New Soil Analytics B.V.

To: Iris van de Kolk, Statenfractie SP Zuid-Holland
From: John Burant
Date: 22 January 2025
Re: Analysis of Qbuzz borrowings

<u>Key Takeaway</u>

Qbuzz B.V. ("Qbuzz"), a provider of public transportation in parts of the Netherlands, has since 2018 borrowed almost exclusively from its parent, the Italian state railway company, at interest rates that exceed its parent's cost of borrowing and the rates that other Dutch public transportation providers appear to achieve. This spread appears to have increased over time. Through the end of 2023, Qbuzz paid its parent €28.3M in interest payments. This is money that has been drained from the Dutch economy. Moreover, over the period 2020-2023, this amount appears to be €12.1M more than its parent (would have) paid on borrowing the equivalent amount at its average cost of borrowing. Had Qbuzz paid its parent interest equal to its parent's own cost of borrowing, this €12.1M would have remained on Qbuzz's books as profit and have been subject to Dutch taxation. Therefore, it appears Qbuzz has reduced its Dutch tax liability by approximately €3M as a result of this financing arrangement.[1]

<u>Summary</u>

Qbuzz currently operates Zuid-Holland's *Drechtsteden-Molenlanden-Gorinchem* and *Zuid-Holland North* concessions. It also operates the *Openbaar vervoer Fryslân* concession, the *Groningen-Drenthe* concession, and the *Tram en Bus Regio Utrecht* concession.

Qbuzz is owned by the Italian state railway company. Qbuzz has an arrangement with its parent to borrow from the parent for essentially all of its financing needs.[2] These funds are used principally for the acquisition of busses and trains used in providing public transportation services. These borrowings have been arranged at interest rates that exceed the parent's own cost of borrowing as well as the interest rates that other Dutch *openbaar vervoer* (OV) operators appear to receive from their lenders.

[1] The analysis in this memorandum is prepared on the basis of a general understanding of company financial reporting and corporate taxation. This memorandum does not represent the work of any accountant or tax lawyer, and users of the memorandum or the analysis herein may wish to seek further guidance from an accredited professional.

[2] Unless otherwise indicated, statements in this memo relate to the period through the end of December 2023, the latest period for which Qbuzz's financial statements are publicly available from the Dutch *Kamer van Koophandel*. It is possible that Qbuzz's arrangements may have changed since that time.

This arrangement drains money from the Dutch economy. Since the arrangement began in 2018, Qbuzz has paid €28.3M in interest payments to its Italian parent. Moreover, this amount appears to exceed the parent's own cost of borrowing by €12.1M, resulting in essentially pure profit for the Italian state.

Had Qbuzz borrowed at rates consistent with its parent's own cost of borrowing, this money could have been available to improve or reinvest in Qbuzz's own transportation services in the Netherlands.

Furthermore, this arrangement may result in tax shifting and/or avoidance. Had Qbuzz borrowed from its parent at its parent's own cost of borrowing and simply retained the excess (or even paid dividends to its parent), this excess would have been accounted for as Qbuzz profit and would have been subject to Dutch taxation. The amount of Dutch tax liability in question is estimated to be approximately €3M.

Finally, even if Qbuzz had borrowed at identical rates but from Dutch banks instead of its parent, this same profit would have appeared on the books of the Dutch banks and therefore been subject to Dutch tax. Furthermore, the amount remaining after taxes would have been available for additional financing projects in the Netherlands and/or may otherwise have benefitted Dutch interests.

An examination of the financing arrangements of other OV operators does not yield evidence of arrangements like those of Qbuzz. Instead, other operators appear to use Dutch entities for financing. This includes Dutch banks as well as several OV authorities that have themselves provided financing at low interest rates. Compared with Qbuzz's arrangement, these keep more money in the Dutch economy and provide additional revenue to the Dutch government, thereby making this money available for either enhancing or reducing the cost of OV services.

The Dutch government may wish to examine Qbuzz's arrangements and determine whether they are in the best interests of the Dutch state. Contracting entities, such as provincial-level transport authorities, may wish to review their arrangements with Qbuzz and/or consider in any future concessioning rounds if other arrangements might provide better overall value to themselves as purchasers and to travelers who use OV.

Detailed Explanation

Qbuzz history, ownership, and ambitions

Qbuzz was established in 2008 with 51% of shares held by its Dutch directors and 49% held by N.V. Nederlandse Spoorwegen (NS). NS became the sole shareholder of Qbuzz in 2013.[3] The Italian railway company Ferrovie dello Stato Italiane SpA purchased

[3] https://wiki.ovinnederland.nl/wiki/Qbuzz (accessed 2024-12-10).

Qbuzz from NS in June 2017, holding the company through its subsidiary Busitalia S.p.A.[4,5]

Qbuzz has long stated that its ambition is to hold a "market share of between 25% to 30% of the Dutch regional public transport market".[6]

Qbuzz concessions

The following table shows current and future OV concessions held by Qbuzz.

Relevant Qbuzz Concessions: Current and Future

Concessienaam	Opdrachtgever	Start Date	End Date
Groningen-Drenthe	OV-bureau Groningen-Drenthe	15 dec 2019	8 dec 2029
Tram en Bus Regio Utrecht	Provincie Utrecht	8 dec 2013	13 dec 2025
Drechtsteden, Molenlanden en Gorinchem (DMG)	Provincie Zuid-Holland	12 dec 2018	10 dec 2033
Zuid-Holland Noord (ZNH)	Province Zuid-Holland	15 dec 2024	12 dec 2032
Openbaar vervoer Fryslân	Provincie Friesland	12 dec 2024	9 dec 2034

Sources: KpVV/CROW, Staat van het openbaar vervoer 2023; wiki.ovinnederland.nl.

This table shows that Qbuzz is partway through lengthy (10- and 15-year) concessions in Groningen-Drenthe and DMG (Zuid-Holland). Its services in Utrecht are slated to end at the end of 2025. Qbuzz's services on the *Zuid-Holland Noord* and *Openbaar vervoer Fryslân* concessions began in December 2024.

