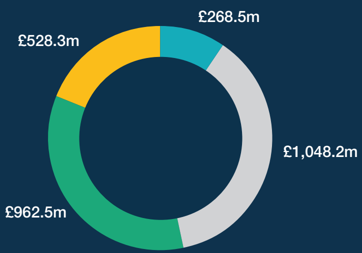
Ignacio Garat

CEO's Review

"There has been underlying growth across our operations, and we have acted decisively in a uniquely challenging operating environment."

Group Revenue (£m)



- Germany
- North America
- ALSA
- UK

Underlying Operating Profit
(+127% against 2021)
£197.3m

Statutory Operating Loss
(Loss of £36.2m in 2021)
£158.5m

Overview

I am pleased to be reporting another year of significant progress, where momentum has continued to build across our diversified business in the face of macroeconomic volatility. So, first of all, let me thank our 46,200 employees for their hard work and tireless commitment throughout 2022, a year that clearly has not been without its challenges for our sector. Nonetheless, we saw continuing strong growth in passenger journeys of 23% year-on-year. Group revenue is up by 29% to £2.8bn (24% on a constant currency basis). This is despite Q1 being significantly impacted by Omicron.

As a result of this strong sequential improvement in revenue, we have started to rebuild our profitability and cash flow conversion. Underlying Operating Profit of £197m was more than double the level in 2021 and this improved profit performance has converted to cash, with the Group delivering free cash flow of £161m in the year at a cash conversion rate of 81%.

The statutory loss before tax was £210m compared to a loss of £85m last year, primarily as a result of a £261m non-cash impairment of goodwill in ALSA driven by an increase in the discount rates rather than any changes in the underlying trading assumptions used to forecast future cashflows. Further detail is set out in the CFO's Review starting on page 48.

We continued to make significant progress on our Evolve strategy. This was achieved despite a uniquely challenging operating environment in our main end markets underscoring the resilience of our increasingly diversified portfolio of businesses. Maintaining our focus on our people, operations, and contracts, the key highlights were:

- **People:** we right sized the workforce in both ALSA and North America. We also combined our Transit and Shuttle activities to drive operational synergies and create a Business Development and Customer Insights team capable of converting the significant opportunities in the sector. Additionally, we brought our UK coach and NXTS (National Express Transport Solutions) teams under common management. We also launched our first global engagement survey;
- **Operations:** in ALSA, we deployed and rolled out advanced network planning software as well as optimised pricing in our Long-Haul business using dynamic yield management. Meanwhile, in North America, we accelerated the roll-out of our digital operating platform, and we rebuilt and redesigned our UK Coach network to be more efficient delivering higher frequencies and faster journey times on key intercity routes, while reducing cost per passenger mile by 6%; and
- **Contracts:** across the Group we renegotiated contracts to reflect post-Covid reality in US Transit and achieved out-of-cycle rate increases in School Bus.

In October 2021 we set our Evolve strategy to be the world's premier shared mobility operator; leading the modal shift from cars to public transport whilst delivering strong financial returns. We made significant progress against all five of our key outcomes:

- **Safest:** We are making further improvements in safety, where our Fatalities Weighted Index per million miles score has improved by 42% year on year, our best ever result;
- **Most reliable:** Our relentless focus on reliability means that our Group-wide on-time performance measure for 2022 was 91%, which is in line with our pre-pandemic performance despite the challenges of significant network variability;
- **Environmental leader:** We have made further progress towards our goal to become the environmental leader in our sector, with plans approved for 1,500 ZEVs by 2024, and scope 1 and 2 Greenhouse Gas Emissions falling per passenger km;
- **Most satisfied customers:** we delivered 977 million passenger journeys in the year, a 23% increase on prior year; and
- **Employer of choice:** This year we refreshed our people strategy, and we launched our first global employee engagement survey achieving a 77% response rate and eNPS score (employer net promoter score) of +7.

