

WEST MIDLANDS TRAVEL LIMITED

s.172 and Corporate Governance: extracts from the
31 December 2019 Annual Report and Financial Statements




S172 statement

This statement is made in accordance with section 414CZA Companies Act 2006 (as amended).
















In accordance with their duties under section 172(1) Companies Act 2006, the Company's Directors have collectively, and individually, acted in a way that they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole.

In doing so they have had regard, not just to financial factors – denoted by the £ symbol – but also the factors specified in s.172(1)(a) to (f) Companies Act 2006 (the “Factors”) – denoted by the symbols shown below.

The table below explains why the Directors always have regard to the Factors in their decision-making:

| Factor | Explanation of why Directors have regard to this Factor |
|---|--|
| <i>(a) The likely consequences of any long-term decision</i>  | Our renewed Vision – which is to be the world leader in mass transit and lead in safety, reliability and environmental standards, and is rooted in a belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future - means that we must make decisions for the long-term and that we must also consider the impacts of such long-term decisions as regards their ability to further and achieve our Vision. Further information about the Group's Vision, and how this has formulated our Purpose and is underpinned by our Values, is set out on page 16 of the Directors' Report. |
| <i>(b) The interests of the Company's employees</i>  | Our employees and members of our wider workforce are our most valuable asset. They are the key to realising our Vision and achieving our Purpose. See page 8 of the Company's 2019 Annual Report and Financial Statements for information about how we engage with our employees to enable us to take their views and interests into account in decision-making. |
| <i>(c) The need to foster business relationships with stakeholders</i>  | Our customers are the heart of our business and we strive to earn their loyalty by providing safe, reliable and great value multi-modal services. We also foster strong relationships with other key stakeholders including central and local government and transport authorities, elected members, our regulators, industry groups and our suppliers. See page 10 of the Company's 2019 Annual Report and Financial Statements for who our key stakeholders are and how we foster relationships with them to enable us to take their views and interests into account in decision-making. |
| <i>(d) The impact of the Company's operations on the community and environment</i>  | We play a vital role in the communities we serve by connecting the people who live in those communities with their work, leisure, family and friends. We are also focused on reducing the environmental impact of our operations. Per passenger, bus travel is less polluting than trains and vastly better than petrol and diesel cars. As such, modal shift (getting people out of cars and onto buses) is the single most important thing we can do. Because of this, we take both the community and the environment into careful consideration in our decision-making. |
| <i>(e) Maintaining a reputation of high standards and business conduct</i>  | Our reputation is key. It underpins our ability to earn the loyalty of our customers and thereby to grow our business through increased commercial passenger journeys and contract wins. We pride ourselves on being one of, if not the, safest transport service providers in the world. As a bus operator, we are also required to hold and maintain a PSV operator licence, pursuant to which we must meet a requirement of good repute. We will always therefore consider the importance of our reputation when making decisions. |
| <i>(f) Acting fairly between members of the Company</i>  | We are a wholly owned subsidiary and therefore have only one shareholder to whom we are accountable. That said, everything we do well benefits our sole shareholder, financially through the returns we generate and reputationally through the way we operate. See page 24 of the Company's 2019 Annual Report and Financial Statements for information on financial performance. |

The table below describes certain key decisions taken by the Company's Directors during its financial year ended 31 December 2019 and how the Board had regard (among other matters) to the Factors in those decisions:

