Group Chief Financial Officer's review

Chris Davies
Group Chief Financial Officer

Summary Income Statement

	Underlying result[1] 2021 £m	Separately disclosed items[1] 2021 £m	Total 2021 £m	Underlying result[1] 2020 £m	Separately disclosed items[1] 2020 £m	Total 2020 £m
Revenue	**2,170.3**	**–**	**2,170.3**	1,955.9	–	1,955.9
Operating costs	**(2,083.3)**	**(123.2)**	**(2,206.5)**	(2,006.7)	(330.6)	(2,337.3)
Operating profit/(loss)	**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)
Share of results from associates	**(1.0)**	**–**	**(1.0)**	(2.1)	–	(2.1)
Net finance costs	**(46.3)**	**(1.4)**	**(47.7)**	(53.2)	(8.0)	(61.2)
Profit/(loss) before tax	**39.7**	**(124.6)**	**(84.9)**	(106.1)	(338.6)	(444.7)
Tax	**(12.8)**	**19.8**	**7.0**	29.3	88.7	118.0
Profit/(loss) for the year	**26.9**	**(104.8)**	**(77.9)**	(76.8)	(249.9)	(326.7)

[1] To supplement IFRS reporting, we also present our results on an Underlying basis which shows the performance of the business before separately disclosed items, principally comprising amortisation of intangibles for acquired businesses, certain costs arising as a direct consequence of the pandemic, restructuring costs and the re-measurement of the Rhine-Ruhr Express (RRX) onerous contract provision. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on pages 226 to 228.

2021 began with further mobility restrictions imposed by governments around the world. However, as these were lifted the recovery in revenue was encouraging; revenue for the first half of the year increased to 77% of 2019 levels (on a constant currency basis) compared with the second half of 2020, being 66%. This improved further to 87% of 2019 in the second half of 2021. This resulted in full year Group revenue of £2,170.3 million (2020: £1,955.9m), an increase of 11.0% (15.5% on a constant currency basis) year-on-year.

Public transport, by its nature, relies on a combination of commercial and concessionary revenue and during the year, the Group received £162.9 million in Covid-related revenue support (2020: £115.5m) representing 7.5% of total Group revenue. In the UK, the Group recognised £80.6 million (2020: £83.2m) from the Covid-19 Bus Service Support Grant (CBSSG) in return for maintaining bus services at around 100% of pre-pandemic levels with social distancing provisions in place. This scheme ended in August 2021 and was replaced by the Bus Recovery Grant (BRG) for which the Group recognised £12.2 million revenue in the year. In addition, the Group recognised £54.2 million (2020: £15.3m) and £15.9 million (2020: £15.6m) for Covid-19 government compensation in ALSA and German Rail respectively. Had these various revenue-related grants not been available, the Group would have operated a significantly lower level of service in order to further reduce costs. There was no revenue support provided by the Government for UK Coach operations.

The Group recorded an Underlying Operating Profit for the year of £87.0 million (2020: £50.8m loss). The year-on-year improvement of £137.8 million reflected the increase in revenue, combined with continued cost control and support from customers, governments and transport authorities. Despite variable cost increases as service levels increased to support the 11.0% revenue growth and the impact of inflation, the increase in Underlying operating costs was contained at 3.8%; this reflected the cost saving programmes implemented in late 2020 and early 2021 to remove around £100 million of cost from the Group, as well as increasing occupancy.

After £123.2 million (2020: £330.6m) of separately disclosed items, the statutory operating loss was £36.2 million (2020: £381.4m loss).

At the start of the year a significant number of employees were temporarily laid off or furloughed utilising government income protection schemes, but the vast majority returned to work during the year with only minimal numbers remaining on such schemes by the end of the year. In total, the cost support received in respect of job retention or wage subsidy schemes was £18.3 million (2020: £45.6m), comprising £8.9 million in the UK and £9.4 million in North America. In addition, £45.7 million of cost support was recognised in respect of the Coronavirus Economic Relief for Transportation Services (CERTS) grant in North America.

