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If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, fund manager, solicitor, accountant or other appropriate independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your FirstGroup Shares, please forward this document, together with the accompanying documents as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or the transferee. If you receive this document from another person, as a purchaser or transferee, please contact the Registrar for a Proxy Form using the contact on page 8 (*Corporate details and advisers*) of this document or go online at www.sharevote.co.uk. If you sell or have sold or otherwise transferred only part of your holding of FirstGroup Shares, you should retain this document and any accompanying documents and consult with the bank, stockbroker or other agent through whom the sale or transfer was effected as to the action you should take. However, neither this document nor any accompanying documents should be released, published, distributed, forwarded or transmitted, in whole or in part, in, into or from any jurisdiction in which to do so would constitute a breach of the relevant laws of such jurisdiction.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any such action. The distribution of this document and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.



FIRSTGROUP PLC

(Incorporated and registered in Scotland with registered number SC157176)

Proposed sale of First Student and First Transit and Notice of General Meeting

Your attention is drawn to the letter from the Chairman of the Company which is set out in Part I (*Letter from the Chairman*) of this document and which contains the unanimous recommendation from the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below.

Please read the whole of this document. In particular, your attention is drawn to the risk factors set out in Part II (*Risk factors*) of this document.

This document is a circular relating to the Transaction which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority.

Notice of a General Meeting of the Company to be held at 8th Floor, The Point, 37 North Wharf Road, London W2 1AF at 1.00 p.m. on 27 May 2021 is set out at the end of this document. A Proxy Form for use at the General Meeting accompanies this Circular.

To be valid, you are requested to submit your vote electronically by logging on to www.sharevote.co.uk, or complete, sign and return the Proxy Form in accordance with the instructions printed on it so as to be received by the Registrar, Equiniti no later than 1.00 p.m. on 25 May 2021 (or, in the case of an adjournment, no later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). If you hold ordinary shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrar, Equiniti (CREST participant ID RA19), so that it is received by no later than 1.00 p.m. on 25 May 2021 (or, in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for holding of the adjourned meeting). The Proxy Form can be delivered: (i) by post or by hand to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA; (ii) electronically at www.sharevote.co.uk or (iii) in the case of Shareholders who hold their shares through CREST, utilising the CREST electronic proxy appointment service in accordance with the procedures set out in this Circular. Registration of your proxy vote, completion and return of a hard copy Proxy Form, the submission of a CREST Proxy Instruction or the electronic registration of a proxy appointment, will not preclude you from following the General Meeting, or any adjournment thereof, via the live audiocast (as detailed below) if you wish to do so and are so entitled.

In the event that you require a hard copy Proxy Form, or you do not know your investor code, you will be able to request this from the Registrar by calling them on 0371-384-2046, or, if calling from overseas on +44 121-415-7050. Lines are open between Monday to Friday 8.30 a.m. to 5.30 p.m.; excluding UK bank holidays in England and Wales.

Given the continued social distancing measures and health and safety guidance imposed by the UK Government as a result of the COVID-19 pandemic, the General Meeting will be convened with a minimum quorum of Shareholders (which will be facilitated by FirstGroup's management) in order to conduct the business of the General Meeting. Therefore, instead of attending the General Meeting, we urge Shareholders to vote by proxy on the Resolution. In the interests of health and safety, Shareholders (and any appointed proxies (other than the chairman of the General Meeting) or corporate representatives) may not be admitted to the General Meeting.

We will continue to closely monitor the impact of the COVID-19 pandemic, including the latest guidance from the UK government. Should it become necessary or appropriate to revise the current arrangements for the General Meeting, this will be notified to Shareholders on our website and/or via a Regulatory Information Service.

Shareholders will be able to remotely follow the General Meeting via an audiocast on the Virtual Meeting Platform, where they will also be able to submit questions during the General Meeting. Shareholders can access the Virtual Meeting Platform using a web browser, on a PC, smartphone device or tablet. The web browser must be compatible with the latest browser versions of Chrome, Firefox, Internet Explorer 11 (Internet Explorer v. 10 and below are not supported), Edge and Safari. To follow via the audiocast and/or submit questions using this method, please go to <https://web.lumiagm.com>. Once you have accessed <https://web.lumiagm.com> from your web browser, you will be asked to enter the Lumi Meeting ID which is 162-638-467. You will then be prompted to enter your Shareholder Reference Number ("**SRN**") and PIN. These can be found printed on the Notice of Availability attached to the Forms of Proxy. Access to the General Meeting via the website will be available from 12.00 noon on 27 May 2021, as further detailed in the Notice of General Meeting at the end of this document. If you are unable to access your SRN and PIN, please contact the Registrar by calling them on 0371-384-2046, or, if calling from overseas on +44 121-415-7050. Lines are open between Monday to Friday 8.30 a.m. to 5.30 p.m.; excluding UK bank holidays in England and Wales. Further information on how to log-on to the Virtual Meeting Platform is set out in the Lumi Virtual Meeting Platform Guide on pages 72 and 73 of this document.

Shareholders are strongly encouraged to vote online in advance of the meeting or appoint the chairman of the General Meeting as their proxy. If any other person is appointed as proxy, they may not be permitted to attend the General Meeting in person. To be valid, the enclosed Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach FirstGroup's registrars, Equiniti, by no later than 1.00 p.m. on 25 May 2021. The Proxy Form can be delivered: (i) by post or by hand to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA; (ii) electronically at sharevote.co.uk or (iii) in the case of Shareholders who hold their shares through CREST, utilising the CREST electronic proxy appointment service in accordance with the procedures set out in this Circular.

J.P. Morgan Securities plc (which conducts its U.K. investing banking activities as J.P. Morgan Cazenove) ("**J.P. Morgan Cazenove**"), which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting as joint sponsor, joint financial adviser and joint corporate broker to FirstGroup and for no one else in connection with the Transaction and will not be responsible to anyone other than FirstGroup for providing the protections afforded to clients of J.P. Morgan Cazenove or for providing advice in relation to the Transaction, the contents of this document or any transaction, arrangement or other matter referred to in this document.

N. M. Rothschild & Sons Limited ("**Rothschild & Co**"), which is authorised by the Financial Conduct Authority and the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting as joint sponsor and joint financial adviser to FirstGroup and for no one else in connection with the Transaction and will not be responsible to anyone other than FirstGroup for providing the protections afforded to clients of Rothschild & Co or for providing advice in relation to the Transaction, the contents of this document or any transaction, arrangement or other matter referred to in this document.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting as joint financial adviser and joint corporate broker to FirstGroup and for no one else in connection with the Transaction and will not be responsible to anyone other than FirstGroup for providing the protections afforded to clients of Goldman Sachs or for providing advice in relation to the Transaction, the contents of this document or any transaction, arrangement or other matter referred to in this document.

This document is dated 10 May 2021.

PRESENTATION OF INFORMATION

FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms anticipates, believes, could, estimates, expects, intends, may, plans, projects, should or will, or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding FirstGroup and its intentions, beliefs or current expectations concerning, among other things, the business, results of operations, prospects, growth and strategies of the Group, the Target Businesses and the Retained Group.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of operations of the Group, the Target Businesses and the Retained Group, and the developments in the industries in which they operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations of the Group, the Target Businesses and the Retained Group and the developments in the industries in which they operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in law and regulation, currency fluctuations, changes in business strategy and political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group and its operations, results of operations and growth strategy. **Shareholders should specifically consider the factors identified in this document which could cause actual results to differ before making a decision on the Transaction.**

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, the Disclosure Guidance and Transparency Rules and the Prospectus Rules), the Group is not under any obligation and the Group expressly disclaims any intention or obligation (to the maximum extent permitted by law) to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The above explanatory wording regarding forward-looking statements does not in any way seek to qualify the statement regarding working capital that can be found at paragraph 11 of Part VI (*Additional information*) of this document.