| Key Board Decision | Factor(s) | Explanation of how the Directors have had regard to these Factors |
|---|---|---|
| <i>Purchase of 75 new double decker hybrid buses and 29 new electric buses</i> |  | The new vehicles have expected useful economic lives of 18 years, contributing to the Company's fixed asset base and enabling it to use those assets to continue to provide its bus services in the long-term |
| |  | Newer vehicles are more reliable and provide a better experience both for our customers journeys and our drivers' driving experience, together with lower costs of ongoing maintenance for the Company |
| |  | The new vehicles have lower emissions than traditional diesel buses, to the benefit of both the local communities and the environment, also advancing the Company's reputation as one which rightly cares about these matters |
| |  | The purchase of the vehicles from the Company's long-term bus supplier, at favourable prices based on volumes, with whom the Company worked to develop the design and specification of the such vehicles, served to continue to foster good relations with such supplier |
| <i>Upgrade of 500 buses by retro-fitting engines to bring them up to the cleanest EURO VI emission standard</i> |  | The upgrade increased the value of these fixed assets, enhancing the Company's fixed asset base and enabling it to use those assets to continue to provide its bus services in the long-term |
| |  | The upgrades reduce the carbon and nitrogen oxide emissions from these vehicles, to the benefit of both the local communities they serve and the environment, also advancing the Company's reputation as one which rightly cares about these matters |
| |  | The Company fostered a new relationship with a new supplier for the majority of the upgrade work and received Government grant funding to part pay the costs |
| <i>Launch of the Post Qualification Support (PQS) programme; a continuous personalised training plan aimed at newly qualified bus drivers to support them through the first 6 -12 months of their new career</i> |  | The PQS provides a valuable personalised learning tool for new drivers, who have been shown to have the highest number of incidents within the first 6-12 months of their career. Approximately 5,000 drivers in the West Midlands will benefit from PQS by enhancing their driving skills and road safety awareness, creating a positive impact on the local community |
| |  | The PQS is expected to decrease driver turnover by keeping new employees engaged, and enhancing their performance, in their job, helping the Company to maintain a stable workforce to the benefit of both the Company and those new employees over the long-term |
| |  | The PQS should create safer drivers which will result in fewer road traffic accidents and personal injuries resulting from them, maintaining the Company's reputation as one which puts safety first and invests in its workforce and reducing costs from fewer claims |
| <i>Launch of the Engineering Excellence (EE) programme; designed to identify areas of improvement in all aspects of the business, including to achieve cost-savings, safety improvements and better customer satisfaction</i> |  | The EE programme could generate significant cost savings for the Company, via the EE team tasked to look at every aspect of the business, making the business more profitable in the longer-term |
| |  | The new EE team would be tasked with conducting deep dives into bus breakdowns, identifying common causes and implementing fixes, thereby improving the customer experience, in turn earning customers' loyalty over the long-term |
| |  | The new EE team would also be tasked with investigating incidents such as bus fires, identifying the common root causes and implementing fixes, thereby enhancing the safety of passengers, drivers and the reputation of the Company for putting safety first and reducing the Company's costs through fewer vehicle write offs and replacements |
| <i>Continued involvement in the West Midlands Bus Alliance to deliver high levels of passenger satisfaction and drive forward investment in bus services</i> |  | The continued Alliance allows us to continue to foster relationships with many of our key stakeholder groups resulting in improved services for our valued customers through transport improvement initiatives delivered in collaboration with such stakeholders |
| |  | The continued Alliance should cement our reputation as a provider of clean and green mass transit and provide us with a platform to make further investment in zero emissions vehicles, providing us with long-term valuable assets |

Statement of corporate governance arrangements

This statement is made in accordance with paragraphs 23 and 26 of Part 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Corporate Governance Framework

The Company's corporate governance framework is designed to enable its Board of Directors to take appropriately high-level decisions and to delegate to Committees appropriate oversight activities and operational decisions. The framework also reflects the facts that the Company is a wholly-owned (indirect) subsidiary of National Express Group PLC (LSE:NEX), and one of a number of companies comprised in the National Express UK Division, which includes National Express Group PLC's UK bus and coach operating companies, which receive support from various functional teams who support both UK bus and coach.

The diagram on the following page illustrates the nature and explains the composition of the organs which are comprised in the Company's corporate governance framework, and the relationships between them:

Shareholder

The Company is ultimately owned by National Express Group PLC, to whom the Company and its Board of Directors regularly report via monthly UK Divisional Executive Reports which are discussed in monthly Group UK Executive meetings, and otherwise via ad hoc reporting as required. The Company also complies with appropriate directions given by National Express Group PLC as its ultimate parent company and shareholder, subject to the Directors' duties.