With the recent addition in Zuid-Holland, Qbuzz has become the largest provider of services under provincially administered OV concessions in Zuid-Holland by far, where it receives approximately 72% of all OV subsidies provided by the province.[7] It is the also the dominant provider in Groningen, Drenthe, and Friesland.[8]

4 Qbuzz B.V. Annual Report, 2017.

5 The shares of *Ferrovie dello Stato Italiane SpA* are 100% held by the Italian government. In this memo, the terms "owner", "parent", and "shareholder" (when referring to Qbuzz's shareholder) are used interchangeably. Unless otherwise specified, financial quantities for the parent refer to the parent's consolidated group of companies. The entity Busitalia S.p.A. is referred to in Qbuzz's 2017 annual report as the purchaser, though notes to its audited financial statements indicate that Busitalia-Sita Nord S.r.L. is the direct holder of the shares of Qbuzz B.V.

6 Qbuzz B.V. Annual Reports, 2022 and earlier. [The relevant section is redacted from the 2023 Annual Report available on the *Kamer van Koophandel* website.]

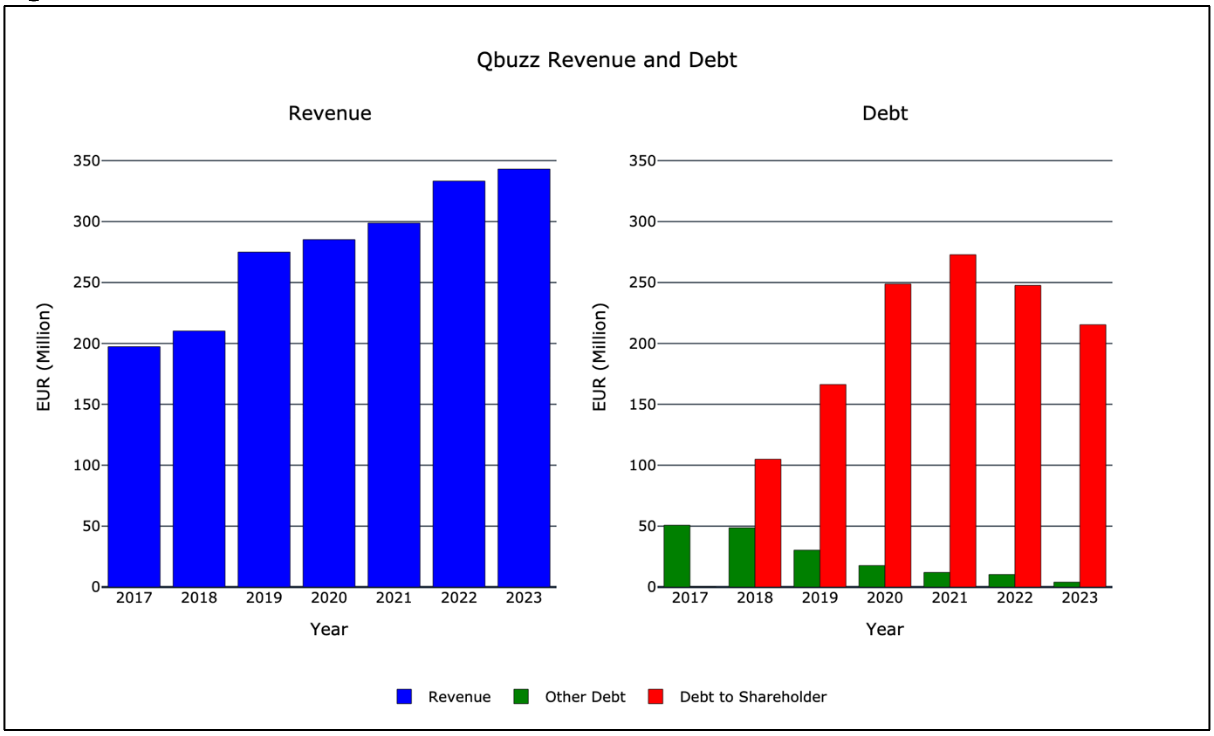
7 See Methodology section.

8 Review of KpVV/CROW, *Staat van het openbaar vervoer 2023*.

Qbuzz's growth in revenue and debt

Figure 1 shows Qbuzz's revenue and debt levels since 2017, the year it was taken over by its current owner.[9]

Figure 1



Source: Qbuzz Annual Reports, 2017-2023

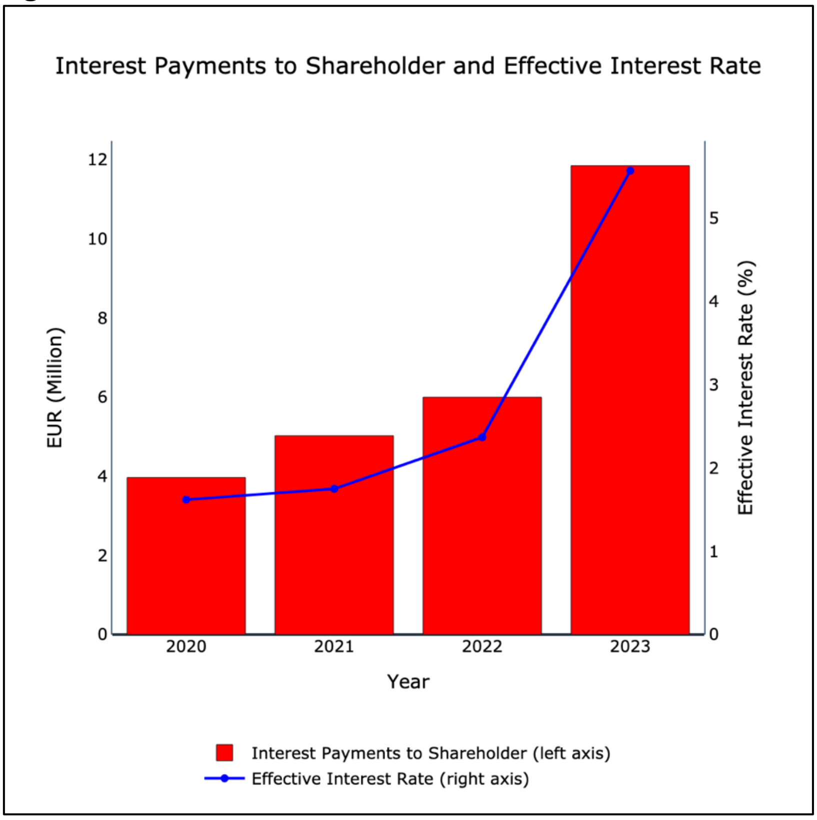
Several items are notable in this figure. First, Qbuzz has grown substantially, from under €197M in revenue in 2017 to €343M in 2023. This represents a 9.7% compound annual growth rate. Secondly, the company has significantly increased its debt load, going from a total debt of just €50M at the end of 2017 to a peak of €285M at the end of 2021. The total debt level has moderated over the last two years, standing at €219M as of the end of 2023. Third, the company's source for borrowings has shifted almost exclusively to its parent. Previously the company used finance leases for its buses and trains (counterparties not disclosed).[10] Under its new owner, Qbuzz began in 2018 borrowing from its parent to finance acquisition of these types of assets. By 2020, the share of its debt that was owed to its parent exceeded 90%. As of the end of 2023, this share stood at 98.1%.