ROUNDING

Percentages in tables have been rounded and accordingly may not add up to 100 per cent. Certain financial data have also been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

PRESENTATION OF FINANCIAL INFORMATION

The historical financial information relating to the Target Businesses presented in this document has been extracted without material adjustment from the consolidation schedules and supporting analysis that underlie the audited consolidated financial information of the Group for the financial years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the Group unaudited condensed interim financial statements for the six-month period ended 30 September 2020. Unless otherwise indicated, financial information in this document relating to FirstGroup has been prepared in accordance with IFRS.

Pro forma financial information

In this document, any reference to “pro forma” financial information is to information which has been extracted without material adjustment from the Unaudited Pro Forma Financial Information contained in Part V (*Unaudited Pro Forma Financial Information of the Retained Group*) of this document. The Unaudited Pro Forma Financial Information is presented in millions of Pounds Sterling. The Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Transaction on the consolidated net assets of the Retained Group as if the Transaction had occurred on 30 September 2020.

The Unaudited Pro Forma Financial Information is shown for illustrative purposes only and because of its nature addresses a hypothetical situation. It does not represent the actual financial position of the Retained Group. Furthermore, it does not purport to represent what the Retained Group’s financial position would actually have been if the Transaction had been completed on the indicated date and is not indicative of the results that may or may not be expected to be achieved in the future.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex 20 of the Prospectus Delegated Regulation and on the basis of the financial information of the Group as at 30 September 2020, the date to which the latest unaudited condensed interim financial information in relation to the Group was prepared. The Unaudited Pro Forma Financial Information has been prepared pursuant to Listing Rule 13.3.3R in a manner consistent with the accounting policies of the Group.

Non-IFRS measures

FirstGroup uses a range of measures to monitor the financial performance of the Group, including in this document. These measures include both statutory measures in accordance with IFRS and alternative performance measures (“**APMs**”) which are consistent with the way that the business performance is measured internally.

The Group uses APMs because it considers that these measures provide useful information to enhance the understanding of its financial performance. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to other regulatory measures. An explanation of each such metric’s components and calculation method can be found on pages 144 and 145 of the 2020 Annual Report (incorporated by reference into this Circular) and page 111 of the 2019 Annual Report (incorporated by reference into this Circular).

EXCHANGE RATES

Throughout this document, unless otherwise stated, the USD to GBP exchange rate used in this document is as derived from Factset on 19 April 2021 (as at the latest practicable date prior to announcement of the Transaction), being \$1.40 to £1.00. For the Target Businesses’ 31 March 2020 income statement financials, the USD to GBP exchange rate used is the average over the 12 month period to 31 March 2020, being \$1.29 to £1.00.

CURRENCIES

Unless otherwise indicated in this Circular, all references to “**£**”, “**GBP**”, “**pounds**”, “**Pound Sterling**”, “**Sterling**”, “**p**”, “**penny**” or “**pence**” are to the lawful currency of the UK.

Unless otherwise indicated in this Circular, all references to “**\$**”, “**US\$**”, “**USD**”, “**US Dollars**”, “**US Dollar**” or “**cents**” are to the lawful currency of the United States.

DEFINITIONS

Certain terms used in this document, including capitalised terms and certain technical terms, are defined and explained in Part VIII (*Definitions*) of this document.

INCORPORATION BY REFERENCE

Certain information in relation to the Company is incorporated by reference into this document. Further information is set out in Part VII (*Information incorporated by reference*) of this document. Without limitation, unless expressly stated herein (in particular as stated in Part VII (*Information incorporated by*

reference)), the contents of the websites of the Group and any links accessible through the websites of the Group do not form part of this document.

NO PROFIT FORECAST OR ESTIMATES

Unless otherwise stated, no statement in this document is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings, earnings per share or income, cash flow from operations or free cash flow for the Group, the Target Businesses or the Retained Group, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations or free cash flow for the Group, the Target Businesses or the Retained Group, as appropriate.

NO OFFER OR SOLICITATION

This document is not a prospectus and it does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, purchase, acquire or subscribe for, any security.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change by FirstGroup, in which event details of the new times and dates will be notified to the Financial Conduct Authority and, where appropriate, to Shareholders by announcement through a Regulatory Information Service.

All references to the times in the timetable below are to London times.

| EVENTS | TIME AND/OR DATE |
|---|-----------------------------|
| Announcement of the Transaction | 23 April 2021 |
| Publication of this document, the Notice of General Meeting and the Proxy Form | 10 May 2021 |
| Posting of this document, the Notice of General Meeting and the Proxy Form | 10 May 2021 |
| Latest time and date for receipt of Proxy Forms, CREST Proxy Instructions and electronic registration of proxy appointments | 1.00 p.m. on 25 May 2021 |
| Record time for entitlement to vote at the General Meeting | 6.30 p.m. on 25 May 2021 |
| General Meeting | 1.00 p.m. on 27 May 2021 |
| Expected timing of Completion | H2 2021 |

CORPORATE DETAILS AND ADVISERS

| | |
|--|--|
| Registered office | 395 King Street, Aberdeen, AB24 5RP United Kingdom |
| Joint sponsor and joint financial adviser | Rothschild & Co New Court St Swithin's Lane London EC4N 8AL United Kingdom |
| Joint sponsor, joint financial adviser and joint corporate broker | J.P. Morgan Cazenove 25 Bank Street Canary Wharf London E14 5JP United Kingdom |
| Joint financial adviser and joint corporate broker | Goldman Sachs International Plumtree Court 25 Shoe Lane London EC4A 4AU United Kingdom |
| English legal adviser to the Company | Slaughter and May One Bunhill Row London EC1Y 8YY United Kingdom |
| Scottish legal adviser to the Company | Burness Paull LLP 50 Lothian Road Edinburgh EH3 9WJ United Kingdom |
| US legal adviser to the Company | Davis Polk & Wardwell LLP 450 Lexington Avenue New York, NY 10017 United States |
| Auditor and reporting accountants | PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH United Kingdom |
| Registrar | Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA United Kingdom |

PART I

LETTER FROM THE CHAIRMAN

FirstGroup plc
(Incorporated and registered in Scotland with No SC157176)

Directors

David Martin
Matthew Gregory
Ryan Mangold
David Robbie
Warwick Brady
Sally Cabrini
Steve Gunning
Martha Poulter
Julia Steyn
Anthony Green

Registered Office

395 King Street,
Aberdeen,
AB24 5RP
United Kingdom

10 May 2021

Dear Shareholder,

Proposed Sale of First Student and First Transit
and
Notice of General Meeting

1. Introduction

On 23 April 2021, FirstGroup announced that it had entered into an agreement for the sale of First Student and First Transit to EQT Infrastructure for approximately £3.3 billion (\$4.6 billion) headline enterprise value, including a First Transit earnout of up to approximately £170 million (\$240 million) (the “**Transaction**”). The principal terms of the Purchase Agreement and details of the Net Disposal Proceeds are set out in paragraph 5 of this letter and in Part III (*Summary of the principal terms of the Transaction Documents*) of this document.

