

# The Task Force on Climate-related Financial Disclosures

The Group has complied with the requirements of LR 9.8.6 R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures.

TCFD recommendation		Where in our TCFD disclosure is this addressed?
<b>Governance</b>	Board's oversight of climate-related risks and opportunities	A
	Management's role in assessing and managing climate-related risks and opportunities	B
<b>Strategy</b>	Climate-related risks and opportunities (short, medium and long term)	D
	Impact of climate-related risks and opportunities on the strategy and financial planning	E
	Resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or lower scenario	E
<b>Risk management</b>	Processes for identifying and assessing climate-related risks	C
	Processes for managing climate-related risks	C
	Identifying, assessing and managing climate-related risks, and integration into overall risk management	C
<b>Metrics and targets</b>	Metrics to assess climate-related risks and opportunities in line with strategy and risk management process	F
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks	G
	Targets used to manage climate-related risks and opportunities and performance against targets	F

## A Board's oversight of climate-related risks and opportunities

The Board's oversight of environmental matters is through its Safety & Environment Committee, which meets three times a year. The Committee reports to the Board of Directors but all Non-Executive Directors are members of this Committee and the Executive Directors also attend its meetings in view of the importance of safety and the environment to the Company.

### Key activities

The Safety & Environment Committee approved the Group's environment strategy, centred on the transition of the Group's fleet to zero emission vehicles (see section F below). The Committee reviewed a number of matters relevant to the strategy, including:

- economics and expected impact on the Group's Consolidated Income Statement and Balance Sheet;
- timetable and deliverability, including government and customer support and advancement of ZEV technology in each of the Group's core geographies; and
- communication to the Group's stakeholders.

The Committee also reviewed the Group's process for identifying climate-related risks and opportunities, and the summary thereof (see section D below), as well as agreeing the proposed climate scenarios to be financially modelled. Subsequently, the Committee reviewed the two climate scenarios (see section E below). These reviews included:

- due enquiry into how the risks and opportunities had been identified;
- robust challenge of whether the impact of the risks and the deliverability of the opportunities were realistic; and
- why the two climate scenarios had been chosen.

### Training and development

To assist them in discharging their oversight responsibilities on the Group's environmental strategy and being able to give direction and raise challenges, the Directors engaged e4tech, a leading energy and sustainability strategy consultancy. The Non-Executive Directors are also members of Chapter Zero, the UK chapter of the Climate Governance Initiative.

## B Management's role in assessing and managing climate-related risks and opportunities

The Company's Executive Directors are responsible for the delivery of the Group's environment strategy and the sponsors of its overall net zero and zero emission fleet ambitions. They have created a new role and appointed a Group Sustainability Director, who joined the Group in December 2021, to support this delivery and continue to develop the Group's environment and wider sustainability strategy. As the Group's environment strategy is centred on the transition of the Group's fleet to ZEVs, the Group has also established two steering groups to oversee and lead the ZEV transition. The below diagram explains the role different managers play in assessing and managing climate-related risks and opportunities:



## C Processes for identifying, assessing and managing climate-related risks

### Identifying and assessing

The Group's risk management system exists to identify, assess and report on all business risks, including climate-related risks (see pages 42 to 47 for more detail). This year, we introduced a specific climate-related risk self-assessment, completed by all the Group's divisions. Divisions assigned a probability of occurrence and a financial impact score against each of the climate-related risks identified.

In assessing these risks, we have considered materiality. For short- to medium-term risks, we have applied a level of materiality broadly equivalent to that used in the audit of our Financial Statements (5% of the Group's Underlying Operating Profit or £10 million (whichever is higher)). For longer-term risks, we assume a materiality of 10% of the Group's Underlying Operating Profit, as they are further away, less certain and the Group has longer to develop strategies to mitigate.

For each risk, divisions have assessed the expected 'velocity' and activities and controls in place to mitigate the risk, as well as the effectiveness of those controls. The risk assessment is split into two sections: physical risks (such as extreme weather events), and risks related to transition to a lower carbon society, such as the cost or operational challenges with transitioning rapidly to a zero emission vehicle fleet. Finally, each division has assessed potential opportunities related to climate change.