Board of Directors

The Company's Board of Directors is collectively responsible for the long-term sustainable success of the Company, through establishing the Company's purpose, strategy, risk appetite and governance arrangements. The Board has a formal list of matters reserved to it, details of which are set out later in this report. The Board meets quarterly or more frequently as required to discharge its responsibilities. Other matters are delegated by the Board to its UK Divisional and Business Executive Committees. Biographies of the individuals who comprised the Company's Board of Directors during the year under review are set out later in this report.

UK Divisional Committee

The UK Divisional Committee, which reports into the Board of Directors, is comprised of the UK Division Managing Director and Finance Director, the Company's Managing Director and Finance Director and has co-opted to it the UK Division's functional heads of service, including the UK Safety, Operations, Commercial, Sales & Marketing, Property and HR directors. The Committee has agreed terms of reference, details of which are set out later in this report, and meets monthly to discuss cross-Divisional risks and opportunities and agree cross-Divisional initiatives.

Business Executive Committee

The Business Executive Committee, which also reports into the Board of Directors, is comprised of the Company's Managing Director and Finance Director and their direct reports in the areas of safety, operations, finance and commercial. The Committee has agreed terms of reference, details of which are set out later in this report, and meets weekly to review the Company's safety, financial and operational performance and to refer appropriate matters to either the UK Divisional Committee or the Board of Directors for information or approval.

Our Approach to Governance

The Company has developed an internal governance policy – "One Team Moving People" - which expounds the philosophy and promotes the behaviours of the Board and its Committees when governing the Company. Further details are set out later in this report.

Corporate Governance Framework continued

The table below summarises the matters which are reserved to the Company's Board of Directors and those which, in accordance with their respective terms of reference, are delegated by the Board to its UK Divisional Committee and its Business Executive Committee:

| Board Reserved Matters | UK Divisional Committee Delegated Responsibilities | Business Executive Committee Delegated Responsibilities |
|--|--|---|
| <ul style="list-style-type: none"> ➤ Approve the Company's strategy and risk appetite ➤ Approve the Company's business plans and budgets ➤ Approving the Company's accounts and the payment or recommendation of interim and final dividends ➤ Approve acquisitions and disposals of companies, businesses and material assets ➤ Approve joint venture and partnership arrangements ➤ Approve borrowings, swaps and guarantees ➤ Approve capital and operating expenditure above a certain level ➤ Approve the Company's entry into or variation of material contracts above a certain value ➤ Approve the issue, defence and settlement of legal proceedings above a certain value ➤ Approve Director appointments and removals ➤ Review the effectiveness of the management of the Company's transport operations and compliance with its operator licence undertakings ➤ Review the Company's compliance with its other legal obligations ➤ Review the effectiveness of the Board's corporate governance arrangements and each of its corporate governance statement, s.172(1), stakeholder engagement and employee engagement statements ➤ Receive reports on the activities of the UK Divisional Committee and the Business Executive Committee | <ul style="list-style-type: none"> ➤ Review the Company's performance against its strategy and make recommendations to the Board regarding any change in strategy ➤ Review the Company's risks and the actions being taken to mitigate those risks and make recommendations to the Board regarding any change in risk appetite ➤ Monitor the Company's performance against its approved business plans and budgets ➤ Identify and develop business initiatives and review the Company's progress against those initiatives ➤ Approve all new health and safety policies and procedures and variations thereto ➤ Oversee succession planning for senior management ➤ Review and approve organisational changes and major changes to employment conditions and pension arrangements ➤ Report to the Board of Directors | <ul style="list-style-type: none"> ➤ Monitor the Company's performance against KPIs ➤ Review and approve major changes to pricing strategy, including fares, and to the service offering, including routes and timetables ➤ Approve acquisitions and disposals of less material assets ➤ Approve the Company's entry into or variation of less material contracts ➤ Approve capital and operating expenditure below a certain level ➤ Approve the issue, defence and settlement of legal proceedings below a certain value ➤ Approve changes to employment conditions, including any negotiated with trade unions ➤ Review all major health & safety incidents to establish the root cause and devise any improvement plans ➤ Report to the Board of Directors |

The table below provides more details about the Board's and its Committees' approach to governance:

The Company's "One Team Moving People" expounds the philosophy that good governance gives the Company:

- the ability to understand and identify opportunities and risks;
- the capability to use the Company's resources to capitalise on or manage them; and
- the agility to do so quickly and overcome resistance to change,

thereby, enabling the Company to deliver for its shareholder and other stakeholders.