Underlying net finance costs decreased by £6.9 million to £46.3 million (2020: £53.2m) reflecting the impact in the prior year of the partial double-carry of Sterling bonds, as well as the impact of lower average Net Debt.

After finance costs and a loss of £1.0 million from the share of results from associates (2020: £2.1m loss), the Group recorded an Underlying Profit Before Tax of £39.7 million (2020: £106.1m loss).

The Underlying tax charge was £12.8 million (2020: £29.3m credit) representing an Underlying effective tax rate of 32.2% (2020: 27.6%) broadly in line with the weighted average tax rates in the countries in which the Group operates, the increase being driven by generating profits in higher taxation jurisdictions and a loss in the UK. The statutory tax credit was £7.0 million (2020: £118.0m credit). Tax losses in most jurisdictions have been recognised as deferred tax assets with forecasts of future profits supporting their utilisation.

The statutory loss for the year, after the separately disclosed items explained below, was £77.9 million (2020: £326.7m loss).

Separately disclosed items

£124.6 million (2020: £338.6m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £44.4 million (2020: £126.9m) represented cash outflows in the year.

Separately disclosed items	**Income Statement 2021 £m**	Income Statement 2020 £m	**Cash 2021 £m**	Cash 2020 £m
Intangible amortisation for acquired businesses	**(38.8)**	(52.6)	**–**	–
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(41.0)**	(245.7)	**(31.5)**	(109.6)
Restructuring costs	**(12.3)**	(14.0)	**(9.4)**	(10.8)
Re-measurement of the Rhine-Ruhr Express onerous contract provision	**(27.9)**	(16.8)	**(1.5)**	–
Other separately disclosed items	**(3.2)**	(1.5)	**(0.9)**	–
Separately disclosed operating items	**(123.2)**	(330.6)	**(43.3)**	(120.4)
Interest charges directly resulting from the Covid-19 pandemic	**(1.4)**	(8.0)	**(1.1)**	(6.5)
Total (before tax)	**(124.6)**	(338.6)	**(44.4)**	(126.9)

Consistent with previous periods, the Group classifies the £38.8 million (2020: £52.6m) amortisation for acquired intangibles as a separately disclosed item.

£41.0 million (2020: £245.7m) of directly attributable gains and losses due to Covid-19 were incurred in the year. These principally comprised: £10.3 million (2020: £116.6m) in respect of onerous contracts; £17.0 million (2020: £99.3m) impairments of customer contracts and property, plant and equipment; and £11.5 million expense (2020: £33.9m gain) in respect of the re-measurement of the WeDriveU put liability. Going forward, we do not expect further Covid-related charges in separately disclosed items other than re-measurements of items previously recorded.

Costs of £12.3 million (2020: £14.0m) were incurred in respect of Group-wide restructuring and long-term cost saving initiatives, as part of the Group's mitigations against the adverse impact of the pandemic on profit and cash.

A £27.9 million (2020: £16.8m) expense was incurred following the re-assessment of the RRX onerous contract in Germany. Whilst the outlook for the German Rail business overall is positive, with good profitability anticipated over the remaining life of the contracts in aggregate, the original RRX contract in isolation is anticipated to be onerous, driven by cost inflation for personnel and energy costs.

Further detail is set out in note 5 to the Financial Statements.

Segmental performance

	Underlying Operating Profit/(Loss) 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m	Underlying Operating (Loss)/Profit 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m
ALSA	**56.6**	**(26.4)**	**30.2**	6.7	(100.2)	(93.5)
North America	**74.4**	**(27.9)**	**46.5**	12.4	(188.4)	(176.0)
UK	**(22.6)**	**(23.8)**	**(46.4)**	(49.0)	(50.4)	(99.4)
German Rail	**5.0**	**(29.1)**	**(24.1)**	(4.9)	(19.1)	(24.0)
Central functions	**(26.4)**	**(16.0)**	**(42.4)**	(16.0)	27.5	11.5
Operating profit/(loss)	**87.0**	**(123.2)**	**(36.2)**	(50.8)	(330.6)	(381.4)

ALSA revenue increased by 33%, resulting in a €58 million increase in Underlying Operating Profit to €66 million. The Urban bus businesses in Spain as well as in Casablanca are largely revenue-protected, which has provided a stable underpin to performance whilst patronage is rebuilt. Discretionary and tourist businesses have continued to be severely impacted by the pandemic but Long Haul has recovered well, with revenues in the second half of the year improving to within 20% of pre-pandemic levels despite ongoing restrictions. Morocco revenues grew by 36% to €134 million, principally driven by Rabat and Casablanca but with other cities also recovering strongly.