Having joined the Board as Chairman in August 2019, I initiated a strategic review for the Board to consider all options to realise value for Shareholders. While all of FirstGroup’s divisions have leading positions in their markets, it is clear that there are limited synergies between them, and particularly between the UK and North American divisions. After detailed consideration of the options, the Board publicly announced the commencement of a sale process for the Group’s North American contract businesses, First Student and First Transit, just over a year ago, in March 2020, in order to unlock value and focus on its bus and rail divisions in the UK.

We conducted a comprehensive and competitive sale process over more than 12 months, which encompassed discussions with a large number of potential buyers. More than ten potential buyers entered into non-disclosure agreements and an extensive diligence process was then undertaken with a number of these interested parties over a seven month period. Having considered various structural options, the Board believes that the best value for Shareholders is achieved by the combined sale of both First Student and First Transit to EQT Infrastructure. The valuation achieved in the Transaction, equivalent to a headline multiple of 8.9x times the combined FY20 EBITDA (on a pre-IFRS 16 basis) of First Student and First Transit, fully recognises the long term strategic value of each of the businesses.

After adjusting for estimated transaction costs, self-insurance liabilities and long term debt and debt-like items transferred to the Purchaser including certain pension, insurance and environmental liabilities relating to First Student and First Transit and working capital and other deductions, the net cash proceeds from the Transaction before the Earnout are expected to be approximately \$3,065 million (approximately £2,190 million) (the “**Net Disposal Proceeds**”) (as

set out in further detail at paragraph 5 of this Part I). The Purchaser has also agreed to continue to pursue COVID-19 pandemic government funding relating to the Target Businesses before 27 March 2021 (the Locked Box Date), which, if received, will be for the benefit of FirstGroup (as set out in further detail at paragraph 5 of this Part I).

In determining the use of the Net Disposal Proceeds, the Board has sought to balance a number of key considerations, as follows:

- Return value to shareholders: recognising the value achieved on the sale of First Student and First Transit;
- Legacy liabilities: address the substantial legacy liabilities of the Group (including debt, North American pensions and insurance as well as the termination sums in respect of rail franchises) to reflect the smaller Retained Group's ability to support these;
- Covid Corporate Finance Facility (CCFF): repay the Bank of England's £300 million CCFF commercial paper scheme provided in response to the COVID-19 pandemic. Under the terms of the CCFF, no shareholder distributions are permitted as long as it remains drawn;
- UK Bus pensions: having regard to its regulatory duties in respect of the UK DB Pension Schemes, the Board has engaged with the pension scheme trustees to reach agreement on appropriate contributions to the UK DB Pension Schemes. The schemes have relied on parent company guarantees supported by First Student and First Transit earnings; and
- Retained Group: the Board is required to ensure that the ongoing business is sufficiently well-resourced in the short term for a range of pandemic-related eventualities, as well as having a path to an appropriate capital structure for the medium term.

The Board intends to return the cash proceeds remaining of the Net Disposal Proceeds (the "**Return of Value**"), expected to total approximately £365 million, to Shareholders following Completion. The Board's intention would be for any return to Shareholders to be executed during the current calendar year. The Board intends to consult with major Shareholders as to the most appropriate distribution mechanism for the Return of Value in due course. Further details on the calculation of the Return of Value are set out in paragraph 6 of this letter.

FirstGroup is a leader in public transportation in the UK through its First Bus and First Rail divisions. Going forward, the Retained Group has a strong platform on which to create sustainable value, and is well-positioned to help deliver wider economic, social and environmental goals at key inflection point for public transport in the UK. Following Completion and the proposed Return of Value, the Directors believe that the Retained Group will be a sustainable and cash generative business with a well-capitalised balance sheet and an operating model that will support an attractive dividend for Shareholders. The Board will keep the balance sheet position of the Retained Group under review and will consider the potential for making further additional distributions to Shareholders in due course, subject to end market outlook and business performance, as well as further clarity on a number of contingent items including, for example, crystallisation of the earnout relating to First Transit, the outcome of future triennial reviews in connection with the UK DB Pension Schemes and resolution of legacy liabilities related to Greyhound.

The Transaction constitutes a Class 1 transaction for the Company under the Listing Rules and is, therefore, conditional upon the approval by Shareholders. The Transaction is also conditional on, amongst other things, regulatory clearances (or where applicable, exemption) from the US Surface Transportation Board, provincial regulators in Quebec and approval from the Vermont Department of Financial Regulation, as well as antitrust clearances (or where applicable expiration of applicable waiting periods) from the US Department of Justice and the Canadian Commissioner of Competition (the "**Closing Approvals**"). The Purchaser has agreed to use its best efforts to obtain or fulfil the Closing Approvals as soon as practicable after the date of the Purchase Agreement and, in any event, on or before 22 January 2022. Completion of the Transaction is expected to occur in the second half of the 2021 calendar year.

The purpose of this document is to provide you with information on the Transaction and to explain why the Directors believe the Transaction is in the best interests of both Shareholders and other

stakeholders as a whole. The Directors unanimously recommend that Shareholders vote in favour of the Resolution at the General Meeting, as the Directors intend to do in respect of their aggregate shareholdings in the Company representing 0.11 per cent. of the Company's current issued share capital as at the Latest Practicable Date.

Whilst some uncertainty remains due to the COVID-19 pandemic, the Board's visibility over the performance of the Group's businesses has continued to improve since the Group's half yearly results announced on 10 December 2020. Due to strong cost control and other actions to manage the consequences of the COVID-19 pandemic, the Group now expects adjusted operating profit for the 2021 financial year to be ahead of management's previous expectations. For more detail please see paragraph 9 (*Current trading and future prospects of the Group*), which includes a profit estimate statement.

Shareholders should read the whole of this document and not only rely on the summarised information set out in this letter. Shareholders will find definitions for capitalised terms used in this letter and the rest of this document in Part VIII (*Definitions*) of this document. Further detail on the net proceeds, use of proceeds and proposed Return of Value to shareholders is set out in paragraphs 5 and 6 below.

2. Background to and reasons for the Transaction

Following my appointment as Chairman in August 2019, I appointed independent advisers and initiated a full review of all strategic options to realise value for Shareholders, as well as the consequential friction costs of those options. While all of FirstGroup's divisions have leading positions in their markets, it is clear that there are limited synergies between them, and particularly between the UK and North American divisions. Based on the review, the Board set out a strategy to unlock value through a rationalisation of the Group's portfolio of businesses, and began a process to formally explore all options in respect of the North American contract businesses, First Student and First Transit which was publicly announced in December 2019. Such options covered a range of potential transaction structures including a disposal.

Following detailed analysis by the Board, having particular regard to deliverability and the realisation of Shareholder value over both the near- and longer-term, the Group publicly announced the commencement of a sale process for First Student and First Transit in March 2020 following the expression of significant interest in them by multiple potential buyers. The subsequent onset of the global COVID-19 pandemic resulted in a period of considerable uncertainty for the public transportation industry and for potential buyers and their finance providers, which initially impacted the speed at which this process could be implemented. After a comprehensive and competitive process, which encompassed discussions with a large number of potential buyers, more than ten potential buyers entered into non-disclosure agreements and an extensive diligence process was undertaken with a number of these interested parties over a seven month period. FirstGroup entered into the Purchase Agreement with the Purchaser for the combined sale of both First Student and First Transit on 22 April 2021.

