CFO's review

Strong passenger growth and demand in the period resulting in a 12.2% increase in Group revenue to £3.2bn. £168.6m Adjusted Operating Profit and a £162.7m statutory loss after tax and adjusting items. £163.7m of free cash flow, representing 97% conversion, with £0.9bn in cash and undrawn commitments.

James Stamp, Group Chief Financial Officer

Summary Income Statement

	Year ended 31 December					
	Adjusted result[1] 2023 £m	Adjusting items[1] 2023 £m	Statutory Total 2023 £m	Adjusted result[1] 2022 £m	(Restated) Adjusting items[1, 2] 2022 £m	(Restated) Statutory Total 2022[2] £m
Revenue	**3,150.9**	**–**	**3,150.9**	2,807.5	–	2,807.5
Operating costs	**(2,982.3)**	**(190.0)**	**(3,172.3)**	(2,610.2)	(370.8)	(2,981.0)
Operating profit/(loss)	**168.6**	**(190.0)**	**(21.4)**	197.3	(370.8)	(173.5)
Share of results from associates	**(0.5)**	**–**	**(0.5)**	(0.4)	–	(0.4)
Net finance costs	**(75.2)**	**(1.2)**	**(76.4)**	(51.0)	(0.4)	(51.4)
Profit/(loss) before tax	**92.9**	**(191.2)**	**(98.3)**	145.9	(371.2)	(225.3)
Tax	**(42.5)**	**(21.9)**	**(64.4)**	(30.3)	24.4	(5.9)
Profit/(loss) for the year	**50.4**	**(213.1)**	**(162.7)**	115.6	(346.8)	(231.2)

1 To supplement IFRS reporting, we also present our results on an adjusted basis to show the performance of the business before adjusting items. These are detailed on pages 177 to 179 and principally comprise for the 12 months to 31 December 2023; intangible amortisation for acquired businesses, re-measurement of historic onerous contract provisions and impairments, re-measurement of the WeDriveU Put Liability, repayment of UK CJRS grant income ('furlough') and Group wide restructuring and other costs. 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 251 and 252.

2 Restated for a correction to the German Rail onerous contract provision; please refer to Note 2 of the Financial Statements section for more information.

Read more about our leadership on pages 82 to 87

The Group has seen strong passenger growth and demand for its services in the period resulting in Group revenue increasing by 12.2% to £3,150.9m (FY 22: £2,807.5m), with topline revenue growth across all operating segments, driven by overall passenger growth of 9.9%.

The table below illustrates the levels of passenger and revenue growth during the year in the key parts of the business that are exposed to passenger volume-related revenues[1].

	2023 vs 2022 passenger growth %	2023 vs 2022 revenue growth %
UK Bus commercial	8%	14%
ALSA urban bus	22%	7%
UK scheduled coach	25%	30%
ALSA long haul	28%	37%

1 We have not included the RME contract in German Rail in the table above as revenues are covered by subsidies relating to the €49 ticket.

In addition to strong passenger growth, we also delivered good route recovery in North American School Bus and prices increases in a number of areas, including:

- The 40% of School Bus contracts that were up for renewal in this bid season had price increases of 13%, effective September 2023 (beginning of School Year 23/24);
- Price increases in UK Bus of 12.5% were implemented from 1 July 2023;
- Effective yield management in our UK and Spanish long-haul coach businesses increased average yields by 3.7% and 7.5% respectively.

These gains offset a £105.4m year on year reduction in Covid-related grants.

Covid-related grants	Revenue Support £m	Cost Support £m	Total £m
ALSA	11.5	–	11.5
North America	–	4.2	4.2
UK	1.9	8.7	10.6
German Rail	–	–	–
Total – Year ended 31 December 2023	**13.4**	**12.9**	**26.3**
Total – Year ended 31 December 2022	56.7	75.0	131.7

However, we also saw significant inflation and increased driver related costs which were not able to be fully offset in the year. Notwithstading good progress on Accelerate 1.0, which delivered £15m cost savings during the year, Group Adjusted Operating Profit fell to £168.6m (FY 22: £197.3m), a reduction of £28.7m. We expect the impact of run-rate benefits from our cost saving initiatives; the full year impact of pricing increases implemented during FY 23; further price increases to be implemented in FY 24; and further route recovery in North America School Bus to benefit FY 24.

After £190.0m (FY 22 restated: £370.8m) of adjusting items (described in further detail below) the statutory operating loss was £21.4m (FY 22 restated: £173.5m loss).

