Independent Auditor's Report

to the members of Mobico Group PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Mobico Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2023 and of the Group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and company balance sheets;
- the group and company statements of changes in equity;
- the group statement of cash flows;
- the notes to the consolidated accounts 1 to 40 for the Group financial statements; and
- the notes to the company accounts 1 to 15 for the company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the RRX 2&3 Onerous Contract Provision • Valuation of the RME German rail contract asset • Going concern, and • Accounting for and recoverability of deferred tax assets in North America and the UK Within this report, key audit matters are identified as follows: N Newly identified ▲ Increased level of risk – Similar level of risk ▼ Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £10.3m, which was determined based on adjusted EBITDA. In determining materiality, we also considered revenue and net assets.
Scoping	The Group is organised into four operating divisions, from which we identified six components, including the head office function. Five components (including the head office function), were subject to full scope audits. We also performed audit procedures on specified balances in relation to Germany, including but not limited to the RRX onerous contract provision and the RME contract asset detailed below. As a result of the issues identified in Germany, rather than this work be performed by the German component team, the Group audit team increased its direct involvement. We also increased the extent of our procedures on specified balances based on the risk identified. These components account for 95% of the Group's revenue, 88% of adjusted operating profit and 92% of net assets.
Significant changes in our approach	We identified two new key audit matters in the current year relating to the valuation of the RRX 2&3 onerous contract provision and the valuation of the RME contract asset, both in relation to the Group's German rail business, following adverse industry developments in the year which have led to increased costs and reduced subsidies as set out in note 2. Revenue and profits earned have been adverse compared to the budget in the United Kingdom, North American and German markets. We therefore determined that going concern as a new key audit matter in the current year, pinpointed to gearing covenant compliance, given the significant cash flow judgements made and adverse performance to budget, and this has significantly increased the level of audit effort. Based on our risk assessment, we have determined that the impairment of Spanish and North American Goodwill is no longer a key audit matter in the current year. While there remains judgement associated with the discount rate, long-term growth rate, and operating margin assumptions, the sensitivity associated with those assumptions has reduced as a result of the increased headroom.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.3. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the RRX 2&3 Onerous Contract Provision N

Key audit matter description	In 2021, the Group identified an onerous contract provision of £21.1m relating to its Rhine-Ruhr Lots 2&3 ("RRX 2&3") rail contract in Germany. This increased to £21.9m in 2022 (as previously reported). The Group has increased its onerous contract provision to £118.3m during 2023, reflecting the latest estimate of losses to be incurred over the remaining life of the contract. Further details are including in note 26 of the Annual Report. As reported in note 2 on page 161 of the Annual Report, prior year errors were identified relating to the RRX 2&3 contract as information that was or should have been available within the Group at the time of signing the 2021 and 2022 Annual Report had not been factored into the onerous provision calculation. This has subsequently been corrected in 2021 and 2022, resulting in an increase to the 2021 provision of £8.6m (to £29.7m) and an increase to the 2022 provision of £25m (to £46.9m). RRX 2&3 are contracts where revenues are contractual with the Passenger Transport Authority ("PTA"), with the Group bearing no passenger risk. Costs include energy costs and labour costs. Cost inflation is mitigated within the terms of the contracts through receipt of subsidies from the relevant PTA linked to published indices. This contract became onerous in 2021 due to increases in forecast energy and labour costs. As management set out in note 26, the provision has increased in the current year due to continuing volatility in energy prices not matched by subsidy income, industry-wide driver shortages in Germany, and persisting levels of cost inflation. Consequently, key estimates included in the assessment of the onerous provision include future energy costs (and the level of energy compensation to be received from the PTA) and the impact and duration of labour shortages given uncertainties in forecasting future unavoidable cashflows. The underlying issues and impact on the onerous contract provision were not escalated internally on a timely basis and there was a lack of robust documentation regarding the assumptions made and evidence provided to support those assumptions. A key audit matter and a potential fraud risk has been identified in relation to the valuation of this onerous contract provision and specifically the estimation uncertainty in the key estimates noted above, which, together with the control deficiencies identified, have resulted in increased audit effort. Given the level of estimation uncertainty, the Directors have included further information in the critical accounting judgements and key sources of estimation uncertainty note on pages 163 to 165 of the Annual Report and in the key accounting matters section of the Audit Committee report on pages 106 and 107 of the Annual Report.
How the scope of our audit responded to the key audit matter	We have challenged the Directors' assessment of the RRX 2&3 onerous contract provision by performing the following audit procedures: • obtained an understanding of the relevant controls in respect of the significant inputs and assumptions in the model; • inspected the contract to challenge the completeness of matters included within the onerous contract provision model; • tested the arithmetical accuracy and integrity of the model by involving modelling specialists; • challenged management's forecast cost assumptions, including any changes since the previous year-end. This involved challenging the basis for future driver and energy cost assumptions by obtaining explanations and external supporting evidence; • challenged management's forecast subsidy, including any changes since the previous year-end, by agreeing key assumptions to relevant external market indices. We also met directly with the PTA to challenge management's energy subsidy and driver shortage assumptions; • challenged the appropriateness of the discount rate applied in the onerous provision model; • considered the consistency of assumptions, where relevant, with other German rail franchises operated by the Group; • challenged whether movements in the onerous contract provision related to changes in estimate or prior period errors (in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors); and • assessed the adequacy of the financial statement disclosures, including the prior period adjustment, key source of estimation uncertainty and sensitivity disclosures on pages 159 to 239.
Key observations	We are satisfied that the estimates made by the Directors in determining the onerous contract provision of £118.3m recognised on RRX 2&3 are reasonable, and in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". We note that the provision increased materially in the current year as a consequence of the Group's review of accounting judgements and our audit challenge. Given the uncertainties in forecasting future unavoidable cashflows, the disclosure sensitivities in Note 2 provide important information to assess the impact of a reasonably possible change in key assumptions. The prior period adjustments detailed in note 2 of the Annual Report combined with corrected audit adjustments have highlighted significant deficiencies in controls as referred to in section 7.2 below and the Audit Committee report on pages 102 to 108. As well as the lack of robust documentation regarding the assumptions made and evidence provided to support those assumptions, we noted a lack of effective commercial and financial controls at a local, divisional and Group level. Whilst Group/divisional management performed a level of challenge and review, this was not timely and did not identify all the issues and adjustments which were identified through the audit process.