It promotes the following behaviours in governance meetings:

- Truth – everyone should express views openly and honestly
- Respect – everyone should listen and learn
- Debate – everyone has the right to challenge and respond
- Independence – there should be no "group-think"
- Commitment – everyone should deliver on their actions
- Preparation – everyone should prepare and be prepared

Corporate Governance Framework continued

Short biographies of the individuals who were Directors of the Company during the year under review, together with an explanation of the key strengths and contributions to the Board, are given in the table below:

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| <p>Tom Stables UK Division & Germany Managing Director</p> <p>Tom joined the National Express Group in 2011 as Business Development Director and was appointed Managing Director, UK Coach in 2012. In May 2017 Tom was appointed as Managing Director of the whole National Express UK Division, including UK coach and UK bus, and as Managing Director the Group's German Rail operation.</p> <p>Prior to joining the Group, Tom worked for First Great Western Trains as Commercial Director, First Group America as Senior Vice President Commercial Development (among other positions) and for KPMG.</p> <p>Tom is a qualified Chartered Accountant and his particular strengths lie in his strategic thinking, his ability to identify and capitalise on opportunities, his financial literacy and his strong leadership skills, including in particular through his strong focus on people development and management.</p> | <p>Paul Barlow UK Division & Germany Finance Director</p> <p>Paul joined the National Express Group in 2018 as the Finance Director of the whole National Express UK Division and the Group's German Rail operation.</p> <p>Prior to joining the Group, Paul held a number of financial accounting and operational roles at both private equity and listed firms including Cavendish & Gloucester plc, Morgan Tucker, Network Rail and Balfour Beatty plc.</p> <p>Paul is a qualified Chartered Accountant and is also fluent in both Spanish and German. He has over a decade of experience in the infrastructure sector and particular experience in cost reduction, including close cash control and process improvement and mergers and acquisitions.</p> <p>Since the end of the year under review, Paul Barlow has left the Company.</p> |
| <p>David Bradford UK Bus Managing Director</p> <p>David has been with the National Express Group for nine years, including as Bus Commercial Director from 2011 to 2018 and as Managing Director of UK bus (including the Company) since then.</p> <p>Prior to this, David worked for FirstGroup in various roles across its UK rail, bus and North American operations. David brings particular strengths in strategic thinking, commercial focus and stakeholder relations, including the development of the West Midlands Bus Alliance. David also has a strong focus on UK bus operations, supported by his direct reports in safety and operations, and in winning new business and delivering projects, supported by his direct reports in commercial and business development.</p> | <p>Steve Rollings UK Bus Finance Director</p> <p>Steve is a chartered accountant with over 20 years' experience in both practice and industry. He has been with the National Express Group for 10 years, holding a number of financial positions within the Group, including Group Chief Accountant and Deputy Group Controller. In 2019 Steve was appointed as Finance Director of UK bus (including the Company).</p> <p>Steve trained and worked at KPMG, before taking on a number of financial accounting roles in large listed and private equity companies. Steve brings to his role extensive experience of financial control and reporting, process change, cash management and technical assurance for projects.</p> |
| <p>Martin Hancock UK Bus Business Development Director</p> <p>Martin has been with the Company since 1990 and has held a number of different positions during that time, including in operations, business development, marketing and commercial. Martin became a Director of the Company in September 2004 with the title of Development Director.</p> <p>Martin is a professional town and transport planner. He brings a vast level of experience, gained over three decades, of bus operations in the West Midlands. He has particular expertise in operator's licence regulation and requirements and competition policies, particularly in respect of multi-operator ticketing, network development and interaction with other bus operators. Additionally, he has well-developed and productive relationships with National Government and Trade Organisations facilitating two-way feedback between policy makers and the Company. He is the National Express Bus lead on National bus policy issues and on the Confederation of Passenger Transport.</p> | <p>Adam Cook UK Property Director</p> <p>Adam joined the National Express Group in 2017 as the UK Property Director, advising and assisting all the National Express UK Division companies (including the Company) on property matters. This is particularly relevant to the Company in view of its large portfolio of bus depots.</p> <p>Prior to joining the Group Adam worked as a consultant for Nottingham Fire & Rescue Service, and also held roles with NHS UCLH Foundation Trust as Head of Facilities Management and Commercial Services; British Midlands Airways as Head of Property and Airport Development and various roles within British Airways.</p> <p>Adam has an MSc in The Built Environment and a Management Studies Diploma and brings to the role a technical property and management expertise and the ability to balance long term planning and strategic targets with operational requirements.</p> |