[9] Unless otherwise indicated, all statements about Qbuzz's finances are taken from the company's annual reports or are author's analyses of disclosures made in these annual reports. See Methodology section for more details.
[10] These arrangements are considered a form of debt for accounting purposes.

Qbuzz's rising interest rates and interest payments

Not surprisingly, Qbuzz's interest payments have increased significantly in recent years, as shown in Figure 2.

Figure 2



Qbuzz's interest payments to its parent are shown by the vertical red bars in this chart. Total interest payments to its shareholder were €4.0 in 2020, €5.0M in 2021, €6.0M in 2022, and €11.9M in 2023. This amounts to €17.9 in the last two years alone, and totals €28.3M since the arrangement began in 2018. (The years 2018 and 2019 are not shown in this figure). This is money that has been drained from the Dutch economy.

The growth in interest payments has been driven primarily by an increasing effective interest rate, shown by the blue line in Figure 2. In 2020, Qbuzz's effective interest rate on borrowings from its owner was 1.6% in 2020, and this increased year-over-year to 1.75% in 2021, 2.37% in 2022, and 5.6% in 2023. From 2020 to 2023, this is an increase of 4 percentage points.[11]

Interest rates began rising across Europe in 2022, driven by central bank responses to inflation. As Qbuzz's borrowings consist of a mix of fixed- and variable-rate debt, it is therefore no surprise that its effective interest rates increased over this time. But

[11] See Methodology section for an explanation of how effective interest rates were calculated.

Qbuzz's effective interest rate increased faster than reference rates and faster than its parent's own cost of borrowing.

All of Qbuzz's variable rate debt appears to be tied to Euribor (generally the Euribor 6-month rate) with the agreed rates equaling the Euribor rate plus a spread.[12] The Euribor 6-month rate averaged -0.36% during 2020 and 3.65% during 2023. This represents an increase of approximately 4 percentage points during this time. The mix of Qbuzz's borrowings from its parent appeared to remain at around 75% variable / 25% fixed during 2021-2023, and appears to have been approximately 65% / 35% in 2020. The fixed rate component of this debt was entered into during 2019, with partial payoff over the course of this period. If the variable rates of Qbuzz's debt to its parent tracked Euribor directly, it would be expected that the increase in its effective interest rate would have been approximately 2.8 percentage points, much lower than the 4 percentage points observed.[13]

The reason for this is clear from examining the interest rates and spreads that Qbuzz and its parent agreed for each subsequent loan during this time. A pattern of increasing divergence is apparent:

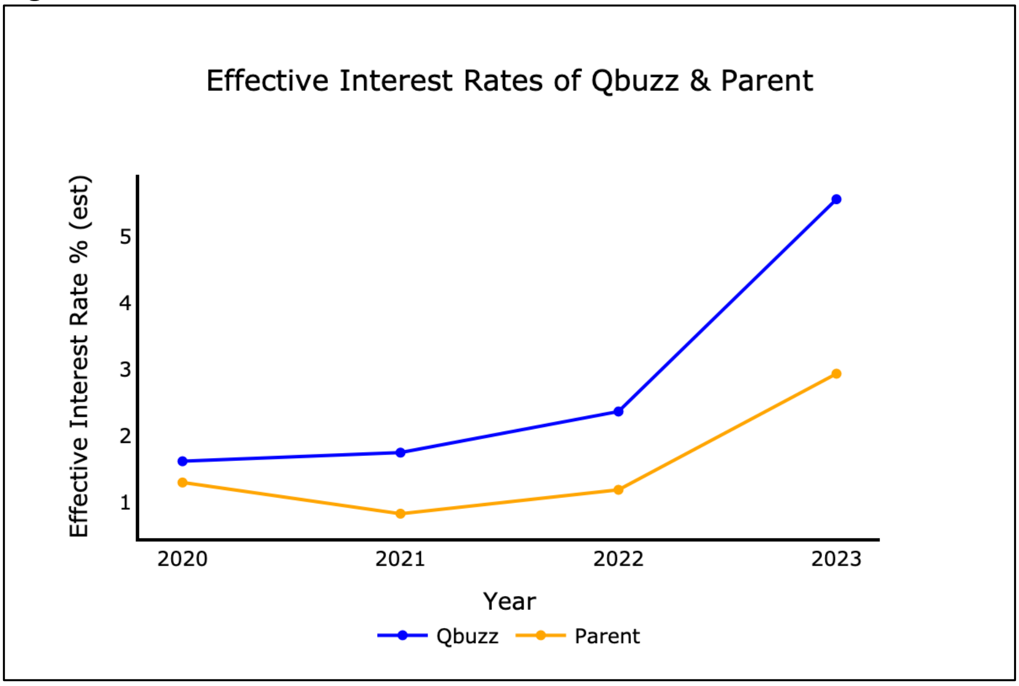
- The first loans from Qbuzz's parent, dating to 2018, had terms of Euribor plus 120 basis points (1.2%).
- By the time its next variable rate loan was issued in 2020, this spread increased to 200 basis points (2.0%).
- A third variable rate loan was issued in 2021 with a spread of 260 basis points (2.6%)
- The most recent loan documented in Qbuzz's audited financial statements was a fixed-rate loan from December 2023. This loan was agreed with an initial rate of 6.68% until May 2024 and a rate of 5.4% thereafter. The initial rate stood 268 basis points (2.68%) above the Euribor rate at the time. There was widespread expectation that interest rates would drop during 2024, which indeed occurred. The 5.4% fixed interest rate stood a full 300 basis points (3.0%) above the Euribor 6-month rate as of December 2024.

