FWI metric, with the threshold for payout only being met if there are no responsible fatalities in the year. The on-target payout has been set by reference to the Group’s average FWI Index score over the last three years (excluding 2020 due to it being a year of unusually low operations due to Covid-19) and the maximum payout by reference to the Group’s best ever FWI Index score achieved in 2019. The Executive Director bonus metrics are shown in the table below:

Executive Director 2022 Bonus Target	Weighting	Threshold	On-Target	Maximum
Group FWI Index score (per million miles)	15%	Zero responsible fatalities	0.006	0.003

Safety performance continued

While KPIs are valuable for assessing safety performance, they are not the only means the Committee uses.

During 2021 the Committee also reviewed all major safety incidents affecting the Group, their root causes and any lessons to be learned from them, together with the action plans implemented in response to them.

It also reviewed several specific ongoing and new aspects of the Group’s safety system. For example:

- It was pleased to observe the Group’s continued focus on driver fatigue management, including via the roll-out across the entire UK scheduled coach fleet of Guardian’s Seeing Machines fatigue monitoring technology. This technology monitors in real-time for indicators of driver fatigue and alerts the driver. The data derived from the technology is also informing a better understanding of driver fatigue trends and the action plans to address those.
- It was also interested in the safety risk assessments being undertaken at the Group’s depots and garages which are now using zero emission vehicles in connection with the operation of those vehicles. These encompassed risk assessments of the new activities of charging vehicle batteries and receiving supplies of, storing and using hydrogen gas at these sites.

Further, during 2021 the Committee was pleased to be able to resume its programme of safety tours with a visit by Chris Muntwyler to our German Rail operations, details of which can be found in the box below:

In November 2021, Chris Muntwyler, accompanied by Tom Stables (UK & Germany CEO), visited Cologne where they travelled in the driver cab on one of our RRX services and held meetings with the NX German rail management and safety teams and with the German rail network controller, DeutscheBahn.

As Chris reported to the Committee, the meetings with management and DeutscheBahn served:

- to confirm the implementation of the Group’s global safety policies as relevant to railway operations, representing a positive step-change in the German rail industry;
- as a forum for discussing with DeutscheBahn matters that were within its control that could give rise to safety risks, with a view to influencing those matters; and
- to deepen the understanding of the data privacy concerns held by the German works council that could affect the effective management of safety risks, with a view to addressing those concerns.

The Committee welcomed the insights gained and was assured that the German management team will continue to work with DeutscheBahn and the German works council in an effort to continuously improve the safety of the Group’s German rail services for the passengers who use them and drivers who operate them.

German Rail safety tour



Environment

Environment governance

The Company's Executive Directors are responsible for the delivery of the Group's environment strategy and the sponsors of the Group's environment ambitions, supported by the new Group Sustainability Director, the Group Procurement Director, Divisional CEOs and Divisional specialists. The Committee's role is to review the Group's environment strategy and its environment ambitions in the context of its broader strategy, to monitor the Group's progress on delivering this strategy and achieving these ambitions and to report to the Board on the same. It also plays a key role in overseeing the Group's environment reporting, as referred to below.

Environment reporting

The Company's mandatory disclosures on energy consumption and carbon emissions, including under the Streamlined Energy and Carbon Reporting Regulations, can be found on pages 221 to 223 of this Annual Report. In addition, 2021 marks the first year in respect of which the Company is reporting on climate-related risks and opportunities in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, which disclosures can be found on pages 35 to 39 of this Annual Report.

Environment strategy and targets

The Group's environment strategy is centred around transitioning the fleet across its operating subsidiaries to zero emission vehicles (ZEVs). 95% of the Group's carbon emissions originate from its fleet, so this transition will have the greatest influence in terms of the Group reducing its impact on the environment and improving air quality in the communities it operates in.

During 2021, the Committee reviewed and approved this strategy. The Committee noted that such strategy was developed after significant modelling of its expected financial impact and the timetable for its delivery, including having regard to the costs and expected investment returns on ZEVs and the life cycle of the existing fleet and anticipated advancement of ZEV technology over that cycle. The Committee observed that such strategy is as much about overcoming or managing the hurdles for investment in ZEVs as it is about making the right investment at the right time in ZEVs. For example, the Group intends to use its vehicle availability model to mitigate the capex and debt implications of the higher purchase cost of ZEVs vs diesel vehicles and the Group will work with its key customers and other stakeholders to shape tender requirements to incorporate ZEVs and to secure grant funding for ZEVs.

The Group's UK Bus and North American shuttle businesses are currently leading the way on the Group's zero emission fleet transition, as demonstrated by the case studies in the boxes below and overleaf.

A number of the Group's other businesses are piloting ZEV operations, but discussions with the key stakeholders of those businesses, such as the school boards in North America and the municipalities and transport authorities in Spain and Morocco, are the priority to create the conditions in which the Group can bid to win customer contracts with ZEV propositions.

