Committed to managing risk effectively

The Board recognises that the appropriate management of risk is key to the delivery of the Group's strategic objectives. As a leading international transport company, the Group is exposed to an evolving landscape of risks, whether industry-wide or more specific to the Group, which could potentially impact performance or reputation negatively as well as positively.

The Board remains ultimately responsible for the effective management of risk in the Group, and is committed to driving continuous improvement and adopting best practice in this crucial area. In addition to the broad strategic responsibilities of the Board, it:

- reviews the principal risks faced by the Group and approves the Group Risk Register;
- approves the Group Risk Appetite Statement; and
- reviews and approves the Group Emerging Risk Register.

The Audit Committee reinforces the process further by conducting 'deep dive' reviews, either on specific risks such as cyber security, or through discussions with divisional leadership teams to challenge their divisional risk registers.

Prioritising and reporting risks

The management of risk is embedded in the day-to-day operations of divisional management teams. A key element of this is the regular review and update of detailed 'risk registers' in each division, in which risks are identified and assessed in terms of both the probability of the risk occurring and its potential impact.

Group-level risks are either derived from a 'top-down' review, or from the divisional risk registers, because the risk either affects multiple divisions, or is of a materiality in itself that is considered of Group significance. Each of these Group-level risks is then assessed by the Board in terms of its potential impact on the Group and its key stakeholders. The Group prioritises risk mitigation actions by considering risk likelihood and potential severity.

Risk appetite

The Board recognises that continuing to deliver superior returns for shareholders and other stakeholders is dependent upon accepting a level of risk. Our risk appetite sets out how we balance risk and opportunity in pursuit of our strategic objectives. The acceptable level of risk is assessed on an annual basis by the Board, which defines its risk appetite against key indicators including potential impact of risk, likelihood of risk and ability to reduce risk through mitigation. This ensures alignment between our view of acceptable risk exposure and the strategic priorities of the Group.

Risk management framework

The effective management of risk is embedded in many ways in day-to-day management activities, for example the usage of very granular, detailed KPI tracking in monthly divisional reports, or robust due diligence on acquisitions. This is the 'first line' of the Group's risk management structure where internal control and risk management processes are based on the 'Three Lines Model', summarised below.

Defence	Responsibility	Actions
Oversight	Board	– Sets strategic objectives – Determines overall risk culture and appetite – Establishes delegated authorities and clear operating processes – Reviews and approves Group Risk Register, Risk Appetite Statement and Emerging Risk Register
	Audit Committee	– Conducts 'deep dive' reviews of divisional risk registers, or specific Group risks
Third line	Group internal audit	– Provides reasonable assurance that systems of risk management, internal control and governance are effective
Second line	Group Executive Committee Group functions including Risk	– Support divisions with 'first line' responsibilities – Coordinate and report on Group-level risks – Build risk capability and understanding
First line	Divisional Executive Committees Divisional management	– Identify, assess and report key risks – Regularly review and update divisional risk registers – Implement risk mitigation plans

Covid-19

The Covid-19 pandemic has had a significant impact on the public transport sector, with mobility significantly restricted by lockdowns across the world. From the start of the pandemic, the Group sought to limit its impact by renegotiating contracts, entering into new arrangements with transport authorities and other customers to continue to operate on a pay-per-mile basis, and taking swift and decisive cost reductions.

Whilst there is good reason to believe that the deployment of vaccination programmes, and the development and introduction of new therapeutic treatments and drugs will speed recovery from the pandemic, the risk remains that new virus mutations or problems with the delivery of the vaccine may delay the recovery. A moderate likelihood, significant impact risk is reflected in the principal risk matrix to cover both a materially slower recovery than base forecasts and lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home.