Corporate Governance Code

In 2019 the Company enhanced its existing governance framework and approach by adopting the Wates Corporate Governance Principles for Large Private Companies issued by the Financial Reporting Council (the “Wates Principles”). The way in which the Company complied with the Wates Principles during its financial year ended 31 December 2019 is explained in the table below:

| Wates Principle | Explanation of Compliance |
|---|--|
| <p>Purpose and Leadership – <i>An effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose</i></p> | <p>During the year under review, the Company’s ultimate shareholder, National Express Group PLC (“NEG PLC”), reviewed and renewed its Purpose to better reflect its role and that of its subsidiaries (together, the “Group”) in society. The Group’s Vision is to be the world leader in mass transit and lead in safety, reliability and environmental standards, which Vision is rooted in a belief that driving modal shift from cars to high quality mass transit is fundamental to a safe, green and prosperous future. The Group’s Purpose is to help lead this modal shift by making mass transit an increasingly attractive option for all its customers by earning their loyalty by providing safe, reliable and great value multi-modal services on clean and green vehicles. The Company, as a subsidiary of NEG PLC, has adopted this same Purpose and its strategy is geared towards achieving the same.</p> <p>The Company has adopted the same core five Values as are held by NEG PLC as they provide the best framework to deliver the Group’s renewed Vision and Purpose. These Values are:</p> <ul style="list-style-type: none"> • Safety – to be the safest mass transit operator in the communities we serve • Excellence – to be the leader in every market we operate in, trusted to deliver service excellence, consistently • Customers – to be the most trusted and valued mass transit partner • People – to be the place to work in mass transit • Community and Environment – to be the world’s greenest mass transit operator; a trusted partner to the communities we serve <p>Our Values make clear our priorities and form the foundations of the Group’s culture:</p> <ul style="list-style-type: none"> ➤ Safety is our highest priority and underpins everything we do. The Group’s “Driving out Harm” programme introduced in 2011 and involving multiple safety initiatives had by 2019 reduced the Group’s Fatalities and Weighted Injuries score by more than 80%. The Group’s “Target Zero” ambition adopted in 2017 was also achieved by 2019 through the Group having no responsible fatalities. The Company, as an integral part of the Group, helped deliver these considerable achievements; its own contribution highlighted through its commendation by the British Safety Council as being “the safest public transport company” of all those audited during 2019. ➤ The combination of Excellence in the delivery of our operations, including through the development and implementation of Standard Operating Procedures, our focus on putting the Customer at the heart of what we do, including by the development of the “NX Way” for customer service teams, and our investment in our People, including through the “Master Driver” and “Master Technician” programmes which recognise and reward the most skilled and dedicated drivers and vehicle technicians, support the delivery of the Company’s strategy. These initiatives also make a collective contribution to the Community as they each help achieve the provision of quality bus services to the people living in the communities we serve. ➤ During the course of 2019, the Environment was also given significantly greater prominence by the Company and the Group, as evidenced through the Group’s pledge never to buy another diesel bus in the UK and its ambition to achieve zero carbon emissions in UK bus by 2025. This ambition also serves the Community by helping to ensure cleaner air in the cities and regions we serve. <p>The Board actively communicates the Company’s Purpose and promotes its Values via direct channels of communication between Directors and the workforce and through the adoption and promotion of the Group’s standards, policies and procedures, such as its Global Safety Standards and its Anti-Bribery and Corruption, Anti-Slavery and Human Trafficking, Anti-Bullying and Harassment and Whistleblowing Policies, and the Company’s own policies on fair employee practices and supplier protocols, which all promote a healthy corporate culture. The Board also monitors the Company’s culture to assess whether the Company is living by its Values which, as noted above, support the achievement of its strategy and Purpose. Further details about the ways in which the Directors engage with the workforce are set out in the Company’s employee engagement statement on page 8 of this Directors’ Report.</p> |
| <p>Board Composition – <i>Effective board composition requires</i></p> | <p>During the year under review, the Company’s Board was comprised of six individuals who held senior roles in the management and operation of the Company: the UK Division Managing Director and Finance Director (each of whom also served throughout the year on NEG PLC’s</p> |