The risk assessments were reviewed by the Group Financial Controller, the CFO and the Group Head of Risk, and a report produced for the Safety & Environment Committee of the Board (a summary of the risks and opportunities is set out in section D below).

### Managing climate-related risks

Climate-related risks, like any principal risks, are included in the divisional and group risk registers and are assigned Risk Owners, who are responsible for the day-to-day management of the risk and in charge of capturing and reporting any developments regarding the risk in the regular Risk Management updates that take place throughout the year. Any requirements to increase investment or expenditure to further mitigate the risks are discussed at the correct level of management and approved as per the Group's delegated authority framework.

### Integration into the overall risk management

The newly introduced climate-related risk self-assessments feed into the wider divisional and group risk registers and any significant climate-related risks are captured on those for review and discussion at the various levels of management and the Board.

## D Climate-related risks and opportunities

### Physical risks and opportunities

We identified and assessed the following risks:

- Severe weather events damaging Company assets. For example, the loss of a key location due to a natural fire caused by extreme high temperatures, or a natural catastrophe such as a hurricane and/or floods.
- Severe weather events resulting in lost revenue. For example, increased lost operating days in North America due to snow causing schools to close, or flooding prohibiting us from operating services in certain locations.
- Rising sea levels impacting on operations located near to coasts, requiring relocation, additional insurance premiums or loss of premises.
- Extreme heat reducing tourism during peak summer months in Spain and Morocco.
- Increased insurance premiums.

Opportunities that could arise from the physical effects of climate change, even in a scenario where there is no coordinated, rapid central government intervention, include the following:

- Local authorities/city councils could introduce more stringent congestion charges or emission-free zones to counteract the impact of increased pollution. This would drive modal shift onto public transport.
- Extreme weather events could have more of a disruptive impact on rail infrastructure, resulting in increased cancellations of, or reductions in, rail services, resulting in modal shift from rail to bus or coach, as well as opportunities for rail replacement services.

### Transition risks and opportunities

We considered the risk of regulatory change and/or customer demand requiring society to transition to zero emission cars and public transport. The transition would involve potentially material changes in procuring, maintaining and operating the assets, creating execution risk. It would also require significant change to infrastructure, along with a need to recruit, train and retain employees with the necessary skills to maintain and repair these vehicles. Furthermore, a rapid transition to zero emission fleets could result in a need to accelerate depreciation on non-ZEV vehicles.

However, transition to a lower carbon society also brings potentially huge opportunities for a public transport company, as governments around the world prioritise investment into public transport to help cities solve the challenges of the drive for a cleaner air environment and, at the same time, meet their countries' carbon reduction targets. Furthermore, should governments introduce bans on vehicles with internal combustion engines, this could drive significant modal shift out of private cars and into public transport.

## E Impact of climate-related risks and opportunities

We developed two principal scenarios, both of which looked at the impact on the Group as of 2035: an extreme climate change scenario (assuming a lack of action to reduce emissions, resulting in more extreme weather events) and an extreme transition scenario (including an assumed ban on internal combustion engines). We chose 2035 as the year to assess the impact of our modelling as it was sufficiently long term for the negative impacts of climate change to develop whilst also being the earliest realistic date (even in an extreme transition scenario) for a potential global ban on the use of internal combustion engines.

We assessed the impact of these scenarios on the Group's profit, cash flow and net debt, as well as the impact on the covenant tests that apply to certain of the Group's borrowings.

### Extreme climate change scenario

The extreme climate change scenario assumes governments fail to take coordinated action to address global warming, resulting in increased extreme weather events. This scenario effectively assumes the current warming rate continues unabated; rising to c.+4°C by the end of the century, as forecast by the Intergovernmental Panel on Climate Change (IPCC) in its worst case 'RCP 8.5' scenario.

We assumed a confluence of extreme weather events occurring at least once a year, every year. These included: damage to depots from flooding and fires; business disruption from extreme heat or cold/snow; and increased insurance premiums. We considered the impact of these before mitigations; we anticipate that mitigating actions could significantly reduce risk, for example by relocating assets away from localised flood or wildfire risks.