Building on the Group's commitment to never buy another diesel bus in the UK and its ambitions to have zero emission fleets in UK Bus by 2030 and UK Coach by 2035, in 2021 the Group adopted wider ambitions to have zero emission fleets in Spain bus by 2035 and in each of Spain coach, Morocco bus and North America school bus and transit by 2040. While these remain ambitions as much depends on what our customers want and whether central and local governments will support green agendas over the years to come, they demonstrate the Group's desire to achieve these important goals.

In addition to the 29 electric vehicles and 20 hydrogen vehicles the UK Bus business is already operating across the West Midlands, it made a commitment in 2021 to operate a further 176 electric vehicles.

These vehicles will be made available to the UK Bus business under its new vehicle availability contract by which charged vehicles, and the related charging infrastructure, are made available on a daily basis by a service provider in return for an availability fee.

The purchase of these vehicles by the service provider was assisted by grant funding awarded by the West Midlands Combined Authority to the UK Bus business in return for its commitment to the operate the vehicles as part of the Coventry Electric Bus City grant scheme.

With these investments, we are pleased to be able to not only reduce our own carbon emissions but also offer our passengers the opportunity to reduce their carbon footprints.

UK Bus providing services using ZEVs



Safety & Environment Committee Report continued

North America shuttle partnering with corporate customers in using ZEVs



The WeDriveU shuttle business in North America has around 100 electric vehicles, which it is using to transport the employees of its corporate customers to and from their workplaces. These vehicles are owned by customers but operated and maintained by our drivers and technicians.

As cities around the world introduce more measures to combat climate change, improve air quality and reduce traffic congestion, including via clean air charging zones and restrictions on the number of parking spaces employers can provide, large employers located in these cities are looking for mobility solutions to enable their employees to get to and from work in a way which contributes to these aims and overcomes these issues.

We are proud to partner with customers who are finding innovative ways to reduce their own environmental impact and who offer their employees the opportunity to do so too.

Environment performance

As explained in previous Committee Reports, in 2019 the Group adopted six KPIs to track the Group's progress over the seven-year period 2019-2025 in reducing its impact on the environment. The KPIs include traction energy, traction carbon emission and total (scope 1 & 2) carbon reduction targets, as well as site carbon emission, water consumption and waste to landfill reduction targets. The Committee reviewed the Group's progress against these KPI targets at the end of 2021, as shown by the table on page 221.

The Committee notes that progress against the traction energy, traction carbon and total (scope 1 & 2) carbon emission reduction targets, which were set as intensity metrics, remains subdued as a result of both the Group's lower vehicle occupancy levels in 2020 and 2021 and the mix of passenger journeys shifting towards more short stop-start (so less fuel efficient) bus journeys rather than longer-distance coach journeys, in both cases due to changes in travel behaviours caused by the Covid-19 pandemic. It also notes that performance against these targets was worse in 2021 than 2020 as, during the second half of 2021 as Covid-19 restrictions were released, the Group started to build back its transport networks ahead of the return of passengers to enable that return.

The Committee is pleased to note the positive progress against the other targets but, as these were set as absolute metrics, is conscious that this progress is boosted by lower site occupancy, water usage and waste production in the first half of 2021

when Covid-19 restrictions remained, so when less site energy was being used, fewer vehicles were being washed and more office workers were working from home.

During 2021, the Committee engaged with management on whether the current environment KPIs should be re-set to better align them with the Paris Agreement accord of limiting global warming to no more than 1.5°C above pre-industrial levels, to be SBTi validated and to become milestones to track progress towards achievement of the Group's overall net zero and zero emission fleet targets. The Committee agreed with management that the Group needs a year of 'steady-state' operations to create a sound baseline for revised KPIs, so in 2022 will assess whether the Group's 2022 operations can form this baseline. Meantime, the Committee is pleased to note that the Group is refining its environmental data collection and verification processes to ensure the new baseline is as robust as possible.

As also explained in previous Committee Reports, environment performance metrics have been included in each of the last two LTIP awards made to Executive Directors and certain senior managers, the indicative vesting levels for which are referred to on page 103 of the Directors' Remuneration Report. The Committee notes that progress against the 2020 LTIP number of ZEVs performance metric is currently on track to be achieved at between on-target and maximum vesting level, but that both the 2020 and 2021 LTIP carbon emission reduction metrics are not on track due to being

intensity metrics and the Covid pandemic impacting these in the same way as the environment KPIs.

To demonstrate the Group's ongoing commitment to reducing its carbon emissions and increasing its vehicle occupancy levels back to at least pre-pandemic levels, as well as achieving its zero emission fleet transition strategy, the Remuneration Committee intends to include further carbon reduction and ZEV increase metrics in Executive Directors' and senior managers' 2022 LTIP awards, weighted at 25% of the total awards. Further details of these metrics, including their threshold, on-target and maximum vesting levels, are shown on page 98 of the Directors' Remuneration Report.

Evolution of the Committee to having a broader sustainability focus

As the environment and wider corporate sustainability matters become ever-more important to us and our stakeholders, ensuring we have the right governance of these matters, alongside our continued governance of safety matters, is equally important. To this end, and as referenced on page 77, we will look in 2022 to evolve this Safety & Environment Committee to reflect our broader sustainability focus.

Sir John Armitt CBE
Safety & Environment Committee Chair
9 March 2022