



Stables

Divisional Review

Germany

In Germany, we are the second largest rail operator in the German federal state of North Rhine-Westphalia ('NRW') and within the top five private operators in Germany. We are the sole operator of the Rhein-Ruhr Express ('RRX'), which is one of the most important railway infrastructure projects in NRW.

The RRX covers a total of 16m train kilometres and connect major cities (including Cologne, Duesseldorf, Koblenz and Kassel), with 55 to 60m passenger journeys taken in 2022.

Following the long-term award of the Lot 1 tender in early 2023, we now run all three asset-light RRX services under long-term contracts which, together with our Rhein–Munster Express ('RME') operation, will deliver an expected 20m train kilometres in 2023. Our successful mobilisations, at very short notice and on time, showcase our significant know how and ability to work closely with local transport authorities, driving operational transformation and ultimately providing strong credentials to bid and win. Securing the full RRX operation over the long-term (of which more below) provides greater visibility on revenues and builds on our existing services within the region, helping to drive operational and cost efficiencies across our network.

Revenue
(+49% against 2021)

€315.0m

Underlying Operating Profit
(+255% against 2021)

€20.7m

Statutory Operating Profit

(Loss of €28.0m in 2021)

€8.4m

Underlying Operating Margin
(+290bp against 2021)

5.6%

Revenue
(+48% against 2021)

£268.5m

Underlying Operating Profit
(+252% against 2021)

£17.6m

Statutory Operating Profit
(Loss of £24.1m in 2021)

£7.2m



Overview

German Rail delivered a good result in 2022. Revenue growth of 48.7% to €315.0m reflects the successful mobilisation and delivery of the short-term Emergency Award of the RRX Lot 1 in February 2022 and the impact of energy and inflation pass-through mechanisms in our contracts, which offset higher costs, albeit the RRX Lot 2/3 contract continued to utilise onerous provisions

Underlying Operating Profit reached €20.7m, reflecting operational synergies and economies of scale, with the German rail operation now reaching a critical mass that will support our future growth ambitions in the region.

After separately disclosed items, the statutory operating profit was €8.4m (2021: statutory operating loss of €28.0m). Separately disclosed items include a further €10.9m increase to the onerous contract provision on the original RRX contract in relation to traction energy costs that were not covered by the contracts compensation mechanism.

Progressing Evolve

We have continued to improve safety performance through our focus on driver performance, training and development. Our non-technical skills training was rolled out to all new drivers as the Emergency Award (RE1 & RE11) embedded during the year. This training supplements the extensive use of Driver Simulators that form a core part of our driver development programme.

We have focussed on reducing causes of unreliability that are in our control and to minimising the impact of broader DB Network issues. Our Engineering team have used OPERATE principles to reduce maintenance time and costs, thereby increasing fleet availability and service reliability. We have recently employed 3D printing techniques for certain parts to speed up processes. Our control centres have been enhanced to manage the excess passenger demand caused by the nationwide 9€ fare scheme.

In pursuit of our ambition to be the environmental leader are rolling out driver management training to minimise electricity consumption and are replacing traditional lighting with LED on our vehicles. Our trains all use regenerative braking. Our trains are inspected in service by external PTA assessors to ensure we monitor progress against our goal of having the most satisfied customers, and we have improved the customer facilities on our trains.

We have focussed heavily on recruitment and retention in the last year, ensuring all our staff feel valued. Our engagement survey results were encouraging and highlighted where NX could continue to differentiate ourselves from the rest of the industry. We are a leading member of FocusBahn which looks to promote Rail Careers to all members of society, as a result we are seeing an increase in applications from female candidates.

Divisional Review

Germany continued

Looking forward

In early February 2023 we were informed that we had secured the RRX 1 Lot 1 tender, a contract worth €1bn in revenue over 10 years, due to start from mid December 2023 and running through to 2033. This new business win establishes us as the leading private operator in the region and provides us with long-term visibility and a platform for growth. As a result, we are well placed to consolidate and compound our existing contracts and continue to grow our market share in NRW through the selective bidding for asset-light rail franchises, with a pipeline of opportunities worth circa €315m over the next 18 months.

In addition, we expect to continue to benefit from backing from the German government to support modal shift. Following their very successful recent scheme allowing unlimited travel across the German rail network for a fare of €9 (in response to the rising cost of living and

energy crisis) a successor initiative has been introduced at €49 per month for unlimited travel. Operators are compensated for this where they have revenue exposure, as we do on RME.

One of our main areas of focus for the year ahead will be to recruit, onboard and develop the necessary talent, and strengthen the leadership team, to support the significant growth trajectory we have delivered (with revenue growth of over 400% since 2019).

We expect that the delivery of stable revenue and cash flows from contracts, with price increases protecting against energy and labour-related cost inflation, will result in a relatively asset-light business with very attractive levels of return on capital.

Tom Stables

CEO: UK and Germany



Case Study



Using digital technology to drive operational transformation

Our strategic priorities in action



In Germany, we are using digital technology to drive operational transformation in the business. In 2022 we launched the NX Technology Lab. With this new facility we are able to showcase new technologies for use in the maintenance of our trains, allowing us to both test and undertake new projects.

A great example of this is the installation of a 3D printer which we are using to produce either urgently needed or obsolete parts. This 'additive manufacturing' is being used to design spare parts more quickly, saving time, improving efficiency and avoiding long periods of downtime for our train units – helping us to become 'the most reliable' partner to our local passenger transport authorities.

Saving time, improving efficiency and avoiding long periods of downtime