Qbuzz's interest rates increased much more quickly than those of its parent

Although interest rates were rising in general over this period, the borrowing costs for Qbuzz's parent did not increase by anywhere near as much as Qbuzz's borrowing costs increased during this time, as shown by Figure 3.

[12] Euribor stands for Euro Interbank Offered Rate. See Methodology section for further information.
[13] See Methodology.

Figure 3



The blue line in this chart shows the effective interest rate calculated for Qbuzz, as is also shown in Figure 2. The effective interest rates for Qbuzz's parent were calculated in a manner similar to that for Qbuzz and were estimated to be 1.3% in 2020, 0.8% in 2021, 1.2% in 2022, and 2.9% in 2023. [14] These are shown by the yellow line. Over this period, this represents an increase of just 1.6 percentage points.

Qbuzz's parent appears to have three general sources of financing: (1) bonds traded on the Dublin Stock Exchange, with a nominal amount of €7.4B as of the end of 2023 (certain tranches of which were fully subscribed by the European Investment Bank); (2) bonds issued via private placement to Eurofima SA, a Swiss entity that is jointly owned by European national railway companies and appears solely to finance railroad-related debt, with a nominal amount of €2.1B at the end of 2023 and which cannot be traded; and (3) bank loans and other bank borrowing, with a carrying amount of €5.4B at the end of 2023.

In general, Qbuzz's parent does borrow money to loan to its subsidiaries, but the disclosures by Qbuzz's parent do not provide enough information to tie the funds it loans to Qbuzz to specific borrowings of its own.[15] Given the differences in scale between Qbuzz and its parent, it is appropriate to look at the parents' overall effective interest rate in comparison to that of Qbuzz.[16]

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[14] See Methodology.
[15] See FS Group Annual Report 2023, p. 330.
[16] The parent's outstanding debt at the end of 2023 was nearly €15B, more than 68 times the amount of Qbuzz's outstanding debt, and the parent's cash and cash equivalents at the end of 2023 was nearly €2.3B, more than enough to absorb—at least temporarily—cash drawn downs in the size of the Qbuzz loans in question.

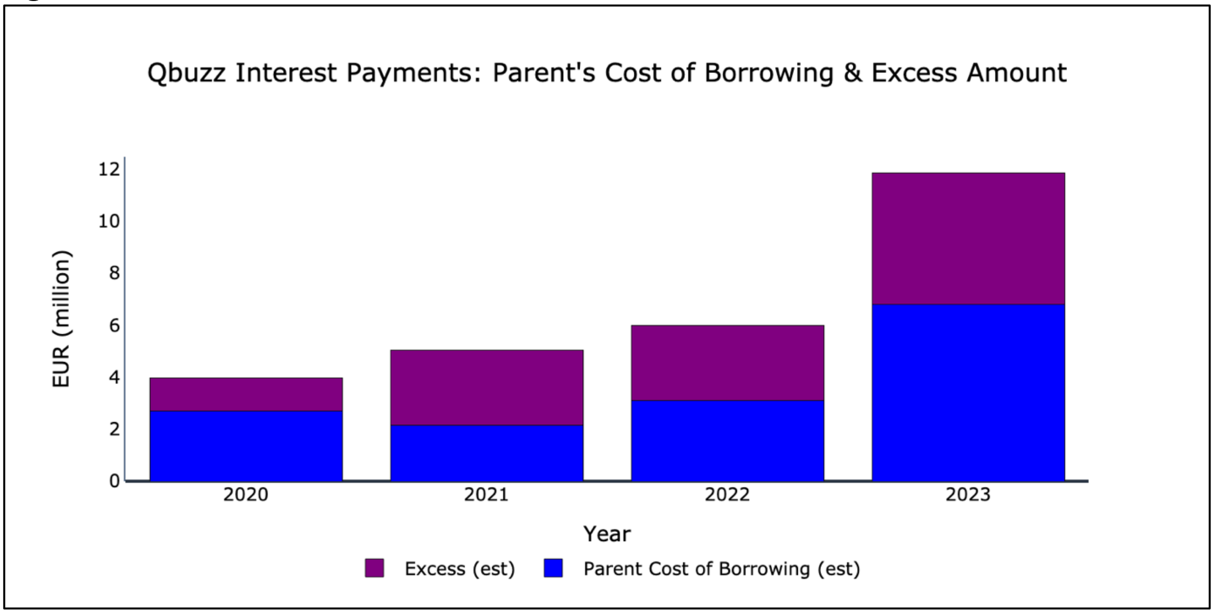
Qbuzz’s parent provides detailed information about interest rates for most of its bonds. Approximately 75% of the parents’ bonds were issued with fixed interest rates and 25% with variable rates. These variable rates are all determined as the Euribor 6-month rate plus a spread. Where a spread is disclosed, it has fluctuated over time, with a minimum during the period since 2020 of 0.62% to a maximum of 1.60%. Qbuzz’s fixed interest-rate bonds issued during this period ranged from a low of 0.38% in March 2021 to a high of 4.5% in May 2023. Qbuzz’s parent provides no information in its annual reports about the interest rate on its bank financing beyond stating that they are variable and based on Euribor plus a spread.

A comparison of the rates achieved by Qbuzz’s parent with the rates used in its loans to Qbuzz at similar times may be illuminating. Building on the list in the section above:

- On 4 December 2020, Qbuzz’s parent financed a 0.64% fixed-rate loan. Qbuzz and its parent agreed to a Euribor-plus-2.0% loan with Qbuzz just two weeks later. (At that moment, the effective interest rate of Euribor+2% was approximately 1.5%; the divergence between the fixed-rate loan and Euribor+2% has increased substantially since that time due to higher Euribor rates, topping out at an effective 6.14% in October 2023.)
- In July 2021, Qbuzz’s parent agreed to a Euribor+2.6% loan with Qbuzz. During that year, Qbuzz issued bonds at a fixed rate of 0.38% (March) and variable rate of Euribor+0.62% (December).
- During 2023, when it agreed to a 6.68%/5.40% fixed-rate loan with Qbuzz, its parent placed two fixed-rate bonds at 4.13% and 4.50%.

Taken together, there appears to be a growing gap between the rates Qbuzz is paying its parent for loans and the rates Qbuzz’s parent itself has been able to secure on its own borrowing. The aggregate financial impact of this gap is shown in Figure 4.