We concluded that the financial impact of those risks would not be material. We arrived at this conclusion because of the geographical spread of the Group; operating from hundreds of depots across 50 cities and 11 countries. Extreme weather events, whilst potentially very disruptive on

a localised basis, are unlikely to impact all of the Group's physical locations in the same way at the same time. In any case, the Group's insurance policies cover many of the risks of physical damage, as well as the cost of business interruption.

### Extreme transition scenario

This assumes that governments align on a coordinated decarbonisation strategy to limit the global temperature increase to 1.5°C above pre-industrial levels, as projected by the IPCC's 'RCP 2.6' scenario. Specifically, we have assumed that this involves a global ban on the use of any internal combustion engine vehicles from 1 January 2035, announced during 2022.

This scenario identified that whilst there could be financial impact from risks such as failing to comply with new regulatory requirements, difficulty in recruiting and retaining employees with the necessary skills to repair and maintain vehicles, and changing customer behaviour (e.g. resulting in lower demand for high carbon emitting activities such as flying and cruise ships, which in turn could impact our associated transport services to and from those places), these are not expected to be material either individually or in aggregate.

In modelling the impact of a ban on diesel vehicles from 1 January 2035, we concluded that, whilst the Group does not underestimate the operational challenges and, to that end, has set up the appropriate governance to plan for it, there would be no material adverse financial impact on the Group. This is because: we would have 13 years to plan for it; a 2035 target would not necessarily require much acceleration of fleet replacement beyond normal replacement cycles and our existing ZEV targets; and we have already identified that total cost of ownership for electric buses is better than for diesel.

### Opportunities

In both scenarios there are potentially very material upside opportunities from modal shift.

In the extreme climate change scenario, whilst it is assumed that central governments take no action to reduce

emissions, it is likely that local government authorities or transport authorities would unilaterally impose measures to address congestion and pollution in cities. These measures could include clean air zones or congestion zones that levy fees for cars, or even ban them from city centres completely. This would force modal shift out of private car and into public transport.

In the extreme transition scenario, as well as local authorities potentially imposing measures, it is likely that central governments would bring about measures to either ban combustion engine cars or make them prohibitively expensive, as well as incentivising the transition to ZEVs.

The UK's Climate Change Committee predicts that 9-12% of car journeys could be switched to bus by 2030, with 17-24% being switched by 2050. According to our analysis of the Department for Transport's 'Passenger transport by mode' 2019 statistics, a modal shift of 1% from car to bus would result in an increase of 23% bus passenger kilometres.

### Conclusion

Under the most extreme climate scenarios, we anticipate the modal shift opportunities to more than offset the risks.

Our conclusion does rely on various assumptions, with varying levels of confidence. The following two assumptions are of note, as there is uncertainty attached to them and we will accordingly monitor and re-assess closely:

- Whilst electric is becoming established as a viable, and indeed more cost effective, alternative for urban buses, the zero emission solutions for long haul transport are less developed. The current expectation is that hydrogen will be the solution, but the technology is not as proven as electric buses.
- We have assumed that there will be political will, and hence government support, in the USA for electrification of school buses; the early signs are promising.

## F Metrics and targets used to assess climate-related risks and opportunities

To limit the effects of climate change, the Group will focus on reducing its carbon footprint by monitoring metrics and setting emissions reduction targets.

In 2019, the Group adopted a set of intensity base metrics which are measured year-on-year and are used as the basis for three absolute science-based targets on GHG emissions, using the Sectoral Decarbonisation Approach (SDA) methodology. These targets have not yet been registered with the SBTi as the Group is first required to complete its Scope 3 footprint. These metrics or key performance indicators (KPIs) measure the level of carbon emissions from our vehicles and our sites. Our KPIs were chosen to meet the, then-prevailing, IPCC goal of controlling the increase in global warming to below 2°C. We aim to achieve these SDA KPIs over an initial seven-year performance period, 2019 to 2025, with 2018 being the baseline year. The three science-based targets sit alongside more traditional targets for onsite (Scope 1 & 2) emissions, landfilled waste disposal and water usage.

The performance against KPI intensity targets for 2020 and 2021 has been materially impacted by the significant reduction in passenger numbers and mandatory requirements limiting occupancy, both of which reduce the environmental efficiency relative to normalised operation. While absolute emissions have materially improved as we travelled significantly fewer miles and sites have been closed for long periods, our intensity metrics have worsened (i.e. emissions per passenger km have increased), driven by lower occupancy across the business and a mix away from long distance coach businesses and into urban bus businesses.