The Board unanimously believes that the Transaction is in the best interests of Shareholders as a whole for the following reasons:

- the Transaction recognises the long-term strategic value of each of First Student and First Transit. The Target Businesses have leading market positions, meaningful revenue and earnings growth potential and benefit from resilient contract-based business models as demonstrated by their robust performance through the COVID-19 pandemic;
- the Transaction implies a headline multiple of 8.9x the combined FY20 EBITDA (on a pre-IFRS 16 basis) of First Student and First Transit;
- the Transaction value appropriately recognises the prospects for a recovery to normal levels of business activity which are currently being suppressed by the effects of the COVID-19 pandemic;
- the Transaction allows the Group to make a £336 million contribution to UK DB Pension Schemes (of which £116 million will be held in escrow and may be released back to the Group on conclusion of subsequent triennial valuations from 2024 onwards, depending on

scheme performance) and address other longstanding liabilities (including those relating to the Greyhound business) while ensuring the ongoing business is appropriately capitalised to continue investing for the future;

- the Transaction results in approximately £365 million being available to be returned to Shareholders through the proposed Return of Value by the end of the calendar year, following realisation of the inherent value of First Student and First Transit and the financial consequences of the Transaction noted above; and
- the Transaction is in line with the Group's portfolio rationalisation strategy to exit its North American businesses and focus on the growth and value creation opportunities available to the Retained Group's leading bus and rail divisions in the UK. Greyhound remains non-core and the Group continues to pursue all exit options for it while de-risking its liabilities and actively managing its substantial property portfolio for value.

3. Information on the Target Businesses

First Student

First Student is the largest provider of student transportation in North America, operating in 435 locations across 40 US states and seven Canadian provinces. First Student provides safe, reliable and cost-effective transportation services that help school districts focus on providing students with the best possible education. It also has a strong charter business for student and non-school trips.

The North American student transportation market is worth approximately \$25 billion, of which only 38 per cent. is currently operated by the private sector. First Student benefits from its substantial scale, best-in-class operating track record, and highly experienced management team. The deployment of new technology has also benefitted the safety, reliability and efficiency of the business. The business also has a strong track record in bolt-on acquisitions: in October 2019, First Student acquired Hopewell Transportation, a Chicagoland-based provider of school transportation services for special needs students and their families; in January 2020, it announced the acquisition of the Campeau Bus Lines locations in Ottawa and Bowmanville, Ontario; and further extended its services in Ontario, Canada in September 2020 with the acquisition of Wubs Transit, a provider of school and charter transportation services and in March 2021, First Student announced the acquisition of Mid States School Bus, Inc., a Nebraska-based provider of school and charter transportation services.

The business has a fleet of approximately 42,000 owned or operated revenue-producing vehicles. First Student's expertise and reputation is reflected in the fact that across the entire portfolio of multi-year contracts, the retention rate for contracts was 95 per cent. for the 2020/21 academic year. This strong performance in the existing business is supplemented by new business won mainly from competitors and conversions from in-house to private provision as well as several new contracts for its Hopewell special education business, demonstrating First Student's growth potential in this area. As a result of the cash generated from the combination of the strong retention rate and the new business wins, the business has been able to invest in new vehicles lowering the average fleet age to 6.6 years.

Given its market leading position, First Student is well positioned to help accelerate the adoption of low-emission technology in the US school bus industry. First Student's alternative fuel fleet now numbers more than 2,000 vehicles (principally compressed natural gas buses) and new electric school buses have been trialled in Chicago, Montreal and Minnesota. In January 2021, First Student announced a collaboration with NextEra Energy Resources, the world's largest generator of renewable energy from the wind and sun and a world leader in battery storage. The collaboration aims to jointly foster innovation, accelerate the mass adoption of zero-emission school bus vehicles and also develop early mover capability in the nascent vehicle-to-grid power management, energy storage and ancillary grid services markets in North America.

Through continuous focus, the business has improved its already strong customer satisfaction scores over the last five years to a record high level in the 2020 financial year, and continues to invest in safety and technology. The Group's *Be Safe* behavioural training programme has been rolled out to all frontline managers and supervisors in First Student. The programme supplements

the robust safety management systems and clear focus on ensuring compliance with policies, processes and procedures in place throughout the Group. First Student's FirstView app is the highest rated, most comprehensive and secure school bus tracking, communications and engagement tool in the industry for parents, school administrators and transportation managers.

First Student is also an integral part of the communities it serves, employing approximately 48,000 people across North America.

First Transit

First Transit is one of the largest private sector providers of public transit management and contracting services in North America, managing fixed route and shuttle bus services, paratransit operations, call centres for accessible transportation and other light transit activities. The business conducted over 318 million passenger journeys in FY20 and owns and operates 12,500 vehicles. The business has a well-established platform with the ability to capture long-term growth in evolving transit management markets.

First Transit has a market leadership position in each of its core markets. The North American transit market is worth an estimated \$29 billion, of which only approximately 35 per cent. is currently operated by the private sector. First Transit operates approximately 15 per cent. of this outsourced market and sustains its competitive advantage through consistently highly rated customer service credentials and its reputation for safe, innovative and best value solutions to customers. In the twelve months ending 30 September 2020, it recorded 91 per cent. contract retention, including retention of its five year Houston fixed route contract for more than 200 buses (with base term revenues of \$225 million), and was awarded new business such as a three year paratransit contract with MARTA in Atlanta (worth \$88 million in revenue over its base term).

First Transit has a broad portfolio of complementary businesses across shuttle (where it is one of the undisputed leaders), fixed route, paratransit, transit management services and call centre/NEMT Services. Across these segments the business has leading positions coupled with expansive scale across the US. First Transit operates from 295 active locations, has in excess of 330 contracts in place and employs over 17,100 employees.

The business leverages its market leading position in traditional transit segments in order to be at the forefront of the mobility evolution. The business has a track record of winning Mobility as a Service (Maas) and Shared Autonomous Vehicles (SAV) opportunities and leveraging partnerships with Transportation Network Companies (TNCs) and others. In emerging mobility services, First Transit has a partnership with Lyft to provide wheelchair accessible and other paratransit services to several US cities. The business has continued to position itself as a leader in the maintenance and operation of autonomous vehicles (AV), electric vehicles (EV), and was recently awarded an eBike maintenance and battery management contract in partnership with Nike and Lyft. In January 2021, First Transit also announced plans to collaborate with NextEra Energy Resources to target the rapid growth of electric vehicle capabilities in its markets.

The Group's *Be Safe* training programme has been rolled out to all frontline managers and supervisors in First Transit, to help embed safety as a personal core value through behaviour change. The programme supplements the robust safety management systems and clear focus on ensuring compliance with policies, processes and procedures in place throughout the Group.

Financial Profile of the Target Businesses

The Target Businesses are indirectly held by FirstGroup Investment Corporation. The table below summarises the combined results of First Student and First Transit recorded for the three years ended 31 March 2020 and six months ended 30 September 2020.¹

| | Year ended 30 March 2018 | Year ended 29 March 2019 | Year ended 31 March 2020 | Six months ended 30 September 2020 |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------------------|
| Revenue | £2,840.6 million | £2,918.2 million | £3,109.1 million | £888.9 million |
| EBITDA ² | £414.5 million | £423.0 million | £450.1 million | £96.0 million |
| Operating profit/(loss) | £122.2 million | £137.7 million | £67.1 million | £(38.3) million |

¹ FirstGroup adopted IFRS 16 (Leases) in FY20 using the modified retrospective method. The transition method did not require comparative periods (being FY18 and FY19 in the table above) to be restated.