Figure 4



In this chart, the total amount Qbuzz paid to its parent in interest in each year is shown by the full vertical bar (blue plus purple). The amount Qbuzz's parent would have paid on the outstanding loan amounts at the average rate it paid over all its debt in each year is shown in blue. The purple is the "excess", i.e., the amount Qbuzz paid over and above the estimated amount its parent would have paid. The total amounts of "excess" are estimated to be €1.3M in 2020, €2.9M in both 2021 and 2022, and €5.0M in 2023, for a total of €12.1M over this period.

Impact on Qbuzz's bottom line and tax liability

Qbuzz's total interest payments of €28.7M during 2020-2023 (of which €26.9M were to its parent) turned an operating profit of €16.8M into a pre-tax loss of €10.4M. (Excluding the pandemic year of 2020, the operating profit was €23.6M, which translates to a pre-tax profit of €1.1M due to interest payments.)[17]

As a general rule, interest expenses are deductible for tax purposes, and so the pre-tax profit (or loss) indicated above provides the starting point for determining tax liability. In general, if there is a loss, there is no tax liability; if there is a profit there is tax liability. Therefore, higher amounts of interest expense mean lower tax liability.

Dutch tax laws provide both additional deductions and restrictions on certain deductions in determining a taxable income amount. Some of these deductions and limitations appear to have impacted Qbuzz as explained further in the Methodology section. But as a rough estimate, the benefit to Qbuzz and its parent in the form of reduced Dutch tax liability can be calculated by applying the Dutch

[17] Other finance items also contribute to the difference between operating and pre-tax profit/loss figures. These are negligible except for a gain of €1.4M in interest income during 2023.

vennootschapsbelasting rate of (approximately) 25% to the “excess” payments of €12.1M over 2020-2023. This results in an estimated reduction in Dutch tax liability of approximately €3.0M.

The level of interest payments Qbuzz has made to its parent do appear to have already impacted Qbuzz’s tax payments to the Dutch government, but Qbuzz does not appear to have benefited fully from this reduction in tax liability yet. Determining the portion of this amount that can be realized, and the timing of such realizations, requires careful consideration and may depend on future circumstances. Losses in the pandemic year of 2020 and tax deductions for the purchase of electric- and hydrogen-powered buses appear to have independently reduced Qbuzz’s tax liabilities, pushing back the time at which some of the benefit of the €3 million reduction might be realized. Qbuzz may over time, however, be able to realize the full benefit of the reduction in tax liability estimated here. Furthermore, to the extent Qbuzz continues borrowing from its parent in the same manner, it is possible or perhaps even likely that it will accrue and benefit from even greater reductions in its Dutch tax liability. A discussion of some of the considerations at play is provided in the Methodology sections.

It is important to note Qbuzz’s interest payments to its parent would be reflected as interest income on its parents’ books. Whether or not this would change its parent’s tax liability to the Italian government is uncertain.[18] However, since the owner of the parent entity is the Italian government, the Italian tax liability is likely to be a mere accounting formality, with the benefit of reduced Dutch tax liability accruing to the Italian government no matter the structure of its tax policies.

Comparison with other OV operators

Besides Qbuzz, there are four other major commercial providers of OV services operating in the Netherlands.[19] A review of these companies’ documents provides no evidence of a financing arrangement like that used by Qbuzz.

First, there is no evidence of any operator borrowing from its parent as Qbuzz does. Second, the counterparties for financing, where they are disclosed, are all Dutch entities. These include major Dutch banks (Rabobank and ING) as well as two public transport authorities (*Vervoerregio* Amsterdam and *Metropoolregio* Rotterdam Den Haag), which have provided financing directly. Third, where directly comparable effective interest rates can be calculated, these were estimated for 2023 to be 3.5% (EBS) and 1.0% (Transdev), well below the estimated level of 5.6% for Qbuzz. More detail is provided in the Appendix.

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[18] Interest income might be offset by a reduction in the value of the parent’s investment in Qbuzz.
[19] This does not include the municipally-owned operators GVB (Amsterdam), HTM (den Haag), or RET (Rotterdam), as these operators do not compete with the commercial operators for services outside of their specified geographic areas. Also, the Dutch railway NS and ferry operators are excluded as they are not comparable organizations.

Conclusion

Qbuzz has a modest but growing presence in Dutch OV, with ambition to play a large role (up to 30% market share). The company has had an arrangement to borrow from its parent, the Italian state railway company, for almost all of its financing needs. This borrowing has been arranged at interest rates that exceed its parent's own cost of borrowing as well as the rates that other OV operators in the Netherlands are able to agree with their lenders. Moreover, the gap between Qbuzz's interest rates and these references has grown over time. Since this arrangement was first put in place, this has resulted in total interest payments from Qbuzz to its parent of €28.3M. This is money that has been drained from the Dutch economy. From 2020-2023, the amount of these interest payments in excess of what payments would have been had Qbuzz borrowed from its parent at the same rates its parent was able to secure totaled €12.1M. These "excess" payments are estimated to have reduced Qbuzz's tax liability to the Dutch state by approximately €3M, the same amount which inures to the benefit of the Italian government. The Dutch government may wish to examine Qbuzz's arrangements and determine whether they are in the best interests of the Dutch state. Contracting entities, such as provincial-level transport authorities, may wish to review their arrangements with Qbuzz and/or consider in any future concessioning rounds if other arrangements might provide better overall value to themselves as purchasers and to travelers who use OV.

Methodology

Qbuzz share of provincie Zuid-Holland OV subsidies

The total amounts of subsidies provided by *provincie Zuid-Holland* to its OV concessionaires is taken from KpVV/CROW, *Staat van het openbaar vervoer 2023*, *Bijlage* 2. Amounts for 2023 were as follows:

Concessie	Subsidy Amount 2023 (€M)
Drechtsteden, Molenlanden en Gorinchem (DMG)	29.7
Hoeksche Waard/Goeree-Overflakkee	14.6
Treindienst Alphen aan den Rijn-Gouda	4.2
Zuid-Holland Noord (ZHN)	39.4
Personenvervoer over water Rotterdam-Drechtsteden	8.2
Total	**96.1**

The sum of the DMG and ZHN concession subsidies is €69.1M. This represents 71.9% of the total subsidy amount of €96.1M. It is important to recognize that these amounts may have changed in 2024 and may change in future years, so the share of all subsidies to be received by Qbuzz for operating the DMG and ZHN may be different in the future and the figure derived here should be considered as a ballpark estimate rather than an exact calculation.[20]

Calculation of effective interest rates

In general, effective interest rates are calculated for a one-year period by taking the total interest payments made over that period (as indicated on a company's Income Statement or Notes to the audited financial statements) and dividing by the average debt over this period. The quantity in the numerator is provided exactly in company reporting, but the quantity in the denominator must be estimated.

