Record revenue of £2.8bn, exceeding 2019 levels

£197.3m Underlying Operating Profit

After separately disclosed items, a statutory loss after tax of £220.7m

£160.5m of free cash flow, representing 81% conversion

£0.8bn in cash and undrawn committed facilities

CFO's Review

Summary Income Statement

	Underlying result[1] 2022 £m	**Separately disclosed items[1] 2022 £m**	**Total 2022 £m**
Revenue	**2,807.5**	**–**	**2,807.5**
Operating costs	**(2,610.2)**	**(355.8)**	**(2,966.0)**
Operating profit/(loss)	**197.3**	**(355.8)**	**(158.5)**
Share of results from associates	**(0.4)**	**–**	**(0.4)**
Net finance costs	**(51.0)**	**–**	**(51.0)**
Profit/(loss) before tax	**145.9**	**(355.8)**	**(209.9)**
Tax	**(30.3)**	**19.5**	**(10.8)**
Profit/(loss) for the year	**115.6**	**(336.3)**	**(220.7)**

	Restated[2] Underlying result[1] 2021 £m	Separately disclosed items[1] 2021 £m	Restated[2] Total 2021 £m
Revenue	2,170.3	–	2,170.3
Operating costs	(2,083.3)	(123.2)	(2,206.5)
Operating profit/(loss)	87.0	(123.2)	(36.2)
Share of results from associates	(1.0)	–	(1.0)
Net finance costs	(46.3)	(1.4)	(47.7)
Profit/(loss) before tax	39.7	(124.6)	(84.9)
Tax	(12.0)	19.8	7.8
Profit/(loss) for the year	27.7	(104.8)	(77.1)

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. These principally comprise intangible amortisation for acquired businesses, impairment of goodwill, certain costs arising as a direct consequence of the pandemic and onerous contract charges in respect of driver shortages in North America. 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 291 to 293.

2 Restated for correction to deferred tax assets and liabilities. Please see note 2 to the Financial Statements.

The year began with the Omicron variant of covid causing disruption across the business, particularly in the UK division. However, despite this, passenger numbers and revenue grew strongly resulting in revenue of £2,807.5m for the year; a record for the Group and an increase of 29.4% (24.3% on a constant currency basis) year-on-year.

Revenue growth was underpinned by a strong and sustained recovery, building in the second half of the year, in our coach, bus, and shuttle services as shown below:

	2022 vs 2021 passenger growth %	H2 vs H1 2022 passenger growth %
UK bus	**39%**	6%
ALSA urban bus	**15%**	4%
UK scheduled coach	**151%**	37%
ALSA long haul	**64%**	31%
Shuttle	**96%**	6%

Revenue growth has been achieved despite a net £106.2m year-on-year reduction in Covid-related revenue support from governments and transport authorities as passenger fares replace Covid grants. As set out in the table below, grants received in the year totalled £56.7m (2021: £162.9m), falling from 7.5% of Group revenue in 2021 to 2.0% in 2022 as passenger numbers and service levels recovered.

	Revenue support £m	Cost support £m	Total £m
ALSA	22.0	–	22.0
North America	–	55.9	55.9
UK	19.6	19.1	38.7
German Rail	15.1	–	15.1
Total – full year 2022	**56.7**	**75.0**	**131.7**
Total – full year 2021	162.9	64.5	227.4
Total – full year 2020	115.6	45.6	161.2

The Group recorded an Underlying Operating Profit for the year of £197.3m (2021: £87.0m), representing a strong recovery from H1 which was impacted by Omicron particularly in the UK.

The year-on-year improvement in an Underlying Operating Profit of £110.3m reflected the increase in revenue described above, combined with continued cost control, which more than offset significantly reduced support from governments and transport authorities. The combined Covid-related revenue and cost support from governments and transport authorities of £131.7m is a reduction of £95.7m from the £227.4m recognised in the prior year. We anticipate little or no further Covid-related support going forward.