North America revenue increased by 7%, resulting in an increase in Underlying Operating Profit of $86 million to $102 million. School Bus service levels built back throughout the first half of the year with 96% of schools back by the end of the school year in June. The second half of the year for School Bus has been impacted by driver shortages which have driven a large number of lost routes, although the financial impact of this has been partially mitigated by CERTS grant funding. Transit continues to benefit from the 2020 portfolio review as well as some key contract extensions, with revenue peaking at nearly 80% of 2019 levels. Shuttle customers mostly continued to pay in full such that WeDriveU continues to deliver close to pre-pandemic levels of profit.

UK revenue increased by 3%, resulting in an increase in profit of £26 million although still producing an Underlying Operating Loss of £23 million. Within this, the Bus and Coach businesses fared very differently. UK Bus revenue for the year was 1% up on pre-pandemic levels, with patronage growing sequentially and peaking at over 80% of pre-pandemic levels before dropping again as restrictions were reapplied. Coach revenue finished the year 48% down on 2019 having peaked at 36% down. The continued mobility restrictions coupled with building occupancy, bringing back service ahead of passenger demand, drove an operating loss.

Cash management

Funds flow	**2021 £m**	2020 Restated* £m
Underlying Operating Profit/(Loss)	**87.0**	(50.8)
Depreciation and other non-cash items	**213.0**	237.4
EBITDA	**300.0**	186.6
Net maintenance capital expenditure**	**(142.1)**	(215.9)
Working capital movement	**33.0**	(95.6)
Pension contributions above normal charge	**(7.2)**	(7.4)
Operating cash flow	**183.7**	(132.3)
Net interest paid	**(41.1)**	(56.0)
Tax paid	**(19.2)**	(7.7)
Free cash flow	**123.4**	(196.0)
Growth capital expenditure**	**(134.4)**	(35.3)
Acquisitions and disposals (net of cash acquired/disposed)	**(54.3)**	(48.0)
Separately disclosed items	**(44.4)**	(126.9)
Proceeds from equity instruments	**–**	725.6
Payment on hybrid instrument	**(5.3)**	–
Other, including foreign exchange	**65.1**	(57.2)
Net funds flow	**(49.9)**	262.2
Net Debt	**(1,069.8)**	(1,019.9)

* 2020 Net Debt is restated for the reclassification from payables to Net Debt of £78.3m amounts due under advance factoring arrangements. See below for further explanation.
** Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on pages 226 to 228.

The Group generated EBITDA of £300.0 million in the year (2020: £186.6m).

The net maintenance capital expenditure of £142.1 million (2020: £215.9m) represented a significant reduction on recent years, reflecting actions taken to reduce capital expenditure in response to the pandemic. The majority of spend in the year was in respect of fleet replacement in ALSA and North America. At the year end there was £104.3 million (2020: £289.6m) owing to vehicle suppliers in respect of either maintenance or growth capex, with the year-on-year decrease reflecting the payment of growth capex in the year, combined with tight control of capital additions.

The Group recorded a working capital inflow of £33.0 million for the year (2020: £95.6m outflow), reflecting a partial unwind of the outflow observed in the previous year, as receivables and payables both increased as a result of the continued recovery in activity levels.