² Adjusted as set out in Part IV (*Historical financial information relating to the Target Businesses*).

A detailed summary of the trading results of the Target Businesses for the three years ended 31 March 2020, six months ended 30 September 2020 and the net asset statement as at 31 March 2020 and 30 September 2020 are set out in Part IV (*Historical financial information relating to the Target Businesses*) of this document.

The financial information in this paragraph 3 has been extracted without material adjustment from the financial information contained in Part IV (*Historical financial information relating to the Target Businesses*) of this document. Shareholders should read the whole of this document and not just rely on the summarised financial information set out in this Part I (*Letter from the Chairman*).

The Board considers that First Student and First Transit will be capable of clean separation from FirstGroup's other operations following Completion (subject to a transitional period in which certain limited services will be provided to the Retained Group in respect of the retained North American liabilities relating to Greyhound) such that the Transaction is not expected to impact the service delivery and operations of the Retained Group. First Student and First Transit, which share a number of central service functions with each other, operate as standalone divisions.

4. Information on EQT Infrastructure

EQT AB (Publ.) ("**EQT**") is a purpose-driven global investment organisation with close to three decades of investment by its funds, across multiple geographies, sectors, and strategies. EQT seeks to acquire market leading businesses and invest in the growth of these businesses. In particular, EQT Infrastructure seeks to invest in businesses with opportunities to deploy meaningful capital into fixed assets.

Listed on the Swedish stock exchange and with offices in 17 countries around the world, EQT, via its affiliated funds, has raised more than €84 billion since inception and has deployed \$11 billion in equity in North America since 2012. EQT has been active in infrastructure since 2007, with nearly €30 billion raised across five infrastructure funds, including EQT Infrastructure.

With its roots in the Wallenberg family's entrepreneurial mindset and philosophy of long-term ownership, EQT is guided by a set of strong values and a distinct corporate culture which it deploys across its 99 portfolio companies globally, including its North American infrastructure investments in Direct ChassisLink, Restaurant Technologies Inc. and WASH Multifamily Laundry Systems.

5. Principal terms of the Transaction

On 22 April 2021, FirstGroup and the Purchaser entered into the Purchase Agreement, pursuant to which FirstGroup agreed, on the terms and subject to the conditions of the Purchase Agreement, to sell the Target Businesses to the Purchaser.

The consideration payable by the Purchaser in cash at Completion is approximately \$3,065 million (subject to certain adjustments). The Purchaser has agreed to a deferred, contingent payment of up to \$240 million (approximately £170 million) (the "**Earnout Amount**") which will allow FirstGroup to share in the future value of First Transit, calculated and payable on the earlier of the third anniversary of Completion or a sale of, or certain other specified transactions involving, First Transit by the Purchaser (the "**Earnout**"). Pursuant to the Earnout, the Purchaser will pay FirstGroup 62.5 per cent. of the proceeds (calculated based on an adjusted equity value derived from an initial enterprise value of \$370 million) from such sale of, or such other transaction involving, First Transit within three years of Completion, up to a maximum of \$240 million.

As part of the Transaction, First Student and First Transit self-insurance liabilities valued at approximately \$545 million are being transferred to the Purchaser, as well as approximately \$305 million in long term debt and debt-like items relating to the Target Businesses and other enterprise value adjustments of approximately \$400 million, including a \$165 million adjustment to working capital reflecting the reduced levels of operating activity due to the COVID-19 pandemic, and \$110 million relating to deferred capital expenditure and payroll tax payments under the US Federal Insurance Contributions Act (FICA) as a consequence of the COVID-19 pandemic, which will subsequently reverse under the buyers' ownership as operating conditions normalise (Group net debt is therefore also lower than would normally be the case as a result of

these items). It also includes pension and environmental liabilities relating to the Target Businesses. In summary, the net cash proceeds from the Transaction before the Earnout are expected to be approximately \$3,065 million, equivalent to approximately £2,190 million, as shown below:

| | \$ million | £ million |
|--|--------------|--------------|
| Headline enterprise value | 4,555 | 3,255 |
| First Student and First Transit self-insurance provisions | (545) | (390) |
| Earnout Amount | (240) | (170) |
| Debt and debt-like items transferred to the Purchaser | (305) | (220) |
| Other enterprise value adjustments, including net working capital, pension, environmental liabilities, transaction costs | (400) | (285) |
| Net Disposal Proceeds | 3,065 | 2,190 |

The Transaction is conditional upon the satisfaction (or waiver, where applicable) of certain conditions prior to the End Date including:

- approval of the Resolution by Shareholders, which is being proposed as an ordinary resolution at the General Meeting; and
- the receipt or fulfilment of the Closing Approvals.

The Purchaser has agreed that, for 12 months following Completion, it and its subsidiaries, including First Student and First Transit, will use commercially reasonable efforts to continue to pursue COVID-19 pandemic government funding with respect to operations of the Target Businesses on or prior to the Locked Box Date for the benefit of FirstGroup. FirstGroup has agreed to use best efforts to obtain consents in respect of certain transit management services businesses operated by First Transit in order to extract them from First Transit prior to Completion.

The Purchase Agreement contains various termination rights. If there has been a Change in Recommendation prior to approval of the Resolution by Shareholders and the Purchaser exercises its right to terminate the Purchase Agreement: (a) as a result of such Change in Recommendation; or (b) due to approval of the Resolution by Shareholders not being obtained at the General Meeting, then a fee will be payable by FirstGroup to the Purchaser of approximately \$14 million. Where the Purchase Agreement is terminated, in certain specified circumstances (including where all conditions to Completion are fulfilled in accordance with the terms of the Purchase Agreement but the Purchaser fails to comply with its completion obligations under the Purchase Agreement), the Purchaser must pay a fee of \$250 million to FirstGroup.

The Purchaser has agreed to use its best efforts to obtain or fulfil the Closing Approvals as soon as practicable after the date of the Purchase Agreement and, in any event, on or before the End Date. Further, FirstGroup has agreed that it will not solicit any proposals from a third party to acquire the Target Businesses.

Under the Purchase Agreement, FirstGroup has given certain warranties, indemnities and covenants to the Purchaser. Further detail on these matters is contained in Part III (*Summary of the principal terms of the Transaction Documents*) of this document. The Purchaser has obtained representation and warranty insurance which, following Completion, will be its main recourse for any claim in respect of the representations and warranties given by FirstGroup in the Purchase Agreement, subject to limited exceptions.

As part of the Transaction, for a limited time following Completion, the Purchaser has agreed that the Target Businesses will provide certain transitional services to Greyhound pursuant to the Reverse Transitional Services Agreement.

The Board expects that, subject to the satisfaction and/or waiver (where applicable) of the conditions precedent to the Transaction, Completion will occur in the second half of the 2021 calendar year.

Further details of the principal terms of the Purchase Agreement and Reverse Transitional Services Agreement are set out in Part III (*Summary of the principal terms of the Transaction Documents*) of this document.