Net Finance Costs increased by £25.0m to £76.4m (FY 22 restated: £51.4m) due to both the refinancing of the £400m bond, which carried a 2.5% interest rate, with a €500m bond at a 4.875% interest rate; and the impact of higher interest rates on the Group's floating rate debt.

Adjusted Profit Before Tax was £92.9m (FY 22: £145.9m) and Statutory Loss Before Tax was £98.3m (FY 22 restated: £225.3m loss).

The Adjusted effective tax rate of 45.7% (FY 22: 20.8%) resulted in an Adjusted tax charge of £42.5m (FY 22: £30.3m). The effective tax rate has been impacted by an interest disallowance in the UK due to the Corporate Interest Restriction Rules (restricting interest deductions to 30% of EBITDA) and higher interest rates.

The statutory tax charge was £64.4m (FY 22 restated: £5.9m), with an Adjusting tax charge of £21.9m (FY 22 restated: £24.4m credit). The adjustment relates to: (i) the write-off of UK and North America deferred tax assets on tax losses which are either restricted in their use or have expired of £27.2m; (ii) a further £51.3m write-off of deferred tax assets on tax losses in Germany; (iii) a £46.2m credit relating to tax on adjusting items; and (iv) a tax credit of £10.4m on intangible assets.

The Statutory Loss after tax was £162.7m (FY 22 restated: £231.2m loss).

Adjusting items

Adjusting operating items were £190.0m (FY 22 restated: £370.8m), of which £71.0m (FY 22: £49.3m) resulted in cash outflows in the period.

Adjusting items debit/(credit)	Income Statement 2023 £m	(Restated) Income Statement 2022[1] £m	Cash 2023 £m	Cash 2022 £m
Goodwill impairment of ALSA	**–**	260.6	**–**	–
Intangible amortisation for acquired businesses	**35.3**	37.2	**–**	–
Re-measurements of onerous contracts and impairments resulting from the Covid-19 pandemic	**2.1**	7.6	**7.1**	17.0
Re-measurement of the Rhine-Ruhr onerous contract provision	**99.2**	24.3	**27.9**	9.6
Re-measurement of onerous contract provisions and impairments in respect of North America driver shortages	**12.0**	31.4	**9.8**	11.7
Final re-measurement of WeDriveU put liability	**2.4**	–	**–**	
Repayment of UK Coronavirus Job Retention Scheme grant ('Furlough')	**8.9**	–	**–**	
Restructuring and other costs	**30.1**	9.7	**26.2**	11.0

Adjusting items debit/(credit)	Income Statement 2023 £m	(Restated) Income Statement 2022[1] £m	Cash 2023 £m	Cash 2022 £m
Adjusting operating items	**190.0**	370.8	**71.0**	49.3
Unwinding of discount of the Rhine-Ruhr onerous contract provision (c)	**1.2**	0.4		
Total Adjusting items before tax	**191.2**	371.2		
Tax charge/(credit)	**21.9**	(24.4)		
Total Adjusting items after tax	**213.1**	346.8		

1 Restated for a correction to the German Rail onerous contract provision; please refer to Note 2 of the Financial Statements section for more information.

Following the impairment of goodwill in ALSA in 2022, no further goodwill impairment has been recorded.

Consistent with previous periods, the Group classifies £35.3m (FY 22: £37.2m) amortisation for acquired intangibles as a Adjusting item.

Re-measurements of onerous contracts which arose following the Covid-19 pandemic of £2.1m (FY 22: £7.6m) relates only to re-measurements in respect of contracts previously classified as onerous, and where we are still operating the contract. No new contracts became onerous in 2023. The cash outflow of £7.1m was higher than the income statement charge as it relates to the utilisation of onerous contract provisions recognised in previous years. We do not expect further Adjusting items in respect of new onerous contracts (with any remeasurements only in respect of those contracts previously recorded as onerous).

The Rhine-Ruhr (RRX) onerous contract (which relates to lots 2&3), and which runs to 2033, has been re-measured based on the latest forecasts of losses anticipated under the contract, resulting in a £99.2m charge to the income statement. The industry-wide disruption in the train driver market, lower labour productivity, volatility in energy costs and energy cost recovery indices, and persistent levels of inflation are key contributing factors to a significant increase to the RRX onerous contract provision as at 31 December 2023 compared to prior year.