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 b) advance payments for factoring of divisional subsidies. The latter occurs principally 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. During the year the Group amended its accounting policy in respect of this form of factoring such that any amounts drawn down are now classified as borrowings rather than as a working capital item – see note 2 to the Financial Statements for further information. At 31 December 2021 there was £77.9 million (2020: £78.3m) drawn down on these arrangements, which is now classified as borrowings rather than payables in both 2021 and 2020. The prior year comparatives in the table above have been restated accordingly. In addition to the advance subsidy factoring, at 31 December 2021 there was £48.5 million (2020: £33.3m) drawn down on receivables factoring. This increase reflected the growth in revenues; however, the amounts drawn down on such factoring remained below pre-pandemic levels.

Net interest paid decreased by £14.9 million to £41.1 million (2020: £56.0m). There are two components to this reduction. Firstly, 2020 was a 'double carry' year whereby the final interest payment on the 2020 bond maturing in June 2020 (payable annually in arrears) was made whilst at the same time making interest payments on new borrowings. Secondly, average Net Debt has decreased, resulting in lower interest charges. Given the double carry impact in the prior year, 2019 is a more comparable year. Net interest paid in that year was £45.4 million, compared with £41.1 million in 2021; the reduction being broadly in line with the decrease in Net Debt.

The net impact of the factors outlined above was a free cash inflow of £123.4 million in the year (2020: £196.0m outflow), comprising an inflow of £40.6 million in the first half and an inflow of £82.8 million in the second half.

Growth capital expenditure of £134.4 million (2020: £35.3m) principally comprised vehicles to service new contracts in ALSA and North America. The year-on-year increase reflected payments in respect of the Rabat and Casablanca fleets, which had been delivered in the prior year. A £54.3 million outflow for acquisitions and disposals includes £22.8 million for the acquisition of Transportes Rober in Spain in June and £17.7 million for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor), with the remainder being deferred consideration in respect of acquisitions in previous years. The amounts outstanding in respect of deferred consideration at the end of the year had reduced to £13.4 million (2020: £28.8m; 2019: £49.0m).

A cash outflow of £44.4 million was recorded in respect of the items excluded from Underlying results as explained above.

In the previous year the Group received £725.6 million from a combination of the share placing in May 2020, delivering £230.1 million, and the hybrid instrument issue in November 2020, which raised £495.5 million net of costs. The hybrid instrument is accounted for as 100% equity under IFRS and is subject to a 4.25% coupon, paid annually in February, which is effectively treated as an equity dividend. £5.3 million of coupon payments on the hybrid instrument were made in the year, in respect of the first part-year.

Other movements of £65.1 million (reduction to Net Debt) principally reflect the movement in exchange rates and settlement of foreign exchange derivatives. The strengthening in the value of the pound decreased the value of debt denominated in foreign currency.

Net funds outflow for the period of £49.9 million (2020 restated: £262.2m inflow) resulted in Net Debt of £1,069.8 million (2020 restated: £1,019.9m).

Please see page 227 for a reconciliation to the statutory cash flow statement.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns, reducing gearing to within our revised target range of 1.5x to 2.0x and paying a growing dividend to shareholders. As previously guided, in light of the exceptional economic circumstances and conditions attaching to our amended covenants, the Group will not be paying a dividend in respect of 2021. Looking ahead, reflecting the improving financial performance of the Group and the outlook for profit and cash for the year ahead, the Board intends to reinstate a dividend in respect of the full year 2022, at least 2 times covered. We anticipate paying the entire dividend in respect of full year 2022 based on, and following delivery of, the full year results; reverting to a customary split between interim and final dividends for subsequent years.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating. Both Moody's and Fitch reaffirmed their investment grade ratings during the year, with Fitch revising outlook upwards.

In light of the impact of the pandemic on EBITDA generation, the Group has renegotiated its covenants. The Gearing covenant has been waived by the lenders throughout 2020 and 2021, and will next apply at 31 December 2022, after which it reverts to the pre-amended level of 3.5x. The interest cover covenant had been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively, and returns to its pre-amended level of 3.5x for 30 June 2022 onwards. In return for these waivers and amendments to the covenants, the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum Net Debt test during the amendment period. In addition, the Group has agreed to pay no dividend during the period of the amendments if gearing exceeds 3.5x or interest cover is below 3.5x. At 31 December 2021, Gearing was 3.6x (31 December 2020: 6.6x); almost back within the pre-amended level. Interest cover at the end of the year was 6.3x (31 December 2020: 2.7x); this compares with an amended covenant of 2.5x. All covenants are on a pre-IFRS 16 basis.