6. Use of proceeds, proposed Return of Value to Shareholders and financial effects of the Transaction on the Retained Group

In determining the use of the Net Disposal Proceeds, the Board has sought to balance a number of key considerations as set out in detail in paragraph 1 of this Part I above. In addition to returning part of the Net Disposal Proceeds to Shareholders via the proposed Return of Value, the Board intends to reduce the Group's financial indebtedness, discharge legacy liabilities and move its UK pension schemes to a low dependency funding position. The Board believes these measures will ensure the Retained Group is in a strong position to create value for Shareholders going forward. As a result, the Net Disposal Proceeds will be applied as follows:

Reducing the Group's financial indebtedness

The Group's net debt at 31 March 2021 is expected to be approximately £1.4 billion on a pre IFRS-16 basis (before the payment of rail franchise termination sums on South Western Railway ("**SWR**") agreed with the DfT at £33 million and TransPennine Express ("**TPE**") which, at the Latest Practicable Date, remains subject to finalisation), and excluding the First Rail ring fenced cash. As part of the Transaction, £220 million of financial indebtedness will be transferred to the Purchaser along with the Target Businesses. The Board believes that substantially reducing the remaining financial indebtedness of approximately £1.2 billion will provide the Retained Group with significant balance sheet strength and flexibility to navigate the current period of uncertainty and pursue its strategy going forward. As a result, the Retained Group will retain the £200 million 2024 Bond and approximately £45 million in First Bus finance leases, while repaying the remaining approximately £935 million of debt instruments and facilities including the £300 million in commercial paper issued through the UK Government's CCFF scheme. Make-whole costs of approximately £65 million in total will be incurred in relation to these repayments. The 2022 Bonds will be repaid once the Retained Group has put in place a new appropriately-sized revolving credit facility.

Discharge of certain significant liabilities

The Board believes the Transaction provides an opportunity for the Group to address certain significant legacy liabilities relating to the Greyhound business, and fund short term capital requirements of the Retained Group as well as the payments in relation to the rail franchise termination agreements. As a result, the Board intends to retain approximately £345 million for the anticipated discharge of these liabilities over the near term. This will allow the Retained Group to focus on growth opportunities in its core addressable markets instead of having to allocate further capital towards these liabilities.

Contribution to the Group's UK DB Pension Schemes

Both the First UK Bus Pension Scheme and the FirstGroup Pension Scheme are primarily sponsored by the First Bus business, and indirect access to financial support from the wider Group (including the Target Businesses) is currently provided via a parent company guarantee, from FirstGroup plc, which is reflected in the existing funding plans that have been agreed between the sponsor and trustees of each of the UK DB Pension Schemes (together, the "**Pension Trustees**").

As the underlying strength of this support will be reduced following the sale of the Target Businesses (which together contributed 62 per cent. of Group adjusted operating profit for the financial year ended 31 March 2020), and mindful of the Board's regulatory duties and the obligations of the Group in respect of the UK DB Pension Schemes, the Group engaged with the Pension Trustees to consider the impact of the Transaction on the UK DB Pension Schemes. As a result of that engagement and, following detailed negotiations, the Group entered into a memorandum of understanding with each of the Pension Trustees (together, the "**MoUs**", each as detailed further in paragraph 9 (*Material Contracts*) of Part VI (*Additional Information*)).

Under the MoUs, the Group has agreed to contribute in aggregate £336 million of the Net Disposal Proceeds to improve funding and accelerate de-risking of the UK DB Pension Schemes. To comply with the UK statutory regime, the Board must take all reasonable steps to eliminate or minimise the potential detrimental effects that the Transaction and the proposed Return of Value might have on the UK DB Pension Schemes.

Of the aggregate amount of £336 million:

- £220 million will be contributed into the First UK Bus Pension Scheme, while a further £95 million will be held under escrow. It is expected that this contribution to the First UK Bus Pension Scheme (which had an accounting deficit of £171 million as at 30 September 2020) will enable the First UK Bus Pension Scheme to move to a low dependency funding position.
- £21 million will be contributed to an escrow account to support the FirstGroup Pension Scheme.

The amounts in escrow may be released back to the Group following the conclusion of subsequent triennial valuations in 2024 onwards depending on scheme performance. The Transaction has no impact to the Railways Pension Scheme or the Local Government Pension Scheme in First Bus.

In agreeing the MoUs, the Board considered a range of structuring options to provide such mitigation, including an asset-backed approach, for example leveraging the UK real estate portfolio of the Retained Group. However, this option was not pursued because of the 'coupon' or 'rental' cash payments (potentially into perpetuity) associated with this structure, combined with the fact that the real estate is already contemplated by the respective schemes in their current covenant support and the market valuation of the UK real estate (approximately £95 million in May 2021) would not be fully recognised in such structure given the illiquid risk premium associated with real estate for funding purposes and would in any event only provide support sufficient to facilitate part of the proposed Return of Value at the intended level. The approach agreed with the Pension Trustees, which involves a cash payment from the Net Disposal Proceeds shortly following Completion, with a further amount held in escrow, is the most efficient way of achieving the Group's de-risking objectives, offers greater flexibility for the Group and includes the prospect for the amounts held in escrow to be returned to the Group in the future.

Proposed Return of Value to Shareholders

Given the ongoing effects of the COVID-19 pandemic and the near-term uncertainty this causes in the Retained Group's end markets, the Board believes it is prudent for the Group initially to maintain significant liquidity. Hence, of the remaining Net Disposal Proceeds of approximately £510 million, the Board intends to return £365 million of cash (equivalent to 30 pence per share) to Shareholders through the proposed Return of Value which will be executed during the current calendar year. The Board intends to consult with major shareholders as to the most appropriate distribution mechanism for the Return of Value in due course. It will consider a number of factors, including the scale of the proceeds to be returned, the balance of Shareholder preference following consultation, and prevailing market conditions.

It is envisaged that, shortly following Completion, full details of the proposed Return of Value will be made available to Shareholders and, if necessary, a general meeting of the Company will be convened to seek Shareholder approval to effect the Return of Value.

The Board will keep the balance sheet position of the Retained Group under review and will consider the potential for making further additional distributions to shareholders in due course, subject to end market outlook and business performance, as well as further clarity on the crystallisation of the Earnout and resolution of legacy liabilities related to Greyhound.

The expected use of proceeds is therefore summarised as follows:

| | £ million ³ |
|--|------------------------|
| Net Disposal Proceeds | 2,190 |
| Repayment of Government CCFF scheme funding | (300) |
| Repayment of other expected Group net debt as at 31 March 2021 (pre-IFRS 16 and excluding ring fenced cash, net debt transferred to the Purchaser and the 2024 Bond which is being retained) ^{4, 5} | (635) |
| Make-whole costs towards repayment of Group debt instruments | (65) |
| Cash retained for Greyhound liabilities, rail termination sums and short term capital requirements | (345) |
| Sub-total before contribution to UK defined benefit pension schemes | 845 |
| Contribution to UK defined benefit schemes | (336) |
| Net proceeds available to the Retained Group | 509 |
| Cash in Retained Group | (144) |
| Of which, proposed Return of Value to Shareholders in the current calendar year | 365 |

As a result, the Retained Group will retain cash of approximately £145 million from the Net Disposal Proceeds, offsetting the £200 million 2024 Bond and approximately £45 million in First Bus finance leases. As set out at Financial policy framework of the Retained Group in paragraph 7 (*Information on the Retained Group*) of this Part I below, the Board believes that the Retained Group will in due course support greater leverage as the COVID-19 pandemic restrictions ease and end markets uncertainties recede.