After £355.8m (2021: £123.2m) of separately disclosed items, of which £260.6m related to the non-cash impairment of goodwill in ALSA, the statutory operating loss was £158.5m (2021: £36.2m loss). The impairment of goodwill in ALSA was caused by a rise in risk free interest rates used to discount cash flows. The trading prospects for our ALSA business are unchanged.

Underlying net finance costs increased by £4.7m to £51.0m (2021: £46.3m) reflecting the increase in interest rates during the year, which impacted the 20% of the Group's Net Debt that is at floating rates of interest. After finance costs and a loss of £0.4m from the share of results from associates (2021: £1.0m loss), the Group recorded an Underlying Profit Before Tax of £145.9m (2021: £39.7m).

The Underlying tax charge was £30.3m (2021: £12.0m credit) representing an Underlying effective tax rate of 20.8% (2021: 30.2%). The statutory tax charge was £10.8m (2021: £7.8m 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 £220.7m (2021: £77.1m loss).

CFO's Review continued

Separately disclosed items

£355.8m (2021: £124.6m) of separately disclosed items were recorded as a net cost before tax in the Income Statement, of which £49.3m (2021: £44.4m) resulted in cash outflows in the year.

	Income Statement 2022 £m	Income Statement 2021 £m	**Cash 2022 £m**	Cash 2021 £m
Intangible amortisation for acquired businesses	**(37.2)**	(38.8)	**–**	–
Goodwill impairment	**(260.6)**	–	**–**	–
	(297.8)	(38.8)	**–**	–
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(7.6)**	(41.0)	**(17.0)**	(31.5)
Onerous contract charges and impairments in respect of North America driver shortages	**(31.4)**	–	**(11.7)**	–
Re-measurement of the Rhine-Ruhr onerous contract provision	**(9.3)**	(27.9)	**(9.6)**	(1.5)
Restructuring and other separately disclosed items	**(9.7)**	(15.5)	**(10.9)**	(10.3)
Separately disclosed operating items	**(355.8)**	(123.2)	**(49.3)**	(43.3)
Interest charges directly resulting from the Covid-19 pandemic	**–**	(1.4)	**–**	(1.1)
Total (before tax)	**(355.8)**	(124.6)	**(49.3)**	(44.4)

Consistent with previous periods the Group classifies the £37.2m (2021: £38.8m) amortisation for acquired intangibles as a separately disclosed item.

A non-cash impairment of £260.6m in respect of goodwill in the ALSA division has been recorded. This is as a result of significantly increased discount rates, reflecting increases in government bond yields and the cost of debt, and does not reflect any change in management's assessment of the long-term prospects for the ALSA division, which continued to perform strongly during 2022.

£7.6m (2021: £41.0m) of directly attributable losses due to Covid-19 reflected the remeasurement of previously recognised onerous contracts; with some contracts performing better than previously expected and some performing worse. This charge does not include any new onerous contract provisions in 2022. The cash outflow of £17.0m was higher than the income statement expense as it related to the utilisation of onerous contract provisions booked in previous years. This cash outflow is expected to materially reduce going forwards. Going forward, we do not expect further separately disclosed items in respect of onerous contracts other than re-measurements of items previously recorded.

A £31.4m charge was recorded in respect of a number of new onerous contracts and associated impairments directly attributable to the post-covid market wide issue of driver shortages, in the school bus market in particular. This has resulted in both an increase in wages (to retain and recruit) and a reduction in service levels, and hence a reduction in profitability of certain contracts. The total £31.4m expense comprises £16.6m of onerous contract provisions, a £7.4m non-cash expense for the impairment of dedicated right-of-use assets on these contracts, and a further non-cash net impairment of intangible assets of £7.4m.

A £9.3m (2021: £27.9m) expense was incurred following the re-assessment of the Rhine-Ruhr Express (RRX) onerous contract in Germany; the charge reflected the impact of increased energy prices. Whilst there is short-term protection from the price cap that has been implemented by the German government until April 2024, it is anticipated that energy prices thereafter will be higher than previously assumed due to ongoing changes in the energy markets as a result of the war in Ukraine.