Climate-related risks

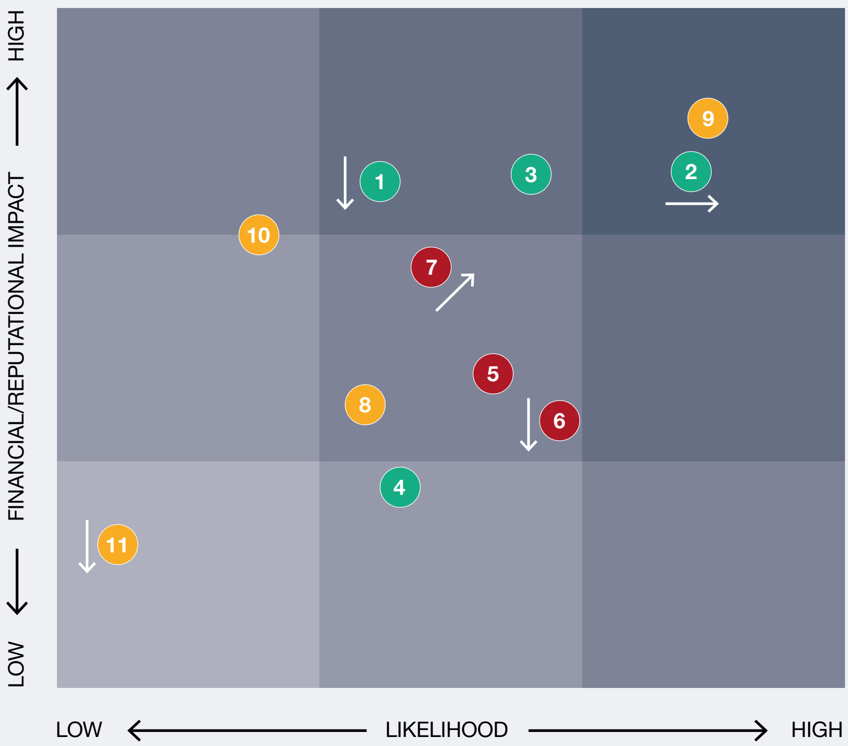
In line with the TCFD requirements, a climate-related risk assessment has been undertaken across the Group during 2021 and its results have been reviewed by the Board.

In summary, it has been assessed that whilst the Board believes that it is highly likely that extreme weather events will increase in frequency and intensity and a new, more stringent, regulatory landscape demanding cleaner vehicles will be introduced by governments in most of the geographies where the Group operates, the net financial impact of those risks will be low.

The Group's operations are geographically very diverse; the Group has hundreds of depots across 50 cities in 11 countries. It is highly unlikely that many of them would be affected by extreme weather events simultaneously, and therefore any damage would be considered immaterial from a Group-wide perspective. It was also concluded that although it is probable that new environmental regulation will lead to the need to transition to zero emission vehicles over time, the Group is already planning to do this and has set industry-leading targets.

In any climate-related scenario, the opportunities associated with modal shift out of private cars and into public transport are potentially very material; more than offsetting any downside financial impact.

Principal risk matrix



Key
↑ Denotes movement in risk during the year

Macro/external risks

1. Extended Covid-19 impact
2. Economic conditions/ driver shortages
3. Political/geopolitical/ regulatory landscape
4. Climate risk (physical)

Strategic risks

5. Changing customer expectations in a digital world
6. Climate risk (transitional)
7. Competition and market dynamics

Operational risks

8. Attraction/retention of talent/HR/ labour relations
9. Cyber/IT failure/data protection
10. Safety, security incident, litigation and claims
11. Credit/financing

Emerging risk

The Emerging Risk Register is reviewed and approved by the Board. The Group considers an emerging risk to be one that cannot yet be fully assessed and is not currently having a material impact on the business, but has a reasonable likelihood of impacting future strategy or operations. The Group's approach to managing emerging risk exposure is to:

- establish a wide universe of potential emerging risk, using horizon scanning techniques, published external research and peer/competitor review;
- preliminarily assess these risks, taking into account our industry sector and market position, and our strategy, to determine broad relevance;
- consider the potential impact of each risk on the Group's strategy, finances, operations and reputation, taking into account the likelihood of the risk occurring, and the speed with which it may manifest; and
- develop actions to address the risks where appropriate.