Please see page 98 to 99 for information on how our GHG reduction metrics and increase in zero emission vehicles are used as a remuneration metric in relation to the Executive Directors' and senior managers' LTIP scheme.

The table below shows the overall Group targets through to 2025 and our progress to date from our baseline year of 2018. More detail on these targets and on performance against them is set out in the detailed environmental data disclosures on pages 221 to 223.

Reduction target description (metric)	Base year (2018)	2025 target	Required % reduction from 2018	2021	% change from base year	% change YOY (2020-2021)	Required % reduction to meet target
Traction Energy: (vehicle fuel and electricity) <i>MWh/mpkm</i>	66.92	58.72	(12.25)%	86.19	28.8%	20.7%	(31.9)%
Traction Carbon Emissions (Scope 1 & 2) <i>tCO<sub>2</sub>e/mpkm</i>	17.67	15.45	(12.53)%	24.15	36.7%	8.4%	(36.0)%
Total Scope 1 & 2 Emissions <i>tCO<sub>2</sub>e/mpkm</i>	19.26	16.45	(14.59)%	25.34	31.2%	5.9%	(34.9)%
Site Scope 1 & 2 Emissions (building use only) <i>tCO<sub>2</sub>e</i>	41,656	38,199	(8.30)%	31,683	(23.9)%	(13.3)%	Met

As an early adopter of decarbonisation targets, the Group initially set KPIs designed to meet the IPCC goal of controlling the increase in global warming to below 2°C. These new targets introduce Net Zero targets for the Group for the first time, as well as new targets for fleet decarbonisation at the divisional level, where our vehicles currently contribute around 95% of the Group's Scope 1 and 2 emissions.

At the Group level, we have launched a new target to achieve net zero (Scope 1 & 2) by 2040. Delivery of our Group-wide targets will be achieved through our ambition to replace all carbon emitting vehicles – see page 32 for full details of our zero emission targets, and for details of ZEVs we are currently operating. Going forward we will report externally in our annual report on the number of ZEVs that the Group is operating.

## Scope 1, 2 and 3 GHG emissions and related risks

We measure our absolute Scope 1 and 2 emissions and are increasingly developing our Scope 3 emissions reporting. By reducing our absolute emissions, we believe we are reducing our exposure to risks of regulatory change, public policy and changing customer demands – please see pages 42 to 47 for more information on our principal risks and uncertainties. As the Group decarbonises, these risks are expected to become opportunities as the Group's businesses leverage the environmental benefits delivered through greater use of public transport.

tCO <sub>2</sub> e emissions by scope	2016	2017	2018	2019	2020	2021	% change YOY (2020-2021)
1	815,788	801,061	808,650	823,582	<b>514,106</b>	<b>657,239</b>	27.8%
2	95,107	60,682	48,583	49,938	<b>67,879</b>	<b>73,649</b>	8.5%
3	9,620	6,127	7,627	8,221	<b>8,641</b>	<b>5,762</b>	(33.3)%
<b>Total</b>	<b>920,516</b>	<b>867,870</b>	<b>864,859</b>	<b>881,741</b>	<b>590,626</b>	<b>736,650</b>	<b>24.7%</b>

Scope 1 emissions (from combustion of fuels) represent the largest category for emissions, with vehicle emissions representing around 95% of Scope 1 emissions. Scope 2 emissions (from electricity usage) represent energy usage both in our buildings and in our German rail operations. Scope 3 emissions represents business travel, waste, water and certain other upstream emissions. However there is more work to be done to quantify a complete set of Scope 3 emissions. We have initiated a screening exercise in order to develop our understanding of Scope 3 emissions and will report on our progress in our 2022 Annual Report. We recognise the importance of emissions data, and ESG data more generally, and the quality of data underpinning it. Accordingly we continue to enhance our approach and processes in line with external expectations. Whilst we do utilise external support in the calculation and compilation of the Group's emissions, the Group's disclosures are not currently subject to independent assurance. For more information on the emissions data, please refer to our detailed environmental disclosures on pages 221 to 223.