Restructuring and other costs of £9.7m (2021: £15.5m) principally comprise restructuring costs, fees in relation to the aborted Stagecoach acquisition and other costs in respect of implementation of strategic initiatives.

Further detail is set out in the notes to the Financial Statements.

Segmental performance

	Underlying Operating Profit/(Loss) 2022 £m	**Separately disclosed items 2022 £m**	**Segment result 2022 £m**	Underlying Operating Profit/(Loss) 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m
ALSA	**103.9**	**(274.1)**	**(170.2)**	56.6	(26.4)	30.2
North America	**68.4**	**(55.7)**	**12.7**	74.4	(27.9)	46.5
UK	**25.6**	**(7.5)**	**18.1**	(22.6)	(23.8)	(46.4)
German Rail	**17.6**	**(10.4)**	**7.2**	5.0	(29.1)	(24.1)
Central functions	**(18.2)**	**(8.1)**	**(26.3)**	(26.4)	(16.0)	(42.4)
Operating profit/(loss)	**197.3**	**(355.8)**	**(158.5)**	87.0	(123.2)	(36.2)

ALSA's Underlying Operating Profit increased to £103.9m (2021: £56.6m) on the back of a revenue increase of 35% as a result of a strong recovery in Long Haul mobility, growth in Morocco, mobilisation in Portugal, and sustained growth in Urban and Regional. The segment result for ALSA has been impacted by the non-cash impairment of goodwill, as described above.

North America delivered an Underlying Operating Profit of £68.4m (2021: £74.4m). School Bus was impacted by Omicron in H1 of 2022, but the impact was partly offset by the final tranche of CERTS funding of £40.6m (which was an offset against costs). In the second half of the year, the business was impacted by industry-wide driver shortages, with a gap (at the end of school year 2021/2022) of over 2,600 drivers. This is discussed further in the North America divisional update.

The UK's Underlying Operating Profit increased to £25.6m (2021: loss of £22.6m). The UK Coach division has limited contracted revenue and was the most impacted by Covid. The return to profit in 2022 was despite a first quarter that was impacted by Omicron (and delivered an Underlying Operating loss of £12.8m for the first half). Our bus operations were less significantly impacted by Omicron, and seen a continuing recovery in demand, with commercial passenger journeys up 39% year-on-year. The segment result for the UK was impacted by £7.5m of separately disclosed items relating to the re-measurement of existing, Covid-related onerous contract provisions.

German Rail delivered an Underlying Operating profit of £17.6m (2021: £5.0m) as a result of the successful mobilisation and delivery of the Rhine-Ruhr Express ("RRX") Lot 1 and existing RME operations. Our existing RRX Lots 2 and 3 contributed £nil to Underlying Operating profit as they are covered by an onerous contract provision. The Underlying Operating profit uplift reflects the benefits of scale and operational maturity of the business. The Segment Result was impacted by a £9.3m charge to increase the onerous contract provision as a result of higher expected future electricity prices.

Movement in Net Debt

Funds Flow	**2022 £m**	2021 £m
Underlying Operating Profit	**197.3**	87.0
Depreciation and other non-cash items	**220.8**	213.0
EBITDA	**418.1**	300.0
Net maintenance capital expenditure*	**(184.5)**	(142.1)
Working capital movement	**(1.1)**	33.0
Pension contributions above normal charge	**(7.4)**	(7.2)
Operating cash flow	**225.1**	183.7
Net interest paid	**(47.0)**	(41.1)
Tax paid	**(17.6)**	(19.2)
Free cash flow	**160.5**	123.4
Growth capital expenditure*	**(93.1)**	(134.4)
Acquisitions and disposals (net of cash acquired/disposed)	**(29.5)**	(54.3)
Separately disclosed items	**(49.3)**	(44.4)
Payment on hybrid instrument	**(21.3)**	(5.3)
Other, including foreign exchange	**(105.4)**	65.1
Net funds flow	**(138.1)**	(49.9)
Net Debt	**(1,207.9)**	(1,069.8)

* Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on page 291.