As with the Group's principal risks, many of the emerging risks present equal or greater opportunities. For example, climate change and ageing population demographics, which are risks fundamental to many sectors, are more of an opportunity than a threat to the Group.

As part of the process to identify emerging risks, Group businesses continue to monitor events that may develop anywhere in the world which have the potential to become global (e.g. a health pandemic, political conflict, climate/weather catastrophes) or to impact the markets where the Group operates.

From a very wide universe of potential emerging risks, the Group has, through the above process, identified a number of risks that warrant closer review. These have been further segregated into those requiring only a monitoring approach at present and those where actions are being developed alongside the principal risks. There are four risks that currently fall into the latter category.

These broadly cover the risk of disruption from integrators and/or demand-responsive mobility as a service operations as well as the future possibilities offered by autonomous vehicles.

It should be noted that the Group considers all these areas to be significant opportunities as well as risks.

Key

Increase in risk during the year

Reduction in risk during the year

Macro/external risks

1. Extended Covid-19 impact

Risk movement: Reduction

Risk appetite: N/A

Potential impact

- Once restrictions are lifted and mobility recovers, there may be lasting implications such as residual fear of travelling on public transport; significantly less travel for shopping; or a material change in working patterns with more of our passengers working from home

Management/mitigation

- Re-balance investment across our portfolio in the short term, e.g. less reliance on airport work
- Remain flexible to scale service up and down in line with changing demand
- Continued focus on customer service, highlighting the benefits to society of quality public transport
- Relentlessly work with customers and employees to ensure safety is paramount

Opportunity

- The Group's leadership positions in many diverse and attractive markets are likely to strengthen, as other operators are unable to withstand the impact of the pandemic
- When the world emerges out of the pandemic it will be confronted with the need to power an economic recovery with high quality, cleaner and greener public transport at its heart. The alternative is inefficient, congested towns and cities with air pollution

Change in risk in the year

- Sporadic and ongoing local and national lockdowns throughout the year have continued to impact mobility and hence demand for our services
- Extensive vaccination programmes have taken place throughout 2021 in all our geographies. Vaccines and new dominant variants appear to have reduced the severity of the disease, and in turn, increased travel confidence

2. Economic conditions/ driver shortages

Risk movement: Increase

Risk appetite: Moderate

Potential impact

- Declining economic conditions, particularly following the current pandemic, potentially impact demand for discretionary travel
- Improving economic conditions may impact the Group's ability to recruit drivers and other employees, or cause inflationary pressure on costs

Management/mitigation

- Geographical diversification of the Group provides a natural hedge to some economic risk
- Strategic plans are stress tested for differing economic and pandemic scenarios
- Strong strategic focus on people/talent management and recruitment/retention
- Delivery of excellence in service and operations

Opportunity

- Despite a generally unsettled economic outlook due to the pandemic, private consumption and demand conditions for public transport continue to be strong
- Higher unemployment rates should relieve pressure on labour costs and turnover

Change in risk in the year

- Global shortages in drivers and concern over vaccine mandates have led to increased difficulties in attracting and retaining drivers

Key

- Increase in risk during the year
- Reduction in risk during the year

Macro/external risks

3. Political/geopolitical/ regulatory landscape

Risk movement

Risk appetite
N/A

Potential impact

- Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency
- Franchise renewal risk in Spain
- UK Bus franchising or alternative models
- Financial or reputational cost of failure to comply with changing regulations or legislation

Management/mitigation

- Constant monitoring of the political landscape and focus on effective stakeholder management
- Political risk is specifically considered when considering bids or new market entry
- The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government
- Focus on operational excellence and delivering value in our franchises and contracts, and to our fare paying customers

Opportunity

- Political and social pressure continues to grow on congestion and clean air, which favours public transport
- Increasing city regulation and investment in public transport
- Continued liberalisation of markets in many territories