Financial effects of the Transaction on the Retained Group

In the financial year ended 31 March 2020, First Student and First Transit contributed combined EBITDA of £450.1 million and combined operating profit of £67.1 million to FirstGroup.

The financial information in this paragraph 6 has been extracted without material adjustment from the financial information contained in Part IV (*Historical financial information relating to the Target Businesses*) of this document. The effects of the Transaction upon the net assets of FirstGroup are set out in Part V (*Unaudited pro forma statement of net assets of the Retained Group*) of this document.

7. Information on the Retained Group

On Completion, FirstGroup will be a leader in public transportation in the UK, with a clear social purpose through its vision to provide easy and convenient mobility, improving quality of life by connecting people and communities. FirstGroup will comprise its First Bus and First Rail divisions, which are both leaders in their respective sectors of the UK public transport industry. Going forward, the Retained Group has a strong platform on which to create sustainable value, and is well-positioned to help deliver wider economic, social and environmental goals at key inflection point for the public transport industry. Following Completion and the proposed Return of Value, the Directors believe that the Retained Group will be a sustainable and cash generative business with a well-capitalised balance sheet and an operating model that will support an attractive dividend for Shareholders.

The Retained Group's opportunity for growth through delivering the UK's economic and ESG objectives

Public transport services are critical, long-term green infrastructure, as demonstrated during the COVID-19 pandemic and are fundamental to achieving the goals of the communities they serve,

³ This table sets out indicative figures for the expected use of the Net Disposal Proceeds.

⁴ Repayment of other expected Group net debt includes repayment of the RCF, the US Notes, the Bridging Loan, the Bilateral Facilities and the 2022 Bond, in each case in full. Details of the aforementioned financing arrangements are set out in paragraph 9 (*Material Contracts*) of Part VI (*Additional Information*).

⁵ It is noted that the 2022 Bond will only be repaid once the Retained Group has put in place a new appropriately-sized revolving credit facility. The Company expects to enter into such new revolving credit facility prior to Completion.

the economy and wider society. The connections offered by the Retained Group's services are a critical enabler of vibrant local economies, expanding the scale and interconnectivity of neighbourhoods, cities and whole regions with each other. Better connected towns and cities form a core part of the UK's regional 'levelling up' agenda and, with increasingly crowded and congested cities, the most cost-effective way to enhance those connections is through a dynamic public transport service sector. The Retained Group's services are also a more efficient use of infrastructure space with lower emissions than other forms of travel in urban areas.

Governments worldwide have recognised that transitioning more travellers to low and then zero-carbon transport services is also critical to meeting the challenge of climate change. FirstGroup expects the services of the Retained Group to make an important contribution to achieving this goal in two ways. Firstly, by facilitating a modal shift of passengers out of their cars and into public transport, because the per passenger mile emissions of a typical train or double decker bus today are significantly lower than the equivalent number of private vehicles. Secondly, FirstGroup is committed to accelerating the transition of its own fleets to zero-carbon in the coming years, supporting a commensurate growth in green jobs, manufacturing and new business models such as vehicle to grid power, for example. Both divisions of the Retained Group will therefore make a significant contribution to delivering the UK's climate change commitments in the coming years.

FirstGroup has a clear purpose to provide vital transportation services that connect communities – taking customers where they need to go for business, education, health, social or recreational purposes. For passengers, FirstGroup's public transport services offer efficient, cost effective and convenient travel options, both within and between the UK's congested towns and cities. Public transport is an attractive travel choice for customers, with increasingly sophisticated and easy-to-use journey planning tools (principally delivered via smartphone apps), simple and value-for-money ticket products catering to a wide range of needs, and reduced complexity and cost compared to other travel options (in particular owning, maintaining, insuring and parking a private car in the UK's increasingly crowded towns and cities). FirstGroup's transport services allow flexible and easy to access travel on WiFi-enabled vehicles to and from key destinations in towns and cities across the UK. Taken together, the increasingly supportive UK policy environment and growing focus on innovating to enhance passenger convenience points to a potential inflection point for the Retained Group's medium term growth potential.

The Group's services are a critical enabler in meeting society's ESG objectives and its role is underpinned by the Group's Mobility Beyond Today sustainability framework, which commits to making progress across a number of key areas. As a transport operator, the most important element is the Group's commitments to a zero-emission trajectory for its vehicle fleets (see First Bus and First Rail sections below), which will increase its EU Green Taxonomy eligibility year by year. The Group has also committed to implementing the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations in its 2021 reporting, a year ahead of the regulatory mandate. FirstGroup is also the first UK road and rail operator to formally commit to setting a science-based target ("SBT") for reaching net zero emissions by 2050 or earlier, in accordance with the SBT initiative. Alongside top decile ratings in our sector globally from multiple ESG ratings providers, FirstGroup is a longstanding constituent in the FTSE4Good index and was recently recognised with a place in the 2021 Clean200 report, which ranks the world's largest publicly listed companies by their total clean energy revenues from products and services that provide solutions for the planet and define a clean energy future, the only passenger transport operator based in Europe to be listed in this year's report.

Investment case of the Retained Group

The Retained Group's services will have a fundamental role to play in delivering the UK's economic and social objectives, as well as providing a vital service that is an essential part of the daily lives of many people in communities across the UK. On Completion, the Board expects FirstGroup to be a strong platform for further value creation based on the following:

- **Leading positions in bus and rail transportation in the UK:** First Bus is a leader in regional bus operations outside London with approximately 20 per cent. of market share and strong positions in most of its local areas of operation. First Rail is the largest passenger rail operator in the UK by revenue with approximately 27 per cent. of the national passenger rail sector;

- **Inflection point for growth, underpinned by supportive government and social policies:** public transport operators play a vital role in meeting local and national objectives, including net zero carbon, green jobs, reduced congestion, improved air quality, and the “levelling up” agenda, particularly in “left behind” towns and regions, as well as the recovery in economic and social activity following the COVID-19 pandemic;
- **Digital innovation to attract more customers, enhance business efficiency and flexibility,** enhancements to stimulate passenger growth, by delivering FirstGroup’s vision to provide easy and convenient mobility, improving quality of life by connecting people and communities;
- **First Bus: ready to complete trajectory to delivering a 10% margin in the first full financial year after pandemic-related social distancing restrictions on public transport end,** with network realignment, service delivery efficiencies, data-driven pricing and other actions to drive passenger revenue growth and margin improvement, as described further in the First Bus section below;
- **First Rail: well-placed for lower risk, long term and cash generative rail operations:** As the largest incumbent operator with four UK passenger rail contracts expected to at least 2023, First Rail will benefit from the government’s transition of the passenger rail industry’s commercial structure to a lower-risk and more predictable National Rail Contract Model, with a more appropriate balance of risk and reward, as described further in the First Rail section below;
- **Opportunities from adjacent markets in UK bus and rail and in new geographies over time,** leveraging the Group’s considerable industry knowledge, skills and experience; and
- **Critical enabler of society’s ESG goals, accelerating the transition to a zero-carbon world:** principally through facilitating modal shift from cars and through FirstGroup’s commitments to transition its bus fleet to zero-carbon by 2035, to cease to purchase any new diesel buses after December 2022 and to support the UK Government’s goal to remove all diesel-only trains from service by 2040.