The simplest estimate, one which is always available from financial statements, is derived simply by averaging the beginning-of-year and end-of-year debt amounts. This estimate is accurate if the outstanding debt was constant during the year or changed linearly over the year.[21]

A potentially more accurate estimate can be calculated by estimating the outstanding debt amounts throughout the year (e.g., on a monthly basis). In the case of Qbuzz, the company's financial statements provide enough information about payment terms of its

[20] The total subsidy amounts reported by KpVV/CROW for all of the concessions Qbuzz operated in 2023 could not be reconciled with revenue from local government grants as reported on Qbuzz's audited financial statements. An inquiry with contracting officials might be a useful step to resolve this difference, in particular whether the discrepancy impacts the estimates for Zuid-Holland presented here.
[21] When read from a company balance sheet, as done here, this excludes the minor effect of the difference between the nominal amount and the carrying amount of the debt.

debt to make an estimate of the debt load on a monthly basis throughout the year, although not enough information for an exact calculation.

For Qbuzz, it was deemed that the approach of using estimated monthly balances was likely more accurate than the simple begin- and end-of-year averaging, so the monthly approach was used. For Qbuzz's parent, information about payment terms was not provided in enough detail to do the same, so the simpler approach was used.

In the case of variable interest rates, some companies use hedging instruments (interest-rate swaps) to reduce exposure to fluctuations. If this is the case, the relevant cash flows from the hedges can be considered in the calculation of effective interest rates as well. Qbuzz's financial statements indicate that it did not use any hedging instruments during the period in question (though it indicated plans to make use of hedging instruments related to financial leases to be entered into during 2024). Therefore, no adjustment is necessary to calculate Qbuzz's effective interest rate through the end of 2023. Qbuzz's parent, on the other hand, does make use of hedging. Its direct debt is roughly a 50/50 mixture of floating- and fixed-rate debt. It uses hedging instruments to hedge approximately one-third of its floating-rate exposure.[22] However, it does not disclose enough information about its interest rate swaps separate from other hedging instruments to make adjustments to the estimated effective interest rate, so the unadjusted calculation described above was used.

Euribor

The Euro Interbank Offered Rate, known as Euribor, is an average of rates at which Eurozone banks borrow and lend to each other. For calculations in this memo, Euribor rates were taken from www.euribor-rates.eu, which provides historical rates as of the first business day of each month. Annual averages were calculated by averaging these twelve snapshot figures, and the month-start rates are referenced at other points in this memo.

Calculation of Qbuzz's expected effective interest rate if tracking Euribor

In general:
(fraction variable) * (variable rate) + (fraction fixed) * (fixed rate) ≈ effective rate

In 2023: 0.75 * (3.65 %) + 0.25 * 1.6 % ≈ 3.14 %
In 2020: 0.65 * (-0.36 %) + 0.35 * 1.6 % ≈ 0.33 %

Difference ≈ 2.81 %

[22] See FS Group 2023 Annual Report, p. 255.

Calculation of estimated Qbuzz tax liability under different interest rate scenarios

The estimate that Qbuzz has been able to lower its Dutch tax liability by €3M by borrowing from its parent at interest rates higher than what its parent can borrow at is determined on the following basis.

Interest expenses are generally deductible for tax purposes. That is, starting from a business's operating profit (i.e., profit before interest and taxes), the full amount of interest expenses can be deducted to arrive at an amount of profit before taxes. The applicable tax rates are then applied to this amount to determine the tax owed. Therefore, the higher interest a business pays, the less tax it owes.

In determining the effect of Qbuzz's borrowing from its parent on its tax liability, several additional factors need to be considered.

First, Dutch tax law contains a provision known as the *earningsstrippingregeling*, which limits the amount of interest that be deducted.[23] The limit is based on the amount of interest payments relative to EBITDA (earnings before interest, taxes, depreciation and amortization, which is the same thing as operating profit with depreciation and amortization added back in). The threshold for the *earningsstrippingregeling* was 20% of EBITDA in 2023 and 2022 and 30% of EBITDA in 2021 and 2020. In 2023, net interest amounted to 21% of Qbuzz's EBITDA. In 2020, net interest amounted to 33% of Qbuzz's EBITDA. In those cases, the excess (1% and 3%) interest expenses may not have been deductible, but this is a relatively small amount. The company's explanation of its tax expense shows that in each year only approximately €100k (€251k in 2023) of its tax bill came from expenses on its financial statements that were not deductible for tax purposes. The company does not, however, explain the origin of these differences in any further detail, and at least a part of these amounts could be due to other provisions of Dutch tax law. In any case, it does not appear that there has been any significant tax penalty to Qbuzz related to its borrowing from its parent.

Second, like most tax regimes, Dutch tax law allows for certain additional deductions to be taken. The most significant in the case of Qbuzz is the *Milieu-investeringsaftrek (MIA).*[24] Qbuzz's financial statements show that it recorded €5.5M in offsets against tax expenses for the purchase of electric- and hydrogen-powered busses between 2018-2021 under the MIA.

Like many tax regimes, Dutch tax law allows fiscal losses in one year to be used to reduce tax liabilities in other years. Operating losses as well as paper losses due to deductions like the MIA are eligible for this treatment. The net value of the offsets that

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[23] https://zoek.officielebekendmakingen.nl/stcrt-2023-31452.html (accessed 18 January 2025).
[24] https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/winst/inkomstenbelasting/inkomstenbelasting_voor_ondernemers/investeringsaftrek_en_desinvesteringsbijtelling/milieu_investeringsaftrek_mia_willekeurige_afschrijving_milieu_investeringen_vamil (accessed 11 December 2024).

can be carried forward to future years are recorded on financial statements as *deferred tax assets*. During 2020, Qbuzz reported an operating loss of €6.9M (before interest expenses). Therefore, the company generated a significant deferred tax asset in that year from its operating loss that is additive to its MIA-related offsets. At the end of 2023, Qbuzz's total deferred tax asset was €6.8M. This represents the amount Qbuzz expects to be able to deduct from tax liabilities in the future. The company had zero recorded deferred tax assets at the time its current owner acquired the company and it did not generate any deferred tax assets until 2019, the first full year in which it had borrowings from its parent.