The Group undertook a detailed review of the associated critical accounting judgements made relating to the contracts (and the associated key sources of estimation uncertainty identified) in relation to its German Rail business. The review also considered the calculation of the onerous contract provision as at 31 December 2022 and 31 December 2021 considering information that was or should have been available at those times following which the Group has determined that the German onerous contract provision was under-stated at each of those dates as set out in the notes to the Financial Statements. As a result the income statement charge for the year ended 31 December 2022 within adjusting items was restated to £24.3m (previously reported: £9.3m).

The provision at 31 December 2023 is £118.3m for the remainder of the contract term until 2033, following utilisation during the year of £27.9m and £1.2m unwinding of discount.

In US School Bus, an additional £12.0m charge was recorded in respect of onerous contracts and associated impairments which continued to be impacted by the post-covid market wide issues of driver shortages. This charge relates only to contracts which were previously considered to be onerous; no further such contracts have become onerous in 2023.

The WeDriveU put liability charge of £2.4m represents the final true-up payment in respect of the final 20% tranche of shares purchased and the Group now owns 100% of that business, with no further adjustments required.

Repayment of the UK Coronavirus Job Retention Scheme grant of £8.9m reflects the commitment made to voluntarily repay furlough funding at the time a dividend was paid to shareholders. This was subsequently paid in early 2024.

Restructuring and other costs of £30.1m includes the impact of Group wide strategic initiatives and restructuring, which includes one-off costs relating our cost saving programmes, and costs relating to preparation for the previously announced sale of US School Bus.

The Adjusting tax charge of £21.9m (FY 22 restated: credit £24.4m) is made up of a tax credit on amortisation of acquired intangible assets £10.4m (FY 22: £9.1m), a tax credit on Adjusting costs of £46.2m (FY 22 restated: £19.4m) and a deferred tax charge associated with de-recognition of tax losses of £78.5m (FY 22 restated: £4.1m).

Segmental performance

	Year ended 31 December					
	Adjusted Operating Profit/(Loss) 2023 £m	Adjusting items 2023 £m	Segment result 2023 £m	Adjusted Operating Profit/(Loss) 2022 £m	(Restated) Adjusting items 2022[1] £m	(Restated) Segment result 2022[1] £m
ALSA	**136.8**	**(15.8)**	**121.0**	103.9	(274.1)	(170.2)
North America	**27.1**	**(34.2)**	**(7.1)**	68.4	(55.7)	12.7
UK	**23.5**	**(22.2)**	**1.3**	25.6	(7.5)	18.1
German Rail	**0.2**	**(100.3)**	**(100.1)**	17.6	(25.4)	(7.8)
Central functions	**(19.0)**	**(17.5)**	**(36.5)**	(18.2)	(8.1)	(26.3)
Operating profit/(loss)	**168.6**	**(190.0)**	**(21.4)**	197.3	(370.8)	(173.5)

1 Restated for a correction to the German Rail onerous contract provision

ALSA Adjusted Operating Profit has increased by £32.9m to £136.8m driven by robust passenger growth and improved yields compared with FY 22. The Regional and Urban business has also seen continuing growth boosted by increased mobility and network increases. The Statutory Profit has increased by £291.2m to £121.0m, due to the impairment of goodwill in FY 22.

North America Adjusted Operating Profit has decreased by £41.3m to £27.1m, with revenue growth of 6% as services rebuild, partly offsetting a £51.7m reduction in Covid-related cost support. While the business has faced higher operating costs due to driver shortages during the year, there has been significant progress in School Bus, with driver recruitment and retention resulting in route reinstatement at near to its contractual maximum, and with price increases for expiring contracts at 13%.

Revenue growth in Transit and Shuttle has been driven by new contract wins in the year, offsetting some of the volume decrease that we have seen in some of our large corporate shuttle contracts.

The statutory operating loss of £7.1m for the North America division as a whole is £19.8m down on prior year despite a £21.5m reduction in Adjusting items (as a result of a lower charge associated with the re-measurement of onerous contracts as the driver-gap and number of onerous contracts has reduced) because of the reduction in Adjusted Operating Profit noted above.