5.2. Valuation of the RME German rail contract asset N

Key audit matter description	The Group has operated the Rhine-Münster Express ("RME") rail contract in Germany since late 2015 and the contract runs until 2030. The Group receives both passenger revenue and subsidy revenue for operating the contract. Passenger revenue is recognised when passengers travel, and the subsidy revenue is recognised over the life of the contract. The amount of subsidy revenue recognised in each period is based on a percentage of completion, applying net costs (passenger revenue less costs) incurred as a proportion of total expected net costs. This results in a contract asset recognised on the balance sheet representing the cumulative impact of the phasing of subsidy revenue. At each balance sheet date the Group reforecasts the contract outturn and reassesses the recognition of the subsidy revenue with reference to the stage of completion and actual performance to date. This reassessment during the current year resulted in a decrease in the contract asset recognised to £48.6m at 31 December 2023 (2022: £53.8m). The recogniton of this contract asset is sensitive to estimates relating to the future profitability of the RME rail contract, particularly relating to the estimate of future passenger revenues over the remainder of the contract and, to a lesser extent, the level of energy compensation and labour cost inflation, including the number of drivers required to run the contract. We have identified the valuation of this contract asset as a key audit matter and a potential fraud risk for the 31 December 2023 audit, due to the inherent uncertainty in estimating the future profitability of the contract together with control deficiencies identified in relation to the timeliness and robustness of management review and documentation of key assumptions. This represents a change from the prior year due to the continuation of government subsidised ticket arrangements (which has distorted the market), and the industry issues identified in the RRX 2/3 contract noted above (energy and labour). Given the level of estimation uncertainty, the Directors have included further information in the critical accounting judgements and key sources of estimation uncertainty note on pages 163 to 165 of the Annual Report and in the key accounting matters section of the Audit Committee report on pages 106 and 107 of the Annual Report.
How the scope of our audit responded to the key audit matter	We have challenged the Directors' assessment of the valuation of the RME German rail contract asset by performing the following audit procedures: • obtained an understanding of the relevant controls in respect of the significant inputs and assumptions in the model; • inspected the contract to challenge the completeness of matters included within the forecast model; • tested the arithmetical accuracy and integrity of the model by involving modelling specialists; • challenged management's forecast passenger revenue, including any changes since the previous year-end, by agreeing key assumptions to relevant external market evidence; • challenged management's forecast cost assumptions, including any changes since the previous year-end. This involved challenging the basis for future driver and energy cost assumptions by obtaining explanations and external supporting evidence; • considered the consistency of assumptions, where relevant, with other German rail franchise operations operated by the Group; • compared the overall forecast margin for the contract to the original bid model and phasing of the contract asset; and • assessed the adequacy of the financial statement disclosures, key source of estimation uncertainty and sensitivity disclosures on pages 159 to 239.
Key observations	Through our testing of the RME contract, we consider the estimates made by the Group in the valuation of the contract asset to be reasonable and that the disclosures in the key sources of estimation uncertainty and sensitivity disclosures on pages 163 to 165 are appropriate. We note that the contract asset reduced in the current year as a consequence of the Group's review of accounting judgements and our audit challenge. We identified misstatements which were individually and collectively immaterial which had the impact of reducing revenue and the related contract asset, and remain uncorrected. Our controls observations noted above in section 5.1 in relation to the RRX 2&3 onerous contract provision are also relevant to the RME contract asset.