This progress is in the areas that matter to customers:

- We have won 35 new contracts during the year with an annualised revenue of £150m (worth approximately £1.2bn over the contract lives), including RRX Lot1 contract. This conversion rate is in line with what we need to achieve to deliver our target of £1bn of incremental revenue by 2027;
- We expanded the range of our product offerings in existing cities creating multi-modal hubs in Geneva (with an all-electric bus contract win), Madrid (entering into the €1.4bn paratransit market with the acquisition of Vitalia) and Boston (where we have won new corporate shuttle and universities contracts);
- We commenced service in new key target cities including Lisbon and Richmond, Virginia; and

For more information see our **Business Model** on pages **18 to 23**

For more information see our **Strategy** on pages 16 to 17

For more information see our **Case Studies** on pages **35 to 47**

CEO's Review continued

- We made further progress towards our goal of being the environmental leader in our sector and lead the transition to net zero, with plans approved for 1,500 ZEVs by 2024. Importantly, we are also seeing early signs that electric buses are helping to drive modal shift, with both patronage and customer satisfaction higher on our ZEVs.

Despite the challenges faced in the year, the fundamentals of our business remain strong:

- Underlying demand for travel continues to increase;
- We are demonstrating good levels of conversion from our attractive pipeline (which is now worth £2.5bn) and we are winning new contracts to drive growth;
- The outcomes of our Evolve Strategy make us the differentiator in the eyes of our customers which will enable us to win more of this growth; and
- We are continuing to diversify our portfolio across our multi-modal offering into new geographies and market segments, providing us with greater resilience and further opportunities for future growth.

Passenger and new contract growth across our operations

In ALSA, we delivered record revenue exceeding the billion-euro mark for the first time and against a competitive backdrop of high-speed rail roll out. We saw a strong performance across all business lines, reflecting an improvement in underlying mobility. The diversification of ALSA from Long Haul to a more multi-modal portfolio continued. We mobilised our first urban bus contract in Lisbon, Portugal (with Porto to follow in 2023) and our acquisition of Vitalia in Spain, as well as encouraging recent expansion into new territories.

In North America, School Bus grew revenue by 8%, despite industry wide driver shortages which slowed the rate of route recovery. Through relentless focus on recruitment, retention (aided by a significant investment in wages) and route reinstatement, we achieved our target of closing the driver gap by one third by the calendar year end. Route reinstatement also progressed well, with about one quarter of routes now reinstated. Encouragingly, of the School Bus contracts which renewed during the year, we achieved rate increases of 10.3% (7.1% across the portfolio), compared to total wage increases of 10.1%, and we expect to recover more of the wage investment as the reinstatement of the contracts come up for renewal.

Elsewhere in North America, revenue in our Shuttle business was up 21% as the majority of customers returned to their workplaces. Transit was broadly stable versus the prior year: our retained contracts benefited from a progressive improvement in service volumes offset by the full-year impact of the actions we have previously undertaken to exit loss-making contracts. Because of our high customer satisfaction ratings and the quality of the service we deliver, we were awarded 21 new Transit and Shuttle contracts during the year worth over $100m over their base terms, most of which are asset light. Key wins were Greater Richmond Transit Company, Alexandria Real Estate (Boston), and Washington University in St Louis.

In the UK, our Coach business experienced a very strong growth in demand after the near complete network shutdown in Q1 as a result of Omicron. UK core coach revenue more than doubled, with airports reopening and strong demand for intercity travel. We continued to ramp up our capacity over the key summer trading period and have also benefited from the ongoing disruption on the national rail network. By reorganising our UK Coach operations under a single management team, we have been able to carefully manage our capacity by deploying non-scheduled Transport Solutions vehicles onto the scheduled Coach network in periods of high demand. Our Bus operations have also seen a continuing recovery in demand, with commercial passenger journeys up 39% year-on-year.

In Germany revenue grew 49% with the emergency award of two contracts at the start of the year delivering an additional €100m of annualised revenue. In January 2023, we announced that we had been awarded extensions of these contracts on a 10-year basis.