In the UK, Adjusted Operating Profit reduced by £2.1m to £23.5m. UK Bus revenues were helped by commercial passenger numbers increasing by 8% versus 2022 and a 12.5% price increase in July 2023. These helped to mitigate the impact of the drivers' strike in the first quarter of 2023 and the associated 16% wage settlement which was effective from 1 January 2023. During the year we continued to receive grants and subsidies to operate services. UK Coach revenues were supported by strong passenger growth of 25%. Passenger revenues were boosted by rail strikes through the year which generated an estimated 600,000 additional passengers. UK Coach operating profit was impacted by the continued disappointing performance in NXTS, the private hire and contracts business. Two loss making depots (Gillingham and Sydenham) were identified for closure in the year. The increase in Adjusting items of £14.7m reflects the commitment to repay the UK Coronavirus Job Retention Scheme grant and also restructuring costs.

German Rail Adjusted Operating Profit is down £17.4m to £0.2m. Of this reduction, approximately £10m is due to the IFRS15 contract asset adjustments associated with the RME contract. This movement includes approximately £8m of adjustments to reflect the impact of lower future profit expectations over the remaining contract life. The balance of the reduction in profitability (approximately £6m) was a result of higher penalties (and lower subsidies) caused by driver shortages, and the in-year impact of lower recovery of energy costs due to index ineffectiveness and rebasing on RME and RRX1.

RRX Lots 2 and 3 contributed £nil to Adjusted Operating Profit as they are covered by the onerous contract provision noted above. The segment result was impacted by a £99.2m charge relating to the increase in the onerous contract provison reflecting the latest view of profitabiliity of the RRX Lots 2 and 3 contract over the remaining contract life to 2033.

Cash management

Funds flow	2023 £m	2022 £m
Adjusted Operating Profit	**168.6**	197.3
Depreciation and other non-cash items	**217.4**	220.8
Adjusted EBITDA[1]	**386.0**	418.1
Net maintenance capital expenditure[2]	**(135.7)**	(184.5)
Working capital movement	**9.1**	(1.1)
Pension contributions above normal charge	**(7.5)**	(7.4)
Operating cash flow	**251.9**	225.1
Net interest paid	**(61.0)**	(47.0)
Tax paid	**(27.2)**	(17.6)
Free cash flow	**163.7**	160.5
Growth capital expenditure[2]	**(17.9)**	(93.1)
Acquisitions and disposals (net of cash acquired/disposed)	**(59.6)**	(29.5)
Adjusting items	**(71.0)**	(49.3)
Payment on hybrid instrument	**(21.3)**	(21.3)
Dividend	**(41.1)**	–
Other, including foreign exchange	**53.4**	(105.4)
Net funds flow	**6.2**	(138.1)
Net Debt	**(1,201.7)**	(1,207.9)

1 Adjusted EBITDA is defined in the glossary of Alternative Performance Measures on page 251.

2 Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on page 251.

The Group generated Adjusted EBITDA of £386.0m in the period (FY 22: £418.1m).

Net maintenance capital expenditure of £135.7m is principally related to asset purchases in North America and ALSA and is £48.8m less than FY 22 as the Group accelerated capital expenditure in FY 22 to secure production slots, resulting in a lower cash outflow in FY 23. Working capital was well controlled with an inflow of £9.1m including the collection of amounts from public bodies in the UK and Morocco and the adjustment to the RME IFRS15 contract asset discussed above (the reduction in the asset which forms part of working capital offsets the non-cash charge associated with the reduction included in Adjusted EBITDA, hence is cash-neutral within FY 23).

Consistent with previous periods, the Group makes use of non-recourse factoring arrangements.

These take two forms:

a. typical factoring of receivables existing at the balance sheet date (principally utilised for School Bus in North America and ALSA), for which there was £74.9m (FY 22: £62.5m) drawn down at year end and which is recognised as a reduction in receivables and recorded within operating cash flow; and

b. advance payments for factoring of divisional subsidies, for which £83.8m (FY 22: £50.2m) was drawn down at the end of the year, of this, £66.4m (FY 22: £50.2m) is in Germany where the cash flow profile of the RME contract is such that it creates a working capital requirement over the first half of the 15 year contract, and we factor certain of the subsidies due in order to ensure that the contract has a cash neutral impact on the Group; £17.4m (FY 22: £nil) was also factored in ALSA in relation to urban bus consortium arrangements. The amounts drawn down on these arrangements are classified as borrowings.

Net interest paid increased by £14.0m to £61.0m reflecting the increase in central bank base rates during the year on the floating component of our debt and the refinancing of the £400m bond, at 2.5% interest rate, with a €500m bond at a 4.875% interest rate.