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| <p><i>an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company</i></p> | <p>UK Executive Committee and on the boards of other companies within the Group's UK Division); the Company Managing Director and Finance Director (each of whom also served throughout the year on the boards of other companies within the UK Bus Division); the Business Development Director and the UK Property Director.</p> <p>Biographies of these Directors are set out on page 15 and demonstrate the diverse range of the experience, skills and knowledge held by them. Collectively, such Directors are able to use these experiences, skills and knowledge to make valuable contributions to decisions in their day to day managerial work and in Board and Committee meetings. Their different backgrounds and skillsets also enable them to bring diverse perspectives to bear on decision-making and contribute to effective debate and challenge at Board and Committee meetings.</p> <p>Board and UK Divisional Committee meetings are chaired by the UK Division Managing Director, who, together with the UK Division Finance Director, provide strategic direction and an understanding (due to their roles on NEG PLC's UK Executive Committee) of the Company's contribution to the Group's objectives. Business Executive Committee meetings are chaired by the Company Managing Director who, together with the Company Finance Director, provide managerial direction, support and challenge to all their respective direct reports.</p> <p>As all Directors are engaged in the management of the Company and none hold any employment or professional engagements outside of the Company (or, in the case of the UK Division Managing Director and Finance Director, other members of the Group), all Directors have sufficient capacity to fulfil their legal responsibilities and make effective contributions to the management of the Company. In view of the size of the Company and scale and nature of its operations, the size and composition of the Board is currently considered appropriate.</p> |
| <p>Directors Responsibilities – <i>The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge</i></p> | <p>The Company's governance framework and approach to governance, as explained on pages 12 to 15, guides the Directors on their legal responsibilities and accountability to deliver sustainable value for the benefit of the Company's shareholder, after duly taking into account other stakeholder interests, and otherwise in their general conduct. Those matters also provide a roadmap to support good governance, effective decision making and independent challenge, including by prescribing that Board and Committee papers are provided in a timely manner in advance of meetings and that these are read and digested prior to each meeting to enable effective contribution by all those present and by encouraging open and active debate among and challenge at Board and Committee meetings to facilitate better decision-making.</p> <p>From time to time, the Company's Directors also receive refresher training on their legal duties and responsibilities as directors of an English company. During the year under review, the Directors received training on their new reporting obligations under the Companies (Miscellaneous Reporting) Regulations 2018 and on the scope and import of the Wates Principles, pursuant to which these disclosures and explanations are being made. They also received refresher training on their duties under s.172(1) Companies Act and training on the new reporting obligations under s.414CZA Companies Act 2006 (as amended) and Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).</p> |
| <p>Opportunity and Risk – <i>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks</i></p> | <p>The Company's approach to governance, as explained earlier, promotes the identification of both opportunities and risks through the open debate and challenge it encourages.</p> <p>The Board's UK Divisional Committee, as a Committee comprised of the UK Divisional Managing Director and Finance Director (with their oversight of the entire UK Division) and of the functional heads of services (which support the Company and all other companies within the UK Division), also serves an integral role in the identification and exploitation of opportunities and the identification and management of risk. For example, opportunities for the Company and its bus operations will arise out of the Group's coach operations, and vice versa, and common risks will be identified together with the best means of managing them. The Company reports monthly to its ultimate shareholder on its opportunities and risks.</p> <p>During the year under review, the Company also contributed to the development of a UK Divisional Risk Register which, through a series of workshops between the Group's risk team and the Company's business teams, identified the key risks affecting or that could affect the Company (and other companies within the Group's UK Division), devised plans using the Group's three lines of defence model to manage and, where possible, mitigate those risks, and agreed accountability for who was responsible for managing or mitigating each risk. A rigorous review of the UK Divisional Risk Register by the NEG PLC Audit Committee in November 2019 concluded that it was comprehensive, robust and had added real value to UK Division's management of risk. The principal financial risks for the Company, and how these are mitigated, are set-out on page 6 of the Company's 2019 Annual Report and Financial Statements.</p> |