At 31 December 2021, the Group had £1.9 billion (31 December 2020: £2.8bn) of debt capital and committed facilities, with an average maturity of 4.7 years. The decrease from 2020 reflects the planned maturity of the short-term financing facilities secured following the emergence of Covid-19, including the £0.6 billion available under the Bank of England Covid Corporate Financing Facility. At 31 December 2021, the Group's revolving credit facilities (RCFs) were undrawn and the Group had available a total of £0.9 billion (31 December 2020: £1.9bn) in net cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 31 December 2021 £m	Headroom at 31 December 2021 £m	Maturity year
Core RCFs	495	–	495	2024-2025
2023 bond	400	400	–	2023
2028 bond	241	241	–	2028
Private placement	394	394	–	2027-2032
Divisional bank loans	112	112	–	various
Leases	219	219	––	various
Funding facilities excluding cash	1,861	1,366	495	
Net cash and cash equivalents		(376)	376	
Total		**990**	**871**	

To ensure sufficient availability of liquidity, the Group maintains a minimum of £300 million 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 such are not included in (or required for) liquidity forecasts.

At 31 December 2021, 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. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 31 December 2021, the proportion of Group debt at floating rates was 18% (2020: 7%).

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 the USA. 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 schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2021 was £95.4 million (2020: £135.1m), with the decrease being principally driven by an increase in discount rates.

The two principal plans are the UK Group scheme, which is closed to new accrual, and the West Midlands Bus plan, which remains open to accrual for existing active members only. The deficit repayments on the West Midlands Bus plan will be around £7 million per annum, rising with inflation, until 2026.

On 23 September 2021, a full buy-out of the UK Group scheme was completed, following which Rothesay Life has become fully and directly responsible for the pension obligations. On completion of the buy-out, the defined benefit assets and matching defined benefit liabilities were derecognised from the Group's Balance Sheet. The buy-out transaction also triggered the return of surplus assets to the Company totalling £7.5 million, with the remaining £3.8 million assets retained in the scheme to cover final expenses in completing its wind up.

The IAS 19 valuation for the West Midlands Bus scheme at 31 December 2021 was a £96.1 million deficit (2020: £141.6m deficit).

Fuel costs

Fuel costs represent approximately 7% of revenue. Whilst it remains complex to forecast volume at the current time, based on current projections and as of February 2022, the Group is fully hedged for 2022 at an average price of 34.0p per litre; around 65% hedged for 2023 at an average price of 34.4p; and around 25% hedged for 2024 at an average price of 38.5p. This compares with an average hedged price in 2020 and 2021 of 37.2p and 37.8p respectively.

TCFD reporting

The Group had previously provided disclosures consistent with many of the recommendations of the TCFD and has now fully adopted the recommendations for the 2021 Annual Report. This is the culmination of a project undertaken during the year by an internal working group, with selected input from external experts. The most significant new activity was the completion of a detailed climate risk assessment. Our overall conclusion from this work is that neither an extreme physical scenario risk nor an extreme transition scenario would be likely to have a material adverse impact on the Group's profitability, cash flow, gearing or liquidity. On the contrary, we forecast that any downside impact would be dwarfed by the opportunities from modal shift likely to unfold in either scenario.

Going concern

The Board continues to believe that the Group's prospects are positive. We are diversified geographically, by mode of transport and by contract type, and no single contract contributes more than 4% to revenue. Furthermore, a large proportion of the Group's contracts have some form of protection from volatility in passenger numbers. The Group is well positioned to benefit from the future trends in transportation. Public transport is key to increasing social mobility as well as being fundamental to addressing the challenges of congestion and poor air quality.

The Financial Statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 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 1 to the Financial Statements.

Chris Davies
Group Chief Financial Officer
9 March 2022