Tax paid increased by £9.6m to £27.2m due to higher taxable profits in ALSA, as well as a temporary rule introduced by the Spanish tax authorities, limiting the amount of tax losses which can be utilised during the current year (with the restriction only impacting current year).

Free cash inflow was £163.7m (FY 22: £160.5m), representing strong conversion of 97% (FY 22: 81%).

Growth capital expenditure of £17.9m in the period (FY 22: £93.1m) primarily relates to assets purchased for new business in North America and ALSA partially offset by a funding receipt from the local authority of £11.9m relating to the new Casablanca fleet. The decrease from 2022 is due to significant payments for the new fleet in Casablanca and Rabat that were made in the prior year.

Acquisition costs of £59.6m (FY 22: £29.5m) relate mainly to the £46.1m purchase of the final 20% share in WeDriveU, which is now a 100% subsidiary; a £6.1m deposit related to the Canarybus acquisition in ALSA; as well as several smaller acquisitions in ALSA and earn-out considerations being paid for previous acquisitions.

A cash outflow of £71.0m was recorded in respect of Adjusting items as explained above. £21.3m of coupon payments on the hybrid instrument were made in the period and £41.1m in respect of the 2022 full year and 2023 interim dividend was paid to shareholders. Other inflows of £53.4m principally reflect the movement in exchange rates and settlement of foreign exchange derivatives as a result of our hedging strategy which seeks to protect covenant gearing from foreign exchange rate volatility.

Net funds inflow for the period of £6.2m (FY 22: £138.1m outflow) resulted in Net Debt of £1,201.7m (FY 22: £1,207.9m).

Please see page 253 for a reconciliation to the statutory cash flow statement.

Dividend

On 12 October, the Board announced the suspension of the 2023 final dividend when it became clear that covenant gearing would not decrease in the year and in the light of the weaker than expected macro-economic environment and trading performance. It is not expected that an interim dividend for FY 24 will be paid.

The Board will continue to monitor business performance and prospects and the associated pace of reduction in covenant gearing and will reinstate the dividend when it considers that sufficient progress is being made, targeting a 2x coverage ratio (EPS to DPS) once reinstated.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating. Our Moody's and Fitch ratings are Baa2/negative and BBB/stable respectively.

The Group has two key bank covenant tests; being a <3.5x test for gearing and a >3.5x test for interest cover. At 31 December 2023, covenant gearing was 3.0x (FY 22: 2.8x) and interest cover was 5.2x (FY 22: 8.6x). The increase in the covenant gearing ratio is attributable to the reduction in Adjusted EBITDA, with covenant net debt broadly consistent with FY 22.

At 31 December 2023, the Group had utilised £1.4bn of debt capital and committed facilities. At 31 December 2023, the Group's RCFs were undrawn and the Group had available a total of £0.9bn (FY 22: £0.8bn) in cash and undrawn committed facilities. The table below sets out the composition of these facilities:

Funding facilities	Facility £m	Utilised at 31 December 2023 £m	Headroom at 31 December 2023 £m	Maturity year
Core RCFs	600	–	**600**	2028
2028 bond	232	**232**	–	2028
2031 bond	428	**428**	–	2031
Private placement	405	**405**	–	2027–2032
Divisional bank loans	164	**164**	–	Various
Leases	181	**181**	–	Various
Funding facilities excluding cash	2,010	**1,410**	**600**	
Net cash and cash equivalents		**(294)**	**294**	
Total		**1,116**	**894**	

The Group completed two significant refinancing activities successfully during the year, which has improved the debt maturity and liquidity profile.

In July 2023, the Group completed the refinancing of its Core RCF facility, with the signing of a new £600m, 5 year committed revolving credit facility, with options to extend for two further years.

In September 2023, the Group issued a new €500m bond, maturing in 2031 and with a fixed interest coupon of 4.875%. This refinanced the maturing £400m bond which was repaid in November 2023.

The result of these two activities is an extension to our average debt maturity to 5.4 years, up from 3.7 years at FY 22.

To ensure sufficient liquidity, the Board requires the Group to maintain a minimum of £300m 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 a result, are not included in (or required for) liquidity forecasts.

At 31 December 2023, 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. At 31 December 2023, the proportion of Group debt at floating rates was 21% (31 December 2022: 19%).

Return on capital employed

ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. ROCE for the year was 7.0% (FY 22 restated: 7.6%), as result of the lower EBIT in the year.