The cumulative effect of the loss in 2020 and the MIA deductions mean that Qbuzz did not make any payments for taxes in the four-year period from 2020 to 2023.[25] It made a payment in 2019 (€434k), which was presumably due to profits generated in 2018, and it recorded a tax liability of €151k as of the end of 2023, which is presumably related to tax on earnings during 2023 and would have been paid during 2024.

The end-2023 deferred tax asset balance of €6.8M suggests that the Qbuzz will be able to reduce its tax liability in future years considerably simply due to its prior operating loss and tax incentives. However, Qbuzz cannot eliminate its Dutch tax liability in future years (or 2022 and 2023) completely on this basis. Under Dutch tax law effective from 2022, only the first €1M in profit in any year can be 100% offset by losses accumulated in prior years. Above that amount, only 50% of a current year's profit can be offset by past losses. Therefore, current-year losses such as those generated by interest payments, remain relevant for reduction of current-year tax liability even when there are previous losses and/or tax credits outstanding.

In the case of Qbuzz, its operating profit was €11.9M in 2023. Taking into account the full amount of the interest it paid to its parent, it generated a profit before tax of €1.4M, which would have been the starting point for calculating its tax liability in that year (though, as is always the case, this amount may have been subject to further adjustments.) For this year, Qbuzz recorded a tax expense of €564k (a €345k expense based on simple application of the statutory tax rate to the pre-tax profit plus an additional net €219k in further adjustments.) Qbuzz also showed a reduction of its deferred tax assets of €413k, consistent with a partial offset due to prior year losses, and suggesting that its actual net cash liability for that year would have been approximately €151k, which matches the line item for Corporate Tax liability on its Balance Sheet at year-end 2023 exactly (see Note 10 of the Qbuzz's 2023 audited financial statements in its Annual Report).

If, however, Qbuzz had borrowed from its parent at the same rate as its parent borrowed, its profit before tax amount would have been €6.4M. With a starting point for calculating tax liability €5M higher, it is likely that Qbuzz would have had a substantially higher tax expense and higher actual net cash tax liability in that year.

[25] See the Statements of Cash Flows in the audited financial statements Qbuzz's Annual Reports for these years.

Information available on audited financial statements is not necessarily sufficient to calculate a business's tax liability in a distinct, hypothetical situation precisely, as there may be adjustments applicable in the hypothetical situation that are not disclosed in the actual financial statements because they were not material in the actual situation. However, a rough estimate can be made. Simply applying the full offset for the first €1M in profit and a reduction of 50% for the remaining €5.4M profit would yield a taxable income figure of €2.7M. Applying the 25% tax rate to this amount would result in an estimated tax liability of €675k, or €330k more than the statutory rate application disclosed in the actual case. Although it is possible that some of the other adjustments would change in this situation as well, it is likely that Qbuzz's actual tax liability would nonetheless have been higher as well.

Based on the reasoning above and the observation that Qbuzz's interest costs were €12.1M higher from 2020-2023 than they would have been had it borrowed from its parent at its parent's own average cost of borrowing, a rough estimate of the reduction Qbuzz's Dutch tax liability due to its interest payments during 2020-2023 can be determined by applying the Dutch statutory rate of (approximately) 25% to this amount, yielding €3M as cited above.[26]

As discussed above, it is likely that a small portion of this reduction in Dutch tax liability has already been realized and that more may be realized in future years. To the extent that this borrowing arrangement continues in future years, Qbuzz may continue to accrue current-year tax benefits and/or increases in deferred tax assets, such that the €3M benefit figure would continue to increase in the future.

[26] For simplicity, this ignores the lower rate in the first *vennootschapsbelasting* tax bracket. The precise rate and threshold have varied from year-to-year in the range of 15%-19% and €200k-€400k, respectively. This does not have a meaningful impact on the conclusions drawn here.

Appendix: Information about Other OV Operators in the Netherlands

Except as otherwise specified, information in this appendix is taken from the companies' Annual Reports for the relevant years.

EBS

EBS Public Transportation B.V. ("EBS") operates the IJssel-Vecht concession (*in opdracht van* Gelderland, Overijssel, and Flevoland), the Zaanstreek-Waterland concession (*in opdracht van* Vervoerregio Amsterdam), and the Haaglanden Streek and Vorne-Putten en Rozenburg concessions (*in opdracht van* Metropoolregio Rotterdam Den Haag).[27] Its total revenue in 2023 was €188.2M.

EBS has financed its capital needs through a combination of loans from the *OV-authoriteiten* and from Rabobank. According to its financial statements, these loans and their terms are as follows:

- A loan of €6.5M from *Vervoerregio* Amsterdam in August 2018, a portion of which has been paid off. On its 2023 audited financial statements, EBS discloses that "As of 2023, the applicable interest rate is c.a. 3%". On its 2022 audited financial statements, the company discloses that "The percentage interest rate in 2022 [is] c.a. 1%. The interest rate will change yearly." Although this does not provide much detail, it could be interpreted to mean that the rate of "c.a. 3%" may have been in effect from the anniversary date of the loan (August) to the end of the 2023, so that the "c.a. 1%" rate was in effect for the majority of the year.
- Two loans totaling €57.8M from *Metropoolregio* Rottendam Den Haag in November 2018 and August 2019. As of 2023, the applicable interest rate was "c.a. 0.5%". The interest rate does not appear to have changed from the prior reporting period.
- A loan of €108.4M from Rabobank in December 2022. The loan appears to have two components, one with a fixed interest rate of 4.42% and the other a variable interest rate "c.a. 3.21%" in 2023. The variable rate appears to have dropped in 2023 compared to 2022, when the company reported it was "c.a. 3.83%". The amount of outstanding principal on the loan was not provided. Neither the reference rate for the variable rate component not the applicable date for the rate are provided, but it is worth noting that the rate stated for 2023 was actually lower than both the year-end and year-average Euribor 6-month rate.
- A loan facility of €140M from Vervoerregio Amsterdam beginning on an unspecified date during 2023 related to start of EBS's operations on the Zaanstreek-Waterland concession in December 2023. As of the end of 2023, approximately €20M had been drawn under this facility. No interest rate information was provided.