Change in risk in the year

- Following continued delays in recent years, we now expect the Spanish Long Haul franchise renewals process to commence in 2022. Significant sums of money committed to drive public transport projects in the UK, the USA and the EU to combat pollution and congestion
- UK Bus franchising looking more likely in some cities (e.g. Manchester) and less in others (e.g. Birmingham)

4. Climate risk (physical)

Risk movement

Risk appetite
N/A

Potential impact

- Loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss and lost revenue
- Widespread events such as extreme weather can also interrupt operations and cause revenue loss even if the Group's assets are undamaged

Management/mitigation

- Geographical diversification of the Group provides a natural hedge to this risk
- Established emergency and continuity plans in each division
- Insurance coverage is available and in place for some hazard-related risks

Opportunity

- Potential for increased legislation at local or national level to drive modal shift to reduce the impact on the environment

Change in risk in the year

- Continued general increase in extreme weather events around the globe, including hurricanes, storms, floods and wildfires
- In-depth Climate-related Risk Assessment conducted during 2021

Strategic risks

5. Changing customer expectations in a digital world

Risk movement

Risk appetite
Moderate

Potential impact

- Increasing expectations of customers to be able to buy tickets and manage their travel plans through a variety of digital platforms
- Failure to develop applications and digital channels that meet these increasing expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives

Management/mitigation

- Comprehensive digital strategies developed in each division
- Divisional 'digital scorecards' are reviewed monthly by the Group Executive Committee to monitor the effectiveness of various digital channels
- Developing strategies for demand responsive services
- Oversight by Chief Digital Officer

Opportunity

- Leadership in adopting new technologies will enhance our service to existing customers and attract new ones
- Millennials are an increasingly important target market and more inclined to use public transportation if the service is right

Change in risk in the year

- Significant investment in potentially disruptive business models in the mobility space
- Innovation programmes implemented in North America, UK and Spain continue to improve the customer digital experience
- Continued increases in bookings through online and digital mobile platforms

Key

↑ Increase in risk during the year

↓ Reduction in risk during the year

Strategic risks continued

6. Climate risk (transitional)

Risk movement ↓

Risk appetite High

Potential impact
- Increasing popular, political and customer demand for ZEVs
- Transition involves potentially material changes in financing, to maintain and operate the assets, creating execution risk
- Requires significant change to infrastructure

Management/mitigation
- Environmental leadership with pledge to never again buy a diesel bus in the UK. Ambition to reach zero emissions in UK Bus by 2030; UK Coach and Spain bus by 2035; and Spain coach, North America and Morocco by 2040
- Cross-division executive leadership of ZEV strategy
- Close engagement with new and existing original equipment manufacturers
- Pilot testing in a number of areas

Opportunity
- ZEVs present potential opportunities to reduce the cost base of the business, while helping cities solve the challenges of the drive for a cleaner air environment
- Clear opportunities to fulfil our vehicle requirements through 'availability contracts', which require no capital expenditure and reduce technology risk, enabling a faster transition

Change in risk in the year
- Introduction of 20 hydrogen buses, potentially scaling to 200
- Signed first 'availability contract' with Zenobe for around 200 electric buses and related infrastructure
- Increased pilots in Spain and North America
- School boards in North America beginning to take ZEV adoption seriously
- Infrastructure funders looking to facilitate the transition

7. Competition and market dynamics

Risk movement ↑

Risk appetite N/A

Potential impact
- Competition arises from direct price competition; inter-modal (e.g. coach vs. rail); and emerging threats such as new market entrants or disruptive technologies
- Changes in customer demographics impact demand and the nature of services required
- Potential 'disintermediation' risk created by aggregators seeking to 'own' the customer relationship

Management/mitigation
- Commitment to service excellence, providing the best solutions to our customers
- Price leadership and value for money
- Revenue trends are closely monitored and RMS deployed
- Investment in technology
- Focus on operational excellence – even with an aggregator model, service delivery is critical
- Targeted acquisitions and growth in the most attractive markets