CFO's Review continued

The Group generated EBITDA of £418.1m in the year (2021: £300.0m).

Net maintenance capital expenditure of £184.5m (2021: £142.1m) increased due to the benefit in the previous year of the capital expenditure freeze implemented during the period of peak pandemic impact on the Group. Nevertheless, at a ratio of 0.8 of depreciation, it represented a lower proportionate capital cost than the long-term average, reflecting the utilisation of 'availability contracts' (rather than outright purchase) for the operation of electric buses in the UK as well as additional asset-light contracts, such as the new operations in Portugal. At the year-end there was £87.3m (2021: £104.3m) owing to vehicle suppliers in respect of either maintenance or growth capex; this is a material reduction on the £263.3m capital creditor at the end of 2019, reflecting the completion of investments in fleet for the large Morocco contracts won in recent years, combined with the early impact of pivoting towards more asset-light business.

The Group recorded a working capital outflow of £1.1m for the year (2021: £33.0m inflow), with a £40.6m outflow from the CERTS grant in North America (due to the cash being all received in 2021 but the income being recognised over both 2021 and 2022) offset by a combination of strong cash collection across the Group and the close-out of a proportion of the Group's fuel hedges.

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), for which there was £62.5m (2021: £48.5m) drawn down on 31 December 2022 and recognised as a reduction in receivables; and

b. advance payments for factoring of divisional subsidies, for which £50.2m (2021: £77.9m) was drawn down at the end of the year, all in respect of 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. The amounts drawn down on these arrangements are classified as borrowings.

Net interest paid increased by £5.9m to £47.0m (2021: £41.1m), reflecting the increase in central bank base rates during the year on the floating component of our debt, whilst cash tax payments were broadly flat year-on-year.

The net impact of the factors outlined above was a free cash inflow of £160.5m in the year (2021: £123.4m), representing conversion (from Underlying Operating Profit) of 81%, significantly above the long-term pre-pandemic average of 65%.

Growth capital expenditure of £93.1m (2021: £134.4m) principally comprised vehicles to service new contracts in ALSA and North America. The year-on-year decrease reflected the significant investment in the Rabat and Casablanca fleets, which had been delivered in the previous year. A £29.5m outflow for acquisitions and disposals includes £19.1m for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor) and £4.8m for the acquisitions in ALSA. £11.8m was outstanding at the end of the year in respect of deferred consideration on acquisitions (2021: £13.4m; 2020: £28.8m), and the remaining put option liability, which is recorded on the Balance sheet, of £45.0m is expected to be paid within the next 12 months.

A cash outflow of £49.3m (2021: £44.4m) was recorded in respect of the items excluded from Underlying results as explained above.

Coupon payments of £21.3m (2021: £5.3m) were made in the year on the hybrid instrument, which was issued in November 2020, raising £495.5m net of costs, and which is accounted for as equity under IFRS. The 4.25% coupon, paid annually in February, is effectively treated as an equity dividend, albeit it is also deducted from earnings for the calculation of earnings per share when calculating dividend cover.

Other movements of £105.4m (increase to Net Debt) principally reflect the movement in exchange rates and settlement of foreign exchange derivatives as a result of the weakening in the value of the pound which increased the value of debt denominated in foreign currencies. In the previous year the pound had strengthened, which had the opposite impact.

Net funds outflow for the period of £138.1m (2021: £49.9m outflow) resulted in Net Debt of £1,207.9 million (2021: £1,069.8m). For covenant purposes a number of adjustments are made, as explained in the glossary of Alternative Performance Measures on page 26, resulting in Covenant Net Debt of £985.8 million (2021: £866.6m).

Dividend

After careful consideration, the Board is pleased to reinstate a dividend, reflecting the strong outlook for the business and recognising it needs to be done prudently and alongside a continued focus on the pace of deleveraging and maintaining sufficient investment capacity for growth.

As a result, a full year 2022 dividend of 5.0p per share is recommended for approval at the AGM. This equates to a dividend cover of approximately 3.0x (after adjusting for the coupon on the hybrid bond).