5.3. Going concern N

Key audit matter description	In assessing whether the financial statements should have been prepared on the going concern basis, the Directors were required to consider all available information about the future for a period of 12 months from the date of approval of the financial statements. At 31 December 2023 the Group had cash and undrawn committed facilities available of £900m which included a revolving credit facility expiring July 2028 of £600m. This facility contains covenants which require the Group to maintain specific financial ratios. In addition, at 31 December the Group held £356.3m in cash and cash equivalents. As described in note 2 (b) the Group has continued to recover operationally, growing revenue but has fallen behind its expected profit recovery trend due to higher driver and energy costs as well as inflationary pressure on the cost base. As part of the assessment, the Group prepared a base case projection taking into account the challenging trading performance, and a reasonable worst case ('RWC') scenario. The scenarios include a number of cash flow related assumptions. The key assumptions applied by management, which form part of our key audit matter, impact gearing covenant compliance, whereby the net debt must be no more than 3.5 times adjusted EBITDA and maintain sufficient levels of headroom. The judgments made in relation to the 'RWC' scenario include the adequacy of contingency in the forecast and the required mitigating actions such as cost cutting measures, delays and reduction of capital expenditure in the event that trading is in line with or below the RWC. The Group has taken into account the impact of challenging trading performances across the Group following the 12 October 2023 trading update. The base case comprises a detailed earnings before interest and tax ('EBIT') forecast, which takes into account the additional costs incurred in the North American business due to higher driver pay settlements, lower passenger recovery in UK Bus, slower recovery of the UK transport solution business and additional energy costs in Germany Rail. The Group's RWC EBIT forecast assumes reduced demand due to lower disposable incomes, fewer new contract wins, and increased competition from other operators and modes of transport, as well as higher inflation on the cost base. The Group have included the potential impact of higher labour and general costs, lower than anticipated price rises from customers, and a material delay in realising cost savings in the new productivity improvement and cost reduction program. As explained above, there are many factors included within the forecasting model, and a significant level of judgement is involved in determining these factors. As such, we have identified going concern as a key audit matter due to the high level of judgement required in forecasting future cash flows, challenging trading performance, and the increased level of audit effort.
How the scope of our audit responded to the key audit matter	Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included: • understanding the underlying process used to determine the going concern cash flow forecast and obtaining an understanding of relevant controls around cash flow forecasting and review; • assessing the underlying assumptions by obtaining evidence which support management's analysis of the EBIT forecasts, Group's cost base and the levels of inherent risk in its revenue streams; this included consideration of operational difficulties, inflation and energy prices, passenger demand, contingency assumptions and the Group's ability to increase its prices; • challenging revenue and EBIT projections for each line of business, taking into account historical margin and revenue growth performance as well as macroeconomic and demographic forecasts; • challenging the recovery assumptions in the forecast against external economic forecasts, as well as other relevant information about respective markets that may contradict management's assessment; • assessing the level of headroom available to the Group from its loan facilities and assessing the risk of breaching the related gearing and liquidity covenants; • obtaining copies of financial facilities and evaluating forecast liquidity and performance against these facilities; • challenging management's mitigating actions assumptions and the degree of judgement associated with them; and • assessing the disclosures made by the Group around its going concern assumptions.
Key observations	We have identified risks to management's reasonable worst case forecast which in aggregate exceed the contingency assumed within the forecast. If these were to materialise, management would need to exercise further mitigating actions beyond those already assumed within their forecasts in order to avoid a covenant breach. We have concluded that whilst there is a significant degree of judgement and uncertainty inherent in the forecast assumptions, we have not identified any material uncertainties that may cast significant doubt on the Group's and parent company's ability to continue as a going concern for at least twelve months from the authorisation of the financial statements.