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 North America. 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 scheme is in the UK. The combined deficit under IAS 19 on 31 December 2023 was £32.6m (FY 22: £42.1m), with the IAS 19 deficit for the Group's main scheme, West Midlands Bus being £30.0m (FY 22: £39.7m).

The agreed deficit repayments on the West Midlands Bus plan are £7.5m, £7.7m and £7.8m per annum for the three years from 1 April 2023.

Fuel costs

Fuel cost represents approximately 9% of revenue (FY 22: 8%). At 31 December 2023 the Group is fully hedged for 2024 at an average price of 51.6p per litre; around 50% hedged for 2025 at an average price of 51.1p; and around 17% hedged for 2026 at an average price of 47.8p. This compares to an average hedged price in 2022 and 2023 of 37.5p and 48.5p respectively. This increase in hedged rates will add approximately £5m to gross fuel costs by FY 24 compared with FY 23.

Going concern

The Financial Statements have been prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of not less than 12 months from the date of approval of the financial statements. Details of the Board's assessment of the Group's 'base case', 'reasonable worse case', and 'reverse stress tests' are detailed in note 2 of the Financial Statements on pages 159 to 161.

Risks and uncertainties

The Board considers the following are the principal risks and uncertainties facing the business:

- **Unprecedented external factors threatening the resilience of the business:** The resilience of the business can be challenged from major incidents such as a future pandemic, a financial crisis or extreme weather. If the Group is not able to identify and prepare appropriately, it might lead to significant financial, operational and reputational damages.
- **Adverse economic conditions affecting our speed of recovery:** Declining economic conditions and very high inflation rates can impact demand for travel.
- **Adverse political and policy environment affecting funding:** Political and geopolitical events such as trade tensions and regional conflicts can bring change. Those changes may impact government policy and funding for transport, which may impact the Group's operations.
- **Regulatory landscape and ability to comply:** Changes in current regulations and newly introduced regulations can impact the cost structure and operational procedures in our business as we strive to remain compliant.
- **Climate changes (physical):** We see increased frequency and intensity of extreme weather events such as hurricanes, floods and heatwaves that can lead to extensive damage to infrastructure, loss of lives, and disruptions to communities. The Group can lose key locations or suffer severe asset damages, or operations can be interrupted and cause revenue loss even if the Group's assets are undamaged.
- **Climate changes (transitional):** The transition to zero emissions mass mobility is driven by regulatory changes, market demands, and Group's commitment to reducing its carbon footprint. The successful and sustainable transition poses a number of challenges due to significant changes required to infrastructure and changes to the risk profile associated with owning and operating the assets.
- **Implications of new technology in our business model (ZEV transformation):** Transition to ZEV means introducing new technology that involves changes impacting across the business model including financing, contracting, maintaining and operating of the assets.
- **Competition and market dynamics in a digital world:** The evolving digital landscape in the transportation sector brings a number of challenges and opportunities including: i) shifting consumer preferences towards digitalisation; ii) alternative revenue structures which may disrupt traditional fare structures; iii) structural transformation which could cause unforeseen disruptions or affect productivity.
- **Shortages of drivers and frontline employees:** A tightening labour market leads to a combination of higher turnover and lower numbers of new recruits. A material shortage of drivers, engineering and maintenance employees impacts our ability to effectively deliver services and impact profitability, operations and reputation.
- **Industrial action:** Industrial action can impact the delivery of service, revenues and damage our brand and reputation, along with employee engagement and morale.
- **Cyber attack:** Major IT failure could disrupt operations and lead to loss of revenue. Data compromise involving a loss of customer information could result in reputational damage and significant remedial costs.
- **Safety incidents, litigation and claims:** Major safety-related incident could impact the Group both financially and reputationally. Higher than planned claims or cash settlements could adversely affect profit and cash outflow. Non-compliance with regulations can create legal and financial risk. A security incident (e.g. terrorism) would have a direct impact through asset damage, disruption to operations and revenue loss.
- **Credit/financing:** A material increase in interest rates would increase the Group's cost of borrowing, albeit around 80% of our debt is now at fixed rates following refinancing in FY 23. Constrained equity and/or debt markets increase the costs of capital and debt financing. Regulation of debt providers and macro political and economic events can impact access to and/or cost of capital.
- **Attraction and retention of talent and succession planning:** Risk of not being able to attract or retain talented individuals with key skills needed to deliver the Evolve strategy.

J. Stamp

James Stamp
Group Chief Financial Officer

21 April 2024