Our policy is to maintain a dividend cover ratio of at least two times. Reinstating at a higher level of cover represents a prudent approach to balancing deleveraging, investment and shareholder returns, and allows room for future growth. In future, the Board intends to pay an interim dividend of approximately one third of the prior full year dividend.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating.

In light of the impact of the pandemic on EBITDA generation, the Group renegotiated its covenants in previous years. The Gearing covenant (Net Debt to EBITDA, measured on a "frozen GAAP" basis excluding the impact of IFR16) had been waived by the lenders throughout 2020 and 2021 and amended during 2022 (with an amended Gearing covenant of 5.0x applying on 31 December 2022). In future periods the Gearing covenant reverts to the pre-amended level of 3.5x. Similarly, the interest cover covenant was amended to a minimum of 1.5x and 2.5x for the 30 June 2021 and 31 December 2021 test periods respectively and returned to its pre-amended level of 3.5x from 30 June 2022 onwards. In return for these waivers and amendments to the covenants the Group agreed to a quarterly £250m minimum liquidity test and a bi-annual £1.6bn maximum Net Debt test during the amendment period; these additional tests drop away after 31 December 2022. In addition, the Group agreed to pay no dividend during the period of the amendments if Gearing exceeded 3.5x or interest cover is below 3.5x. On 31 December 2022, Gearing was 2.8x (31 December 2021: 3.6x); well within the pre-amended level. Interest cover at the end of the year was 8.6x (31 December 2021: 6.3x); also, well within the covenant level. All covenants are on a pre-IFRS 16 basis.

On 31 December 2022, the Group had £1.9bn (31 December 2021: £1.9bn) of debt capital and committed facilities, with an average maturity of 3.7 years. On 31 December 2022, the Group's RCFs were undrawn, and the Group had £0.8bn (31 December 2021: £0.9bn) available in cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 31 December 2022 £m	Headroom at 31 December 2022 £m	Maturity year
Core RCFs	527	–	**527**	2023-2025
2023 bond	400	**400**	–	2023
2028 bond	221	**221**	–	2028
Private placement	412	**412**	–	2027-2032
Divisional bank loans	146	**146**	–	various
Leases	197	**197**	–	various
Funding facilities excluding cash	1,900	**1,376**	**527**	
Net cash and cash equivalents		**(233)**	**233**	
Total		**1,143**	**760**	

CFO's Review continued

The utilisation of funding facilities (excluding cash) of £1,376m presented above reconciles to the £1,488m of borrowings listed in note 29 to the financial statements after: adding back £59m of bank overdrafts, which are shown net in the cash and cash equivalents number in the table above; adding £50m of advance factoring liabilities, which are excluded from the above as these are not recognised as borrowings from a lender or covenant perspective; and adding £3m of accrued interest.

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

On 31 December 2022, 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, on 31 December 2022, the proportion of Group debt at floating rates was 19% (2021: 18%).

ROCE

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 7.7% (2021: 3.4%), which is below our targeted level of returns whilst profitability recovers but represents a significant year-on-year improvement.

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 scheme is in the UK. The combined deficit under IAS 19 on 31 December 2022 was £42.1m (2021: £95.4m), with the decrease being principally driven by an increase in discount rates.

The principal plan is 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 £7m per annum, rising with inflation, until 2026. The UK Group scheme was wound up during the year.

The IAS 19 valuations for the principal schemes on 31 December 2022 were as follows:

- WM Bus: £39.7m deficit (2021: £96.1m deficit); and
- UK Group scheme: £nil (2021: £3.8m surplus).

Fuel costs

Fuel cost represents approximately 8% of revenue. The Group is fully hedged for 2023 at an average price of 49.3p per litre; around 56.3% hedged for 2024 at an average price of 50.6p; and around 22.9% hedged for 2025 at an average price of 55.9p. This compares to an average hedged price in 2020, 2021 and 2022 of 37.2p, 37.8p and 37.5p respectively.

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.

J. Stamp

James Stamp
Group Chief Financial Officer

1 March 2023