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| <p>Remuneration – A <i>board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company</i></p> | <p>The Company, together with other companies comprised in the Group’s UK Division, has an established executive remuneration policy, the principal purpose of which is to ensure that executive remuneration is aligned with long-term sustainable success of the Company (and its wider Group).</p> <p>In addition to competitive base pay levels and appropriate benefit packages, UK Divisional and Company senior managers are invited to participate in the Senior Management Bonus Plan or the Management Bonus Plan (together, the “Plans”). The Plans are designed to seek alignment between the Company’s and its wider Group’s Vision, Values and strategy and executives’ individual objectives via participants being set a mix of weighted safety, financial and other objectives geared towards achieving the Group’s Vision, Values and strategic plans. Bonus pay-outs under the Plans are dependent on the Group’s achievement of certain threshold financial and safety targets, the UK Division’s (including the Company’s) achievement of financial and safety targets and participants’ personal performance against their individual objectives. The Plans are designed to reward outstanding performance, rather than expected performance.</p> <p>In addition to the Plans, certain of the Company’s senior executives are eligible to participate in the NEG PLC Long-Term Incentive Plan (“LTIP”). NEG PLC’s Remuneration Committee grants annual LTIP awards of nil cost options over NEG PLC shares to certain selected individuals, the maximum potential value of which awards are based on a percentage of their salaries. All LTIP awards are subject to weighted performance metrics, including NEG PLC’s total shareholder return, earnings per share and return on capital employed plus two recently added environmental performance metrics, which are measured over a three-year performance period. The performance metrics are designed to align participants interests with those of the long-term sustainable success of the Group. The precise performance conditions, their weightings and their vesting levels are set out on page 119 of NEG PLC’s Annual Report and Accounts.</p> <p>The Company’s and UK Division’s executive remuneration policy also takes account of the pay and conditions of the Company’s and UK Division’s wider workforce, as well as the respective levels of responsibility held by managers and other members of the workforce. The majority of the Company’s and UK Division’s wider workforce are drivers and vehicle technicians whose pay levels and conditions are negotiated through discussions with Trade Unions. The outcome of these discussions and other important pay initiatives promoted by the Company’s management, such as the Company becoming in 2017 the first Living Wage employer in the West Midlands region and the recognition and reward given to long-serving and loyal employees through various share-based and cash awards and benefits, are taken into account both in setting executive base salary levels and in making bonus awards under the Plans and LTIP awards under the LTIP.</p> |
| <p>Stakeholder Relationships and Engagement – <i>Directors should foster effective stakeholder relationships aligned to the company’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions</i></p> | <p>The Company strives to be a proactive and trusted partner to its key stakeholders, by seeking to understand their priorities and form alliances with them. This is because investing in long-term relationship building helps the Company to deliver its strategy and objectives more effectively and mitigates potential barriers in doing so and thereby achieve its Purpose and Vision.</p> <p>Further details of the approach taken by the Company to fostering relationships with its key stakeholders, who the Company’s key stakeholders are and how the Company has engaged with them during the year under review is set out in the Company’s stakeholder engagement statement on page 10 of the Company’s 2019 Annual Report and Financial Statements.</p> <p>Furthermore, details of how the Directors have had regard to stakeholders’ views in some key decisions taken by them during the year under review are set out in the Company’s section 172(1) statement on page 3 of the Company’s 2019 Annual Report and Financial Statements.</p> |