Opportunity
- Ageing population in major markets creates additional paratransit opportunities
- Continuing urbanisation drives cities to partner with high quality transportation operators
- Weaker transport operators become targets for acquisition

Change in risk in the year
- A new discount coach brand entered the UK (and rapidly entrenched)
- Spanish high speed rail rejuvenated by de-regulation

Operational risks

8. Attraction/retention of talent/HR/labour relations

Risk movement

Risk appetite Moderate

Potential impact
- Lack of available management talent/ leadership skills can inhibit growth
- Shortages in drivers and other key roles can disrupt operations and lead to wage and benefits cost inflation
- Increased unionisation and/or poor labour relation presents increased risk of strike or operational disruption

Management/mitigation
- The Group is committed to employee engagement and invests in a number of retention programmes
- Appropriate training is provided for managers and supervisors
- Reward and recognition programmes are established to further enhance employee engagement
- Focus on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary

Opportunity
- Ensuring we have an agile, skilled workforce will enable us to adapt to emerging challenges and opportunities

Change in risk in the year
- Driver shortages in North America school bus expected to last for the entire 2021/22 school year
- Lower unemployment levels in key markets have led to higher pressures on recruitment, retention and cost inflation
- Up-weighted Group HR team

Key

- Increase in risk during the year
- Reduction in risk during the year

Operational risks

9. Cyber/IT failure/ data protection

Risk movement: Increase

Risk appetite: Low

Potential impact
- 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
- Breach of the UK Data Protection Act (DPA), EU General Data Protection Regulation (GDPR) or the US California Consumer Privacy Act (CCPA) could result in a regulatory investigation and financial losses

Management/mitigation
- Continuous investment in organisational and technical measures to protect data assets
- A cyber security strategy aligned with the threat landscape
- Regulatory compliance plans in place, tailored to each division's exposure (DPA, GDPR or CCPA)

Opportunity
- Strengthened resilience against cyber threats and IT outages increases awareness and leverage of technology across the Group

Change in risk in the year
- Increase and professionalisation of ransomware attacks across the globe targeting all industries
- Additional states in the USA introducing data protection legislation
- Cyber security investment continuously supporting further resilience and risk management

10. Safety, security incident, litigation and claims

Risk movement

Risk appetite: Low

Potential impact
- 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
- Potential indirect impact from a general reduction in the public's appetite to travel reducing demand and revenue

Management/mitigation
- Very strong safety culture
- Dedication to leading edge safety technology
- Appropriate insurance coverage for terrorism and accident-related claims to employees and third parties with experienced claims management and legal teams in each division
- All divisions have developed emergency plans and established safety audit programmes, validated by Group internal audit

Opportunity
- Continued relentless focus on safety and investment in technology should facilitate risk and cost reductions and enable differentiation in our customer offering

Change in risk in the year
- Whilst the pandemic has exposed the Group to potential claims from employees or passengers contracting Covid-19, there have been limited claims to date and our estimation of the potential liability has come down
- The Group was able to achieve satisfactory insurance renewals due to our commitment to safety and to effective litigation/claims management

11. Credit/financing

Risk movement: Reduction

Risk appetite: Low

Potential impact
- Contract-based operations such as North America and Spanish urban are exposed to late or non-payment risk from customers, impacting Group liquidity
- A material increase in interest rates would increase the Group's cost of borrowing
- Material tightening in investment grade credit markets could impact the Group's liquidity

Management/mitigation
- Close monitoring of receivables and appropriate provisions made for possible non-collection
- Strong relationships with a number of banks
- Continued monitoring and scenario analysis over covenants
- Appropriate liquidity maintained through committed bank facilities, finance lease programmes and debt capital market issuances

Opportunity
- Investment grade rating and proven track record give efficient access to credit markets enabling investment in growth

Change in risk in the year
- Fitch revised its rating up to BBB (stable)
- Over half a billion pounds of facilities were allowed to lapse during the year due to the Group's significant liquidity levels
- Lending covenants amended until December 2022