Profit and cash flow benefiting from operational leverage, cost control and pricing power

Underlying Operating Profit more than doubled, driven by strong performances in ALSA, the UK and Germany. A relentless focus on operational leverage, cost discipline and successful pricing actions has underpinned a recovery in profit and margin as well as in the Return on Capital Employed.

ALSA delivered a strong result with Underlying Operating Profit up 85%, again driven by a significant uplift in underlying mobility, with the Underlying Operating Margin up 290 basis points year-on year to 10.8% and with our Long-Haul yield 3% higher than 2019.

North America has been impacted by labour issues, with high levels of wage inflation and driver shortages reflected in the 17% decrease in Underlying Operating Profit of $84.7m. Wage inflation has been successfully recovered on 40% of our contracts, which reflects the usual renegotiation on expiry and unprecedented out of cycle increases. As the remainder of contracts come up for renewal over the next two school years, we expect to see further recovery of costs. Driver shortages have also impacted the number of billable routes, with a timing-related gap between driver additions and routes being reinstated (as discussed further in the North America review starting on page 10) and which we expect to continue to close over the remainder of the 2022/23 school year, with a natural reset at the beginning of school year 2023/24.

The UK delivered a step up in Underlying Operating Profit of £48m year-on-year, reversing the losses in 2021. This performance is all the more pleasing in the context of the losses made in the first half of the year, as Omicron weighed on performance in the first quarter. The strong rebound in passenger demand in our scheduled Coach business is the key driver for this significantly improved performance, combined with strong yield management, with yields up 27% year-on-year and (15% ahead of pre-pandemic levels), and passengers up to 151% on prior year.

Germany grew its operating profit to £17.6m (up £12.6m on prior year) as a result of the RRX Lot 1 emergency award, and the associated operating synergies arising from achieving significantly larger scale.

As we look into 2023, there remain significant head winds in respect of cost inflation and driver shortages, but we have taken action to address these, and we have further plans in place for the year ahead. In particular, in North America, we have taken steps to boost recruitment, increase retention, and reinstate routes in our US School Bus business to address the challenges we experienced in 2022.

We continue to actively manage the challenges of cost inflation across the Group. Fuel costs are 100% hedged for 2023, and 56% for 2024. 85% of our contracted businesses benefit from high or medium level of protection against inflation, containing either annual fixed price or inflation-linked price increases, and in some cases a direct pass through of cost. However, in some cases there remains a lag in the timing of costs arising and the business driving associated price increases through contract renewals, contract indexation provisions and renegotiations.

On a statutory basis, the Group made a loss before tax of £210m, after £356m of separately disclosed items, which principally include; £261m in respect of a non-cash impairment of goodwill in ALSA as described above; £37.2m of amortisation of intangibles (consistent with previous years); and £31.4m of onerous contract charges and impairments directly attributable to post-covid market wide issues of driver shortages.

Outlook

I am pleased with the significant progress we made in 2022, which saw strong growth in passenger volumes resulting in a 29% increase in Group revenue; the doubling of revenue in our UK coach business and ALSA's revenue exceeding €1bn for the first time. After a first quarter that was impacted by Omicron, the resilience and agility of our teams amid a uniquely challenging operating environment meant we saw momentum build across our businesses through the year, and continue into 2023.

Whilst the operating backdrop remains challenging, with inflationary pressures continuing in key markets, we expect to see that momentum continue, driven by growth in passenger numbers, mobilisation of new contracts, an ongoing recovery in US School Bus and the securing of rate increases during 2023 and 2024 allowing us to recover cost increases.

Our expectations for 2023 are unchanged, and we have clear and robust actions in place to mitigate macro-economic headwinds and to reduce costs if necessary. The continued and expanding demand for public transport over the coming years will bring growth opportunities. Our Evolve strategy positions us well to capitalise on those opportunities and make progress toward our long-term guidance to 2027 of achieving £1bn of incremental revenue, over £100m of additional EBIT and cumulative free cash flow of £1.25bn.

Ignacio Garat

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Group CEO

1 March 2023