[27] KpVV/CROW, Staat van het openbaar vervoer 2023.

As of the end of 2023, the total amount outstanding from banks and other lenders was approximately €155M.

EBS's disclosures do not make it possible to calculate an effective interest rate for just these borrowings.[28] However, when combined with the interest component of lease expenses, the result is an effective interest rate of 3.5% during 2023.

Transdev

Transdev Nederland Holding B.V. ("Transdev") operates concessions under the names Transdev, Connexxion, and Hermes. These are the Gooi en Vechstreek, Noord-Holland Noord, and Haarlem/IJmond concessions (all *in opdracht van provincie* Noord-Holland), the Arnhem-Nijmegen and Veluwe-Zuid concessions (both *in opdracht van provincie* Gelderland), the Amstelland-Meerlanden concession (*in opdracht van Vervoerregio* Amsterdam), the Hoeksche Waard/Goeree-Overflakkee concession (*in opdracht van provincie* Zuid-Holland), the Zeeland concession (*in opdracht van provincie* Zeeland), and Zuid-Oost Brabant concession (*in opdracht van provincie* Noord-Brabant).[29] In addition, until December 2023 it operated the concessions IJsselmond and Valleilijn.

In addition to public transport, it also operates taxi and ambulance services. Its total revenue in 2023 was €781.2M, of which €563.6M (72.1%) was from public transport.

Transdev is a subsidiary of Transdev Group S.A., a French corporation that is majority owned by a Canadian public investment fund with a minority stake held by a private investor.

Transdev appears to finance its busses and trains through a combination of operating leases, finance leases, and borrowing. However, because it has adopted International Financial Reporting Standards, interest expenses are recorded for all three types of arrangements, and a comparison with the situation at Qbuzz and EBS can be made.
At year-end 2023, Transdev recorded a total of €136.1M in lease & financial liabilities on its balance sheet (2002: €170.8M, 2001: €127.8M). The company did not report the identifies of its creditors, however it does not appear to have borrowed any significant amount from any related party.[30] It recorded total finance and lease interest expenses in 2023 of €1.4M (2022: €1.6M). From these figures, an effective interest rate for 2023 of 1.0% can be calculated (2022: 0.9%).

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[28] It appears that EBS may have inadvertently switched the labels for interest expense on borrowing and the interest component of lease expense in its 2023 financial statements.
[29] KpVV/CROW, Staat van het openbaar vervoer 2023.
[30] Transdev has had a €40M revolving credit facility with its ultimate parent in place since 2018. The company does not state that this facility has not been drawn upon, but total amounts payable to all related parties at the end of 2023 was €2.8M, an amount that comports with the amount of goods and services purchased from the parent (€6.7M in 2023) and therefore does not suggest borrowings. (See Notes 3.6.21 and 3.6.28 of Transdev Audited Financial Statements, 2023).

Transdev does not disclose the identities of its lenders or its lease counterparties in its financial statements.

Keolis

Keolis Nederland B.V. operates the *Busvervoer* Almere concession (*in opdracht van provincie* Flevoland), the Provincie Utrecht concession (*in opdracht van provincie* Utrecht), the *treindienst* Amersfoort-Ede-Wageningen concession (*in opdracht van provincie* Gelderland), and the *treindienst* Zwolle-Kampen and *treindienst* Zwolle-Enschede concession (*in opdracht van provincie* Overijssel) concessions. Keolis also operated the concession Twente (*in opdracht van provincie* Overijssel) until December 2023.[31] Keolis's total revenue in 2023 was €202.4M.

Keolis's parent is the French corporation Keolis SA that is majority owned by the French national railway company with a minority stake from a Canadian public investment fund.

Keolis appears to lease, rather than own, its busses and trains, mostly under operating lease arrangements but with finance leases for (at least some of) its train equipment. During 2023, Keolis's total expense for operating leases was €14.1M. Keolis does not disclose the identifies of the lessor(s). At year-end 2023, the total amount of financial leases outstanding was €33.6M, which includes an amount of €24.7M financed by ING during 2023. The expected nominal amount due in 2024 was €3.2M.

Because Keolis prepares its financial statements under Dutch accounting standards, rather than International Financial Reporting Standards, there is an interest expense recognized for its finance leases, but no interest expense recognized for the operating leases, and therefore an apples-to-apples comparison with the situation at Qbuzz, Transdev, and EBS is not possible.

It is worth noting, however, that during 2023 Keolis's total interest expense was just €386k, or 0.19% of its total expense burden. Because the financial leases beginning part-way through 2023 do have an interest component, this expense burden will likely increase in future years. An effective interest rate for the financial leases is not disclosed, except that it is stated that the rate is under 4%, which is less that Qbuzz's effective interest rate during 2023.

Keolis's financial statements indicate that ING Bank N.V. has been the counterparty on lease(s) and/or a provider of bank guarantees. There are liabilities to the parent reflected on the 2022 financial statements, but these relate to a cash pool rather than long-term financing.

[31] KpVV/CROW, Staat van het openbaar vervoer 2023.

Arriva

Deutsche Bahn AG, the German railway company, operated public transport in the Netherlands through its subsidiary DB Arriva until the subsidiary was sold to global infrastructure investor I Squared Capital in June 2024.[32] During the time Arriva was controlled by Deutsche Bahn, the company did not file an annual report with financial statements specific to its Dutch operations. Instead, it took advantage of the exemption under *BW 2 Artikel 403* to submit a consolidated report, with consolidated financial statements of the parent's full group.[33] The group reporting provides little detail on the specifics of Arriva's Dutch OV operations, and therefore no analysis can be done for Arriva of the sort done for Qbuzz, EBS, Transdev, and Keolis. It can neither be confirmed nor ruled out that Arriva financed its equipment via loans from its parent.

[32] See https://news.arriva.co.uk/news/arriva-group-looks-to-the-future-under-new-ownership.
[33] Per review of *jaarrekeningen* available for download from kvk.nl. See https://www.kvk.nl/en/filing/am-i-required-to-file-annual-reports-and-accounts/ for explanation.