5.4. Accounting for recoverability of deferred tax assets in North America and the UK

Key audit matter description	At 31 December 2023 the Group has £80.3m (31 December 2022: £86.3m) of net deferred tax assets in relation to North America relating to past losses and other tax credits offset by deferred tax liabilities in relation to fixed assets. The Group also has £84.1m (31 December 2022: £88.4m) of net deferred tax assets, predominantly in relation to past losses in the UK. As outlined in Note 2 (i) the recoverability of the deferred tax assets in the UK and US have been identified as a critical accounting judgement, due to the recent history of losses that exists in both territories combined with underperformance against Group's forecast. Judgement has therefore been required in assessing the weight of negative evidence versus positive evidence of past and future profitable performance, in concluding on the recognition and recoverability of the deferred tax assets and the compliance with *IAS 12 Income taxes*. This also includes the assumptions around the new transfer pricing policy introduced in the period that will result in additional income into the UK and impact on future profitability and the capitalisation of inter-company debt in the US which will improve the future profitability of the US business but also impacts the profitability of the UK. As a result of the Group's continued losses, the level of audit effort required, and the judgement involved in this area, this has remained a key audit matter. The Directors have included further information in the critical accounting judgements note pages 163 to 165 of the Annual Report and in the key accounting matters section of the Audit Committee report on page 106 and 107 of the Annual Report.
How the scope of our audit responded to the key audit matter	Our procedures for challenging the accounting judgements and assumptions included the following procedures: In conjunction with our tax specialists, we performed the following procedures: • confirmed the existence of the US and UK losses and other tax attributes and considered any restrictions associated with their usage which would impact the assessment; • challenged the appropriateness of the US and UK forecasts against *IAS 12 Income taxes*, including the application of the relevant US and UK tax law on any potential restrictions on utilisation and the scheduling of the unwind of the US deferred tax assets against the deferred tax liabilities; • challenged management's historical analysis of the history of losses in the UK and the US and that these occur because of a one-time event, this being Covid-19, from which the business is recovering slowly; • considered the future taxable profit forecasts for the UK and US to assess whether the assumptions being applied were consistent with other estimates; • agreed the analyses prepared by management to underlying accounting records and supporting documentation; • considered the UK and US debt capitalisation that was undertaken in the period to improve the profitability of the US business, firstly from the perspective of UK, US and Dutch tax law (due to the holding company structure of the entities concerned) to ascertain that this was tax neutral and secondly to consider the impact of this on the forecasted US and UK future taxable profit position going forward; • considered the new Group transfer pricing policy which was implemented in the period to confirm its appropriateness and the associated impact on the future taxable profits for the UK and US including confirming consistency across forecasts; and • assessed the associated disclosures provided in the financial statements about the critical accounting judgement and the basis of recoverability of the deferred tax assets.
Key observations	We observe that continued recognition of the deferred tax assets in North America and the UK, whilst optimistic, is supportable based on management's forecasts. We are therefore satisfied that the basis for concluding that the deferred tax assets are recoverable is reasonable and probable, and that appropriate disclosures have been provided within the critical accounting judgements section of Note 2.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£10.3 million (2022: £11.5 million)	£8.3 million (2022: £8.3 million)
Basis for determining materiality	In determining materiality, we used adjusted EBITDA (see note 5) and materiality represents 2.7% (2022: 0.9%) of adjusted EBITDA. We also had regard to net assets and revenue. This materiality level equates to 0.9% (2022: 0.9%) of net assets, and 0.3% (2022: 0.4%) of revenue.	The parent company materiality has been set at 0.4% (2022: 0.4%) of the parent company's net assets and represents 80.6% (2022: 72.6%) of Group materiality.
Rationale for the benchmark applied	Consistent with the prior year, the benchmarks have been chosen to determine a materiality that considers both balance sheet and income statement metrics as we believe that using a materiality based on these benchmarks reflects critical underlying measures of the Group which are of relevance to the users of the financial statements in the current environment.	Net assets is considered an appropriate benchmark for the parent company given that it is mainly a holding company.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	68% (2022: 68%) of Group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, this included our professional judgement and consideration of: • the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit; and • relevant factors surrounding the Group's control environment, specifically the control deficiencies identified as outlined in Section 7.2.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.52 million (2022: £0.58 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The Group operates predominantly in Europe and North America. We determined that five components (located in UK, Spain and Morocco (ALSA), the USA and head-office) were subject to full scope audits, and performed audit procedures on specified balances in relation to Germany, including but not limited to the RRX onerous contract provision and the RME contract asset. As a result of the issues identified in Germany, rather than this work be performed by the German component team, the Group audit team increased its direct involvement. We also increased the extent of our procedures on specified balances based on the risk identified. The Group audit team or Deloitte member firms audit to materiality levels between £3.2 million and £5.0 million (2022: between £3.9 million and £8.3 million), except for the parent company. We also tested the consolidation process and carried out analytical procedures to reassess our conclusion that there were no significant risks of material misstatement to the Group from the remaining components not subject to audit. The five components subject to audit procedures account for 95% of Group's revenue (2022: 96%), 88% of adjusted operating profit (2022: 82%) and 90% of net assets (2022: 96%).

7.2. Our consideration of the control environment

Given the relatively immature nature of the Group's control environment, our audit approach does not generally place reliance on controls, but we seek to obtain an understanding of the relevant controls in relation to significant audit risks and areas of audit focus. This includes consideration of entity level controls at a Group level, and an understanding of general IT controls across the Group. The Directors have included further information in the key accounting matters section of the Audit Committee report on pages 102 to 108 of the Annual Report.

We obtained an understanding of the relevant controls, where we observed a number of areas where there is a lack of formal documentation of the operation of the control, and there is no formalised controls framework against which management assess the financial controls in operation around the Group.

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography, and are typically the principal enterprise resource management systems for each business that govern the general ledger, together with any relevant revenue transactional systems. We performed an assessment of the controls associated with those financially relevant systems. Through our group-wide IT audit work in the current year we identified control deficiencies associated with infrastructure security, privileged user access controls and also with reliance on third party service providers, who manage the associated IT applications, and hence we did not rely on those controls in line with our planned approach except for certain balances in the Spanish component.

Significant control deficiencies were identified in relation to the German rail division, where we noted a lack of effective commercial and financial controls at a local, divisional and Group level as set out in our key audit matters above. Where control deficiencies were identified during the course of the audit, we reconsidered our risk assessment and the nature, timing and extent of our audit procedures.

7.3. Our consideration of climate-related risks

Throughout 2023 the company Directors have undertaken a number of steps to further enhance and progress actions on the Taskforce on Climate related Financial Disclosures ("TCFD") recommendations in its Annual Report, following its initial adoption in 2021. Management continues to perform a climate-related risk assessment which has been reviewed by the Board. Climate change is reported as a principal risk in the Annual report, pages 40 to 47. As stated on page 43 of the Strategic Report, the directors' view is that in any climate scenario the upside is potentially material, whilst the net financial impact of climate-related risks is low and mitigated by the Group's geographical diversity. As disclosed in note 14 of the financial statements there are assumptions relating to climate risks that have an impact to the cashflow forecast, most notably the total cost of ownership parity between zero emission vehicles and diesel equivalents. We have assessed the climate risks and opportunities throughout the disclosures and involved sustainability specialists in challenging management's disclosures on TCFD, including assumptions made in relation to hydrogen infrastructure. The Directors have included further information in the annual report on pages 65 to 78. We also read the disclosures in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

The Group audit team continued to follow a programme of planned oversight designed so that the Senior Statutory Auditor and/or a senior member of the audit team continually oversees each of the three non-UK divisions where the Group audit scope was focussed. In relation to the current year audit for non-UK components, the Senior Statutory Auditor has physically visited the German component where the audit of specified account balances in Germany has been directly performed by the Group engagement team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, information technology, valuation, climate, actuarial, financial instruments and forensics regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud across the group, including certain revenue streams in the ALSA component. As our audit evolved we identified the valuation of the RRX 2&3 Onerous Contract Provision, and valuation of the RME German rail contract asset as potential risks of fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These include various vehicle transport and environmental regulations.

11.2. Audit response to risks identified

The valuation of the RRX 2&3 Onerous Contract Provision and the valuation of the RME German rail contract assets were identified as key audit matters related to the potential risk of fraud and the specific procedures we performed in response are set out in the key audit matters section of our report.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and overseas tax authorities in the jurisdictions in which the entity operates;
- involving specialists, including our forensic team to assist in designing and executing our procedures;
- tested certain revenue streams in ALSA through reconciling the revenue system to the general ledger system and agreeing to supporting evidence; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 39;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 48 to 49;
- the directors' statement on fair, balanced and understandable set out on page 141;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 40 to 41;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 103 and 104; and
- the section describing the work of the audit committee set out on page 102.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 14 June 2011 to audit the financial statements for the year ending 31 December 2011 and subsequent financial periods. Following a competitive tender process, we were reappointed as the external auditor by the Audit Committee for the year ending 31 December 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 31 December 2011 to 31 December 2023.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Jane Whitlock (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

21 April 2024