First Bus

First Bus operates around a fifth of local bus services in the £4.2 billion deregulated market outside London. First Bus generally has leading positions in geographies where it operates and serves two-thirds of the UK’s 15 largest conurbations, including Glasgow, Bristol and Leeds. The digital transformation programme undertaken by First Bus in recent years has placed it at the forefront of the industry including for real-time passenger volume data capture and ticketing. This has allowed it to be highly flexible and responsive to both customer and stakeholder needs during the COVID-19 pandemic, and these will be invaluable as bus demand trends evolve in the future. Improvements to the business that have already been made, together with its increased agility, mean that management expect to deliver 10 per cent. margins in the first full financial year after pandemic-related social distancing restrictions on public transport end, in a range of potential passenger volume scenarios. First Bus is already an industry leader in respect of low emissions buses, and has stated commitments and plans in place to play its part in the decarbonisation of the UK economy.

First Bus business transformation

Building on its platform of well-established businesses in its local areas of operation, First Bus embarked on a digital transformation and service delivery efficiency programme in 2019 to deliver enhanced financial performance over the medium term. As a result of investments in its digital ticketing systems and GPS functionality, First Bus now has the capability to assess passenger flows, and make commercial decisions, with much greater speed and precision using the wide range of data now available to it. For example, throughout the COVID-19 pandemic, First Bus was able to continuously adjust services in consultation with local stakeholders to ensure it met emerging travel demands. Going forward, this data will be fundamental in enabling First Bus to continue to shape its bus routes and timetables to align with evolving customer needs and trends while being commercially sustainable.

The digital transformation has included enhancements to convenience for passengers, which will help to drive customer volumes, loyalty and sustain pricing over the medium term. Innovations in the First Bus mobile app and websites have increased functionality for passengers, for example, enabling customers to check the real-time available capacity on an approaching bus, including the wheelchair space. Furthermore, this technology allows customers to plan ahead and check how busy their bus is likely to be on any day of the week and time of day. The efforts to increase ticket purchasing convenience is demonstrated by the rapid increase in the use of the mobile app or other contactless methods, which now stands at two thirds of all ticket transactions. Innovations such as these contributed to First Bus' app being named Travel App of the Year in 2020 at the UK App Awards. Enhancements continue, with a daily and weekly contactless 'tap and cap' fares now being rolled out to multiple locations across the network following successful trials, while in September 2020, First Bus was the first national bus operator to introduce Express Mode for Apple Pay across all networks.

First Bus financial profile

The detailed passenger flow data and ongoing customer innovation capabilities noted above are key to the Retained Group's business plans going forward. In the near term, passenger information will be instrumental in managing the transition from the current government funding arrangements (the CBSSG Scheme) which are in place during the COVID-19 pandemic. This industry-wide arrangement procures critical bus connections to local economies while social distancing rules make services unviable on a commercial basis. Under the arrangement, First Bus earns a nominal income to cover the cost of capital deployed and pension contributions on a "zero surplus" basis.

First Bus management's preparations are well-advanced for the eight-week transitional period before CBSSG Scheme ends that will follow the lifting of social distancing restrictions on public transport. Although near-term passenger volume and revenue levels following the COVID-19 pandemic are difficult to forecast with any certainty at present, management are readying detailed plans to realign networks in several potential volume scenarios, and the Group's current expectation is that bus passenger volumes will recover to between 80 and 90 per cent. of pre-pandemic levels during the first year after social distancing restrictions on public transport come to an end. As part of its planning processes, First Bus was encouraged that passenger volumes recovered rapidly to approximately 60 per cent. of pre-pandemic levels in some of First Bus' local areas when travel restrictions were partially eased over the summer and autumn of 2020 despite social distancing requirements being maintained on buses. In the post-pandemic environment, it is possible that passenger demand on some routes may no longer support previous levels of commercial operations. The recently launched National Bus Strategy in England provides a clear framework and funding for bus operators and local government to promote bus use, and First Bus will work with local transport authorities to develop Bus Service Improvement Plans and future statutory partnerships. These will align services to the needs of local bus customers and enable access to the funding available to help deliver them in the coming years. Management expect that the revenue effect of any volume reductions will be mitigated over time by the targeted network changes, together with a new data-driven pricing strategy which is underway and other ticketing innovations. First Bus is also building on its existing platform of contracted fleet services for commercial customers in order to deliver revenue growth and capital efficiency.

First Bus has a significant level of operational gearing, and margin recovery will in part result from the expected increase in volume and revenue noted above. Margin performance will also benefit from operational and engineering efficiency actions already in place, as well as £3 million in divisional overhead and other cost improvements made since 2019, which will enhance the level of operational gearing to increased passenger activity. Taken together, First Bus' adjusted operating profit margin is therefore expected to improve to 10 per cent. in the first full financial year after pandemic-related social distancing restrictions on public transport end.

The future

Looking ahead, First Bus is already a leader in the industry for low emission vehicles and looks forward to playing its part in decarbonising the UK economy through its commitments to operate a zero-emission bus fleet in the UK by 2035, and cease to purchase any new diesel buses after December 2022. First Bus already operates 2,738 zero or low emission vehicles, including the

world's first hydrogen-powered double decker buses in Aberdeen, the country's biggest electric Park & Ride bus fleet in York and 99 biomethane buses in Bristol (78 of which are owned by First Bus). As zero-emission bus technology is developing rapidly, First Bus is working with a number of vehicle manufacturers to evaluate and shape the key attributes of the available technologies. In February 2021 for example, First Bus announced it will be the first operator in the UK to trial Arrival's unique vertically integrated electric bus technology.

There is also a significant, growing role for public transport generally, and buses in particular, to help deliver on national and local governments' commitments to reduce congestion and air pollution, improve city connectivity and 'level up' parts of the country through improved economic infrastructure and opportunity.

The importance of all of these agendas to the UK was clearly indicated in the Government's 'Green Industrial Revolution' plan and the November 2020 Spending Review. The National Bus Strategy published in March 2021 takes this a step further, recommitting the UK government to £3 billion in investment to "*see passengers across England benefiting from more frequent, more reliable, easier to use and understand, better coordinated and cheaper bus services*". The National Bus Strategy also emphasises the importance of the transition to greener and more sustainable transport, with funding intended to support 4,000 new zero-emission buses across the country over the current Parliament.

As demonstrated during the COVID-19 pandemic, buses are the most flexible, value for money solution for providing the critical public transport services which are so essential to local economies and communities. Bus networks are also key to supporting a modal shift particularly from cars to sustainable, zero-carbon public transport, a key strand in meeting the UK's climate change goals. The fundamentals for a resurgent bus business are sound, and First Bus looks forward to playing an important role in a robust, and environmentally sustainable economic recovery.

First Rail

In the year to end March 2020, total passenger revenue and net passenger operator funding in the UK rail industry was £12.8bn. First Rail currently operates the largest portfolio of passenger rail services by revenue in the UK, with approximately 27 per cent. of national passenger rail revenues (adjusting for its minority holdings in SWR and the West Coast Partnership). These include four UK rail wholly or majority-owned operations, namely the West Coast Partnership (in which Trenitalia is a 30 per cent. minority shareholder and which comprises operation of Avanti West Coast and the role of 'shadow operator' to the HS2 project), GWR (100 per cent. owned), SWR (in which MTR Europe is a 30 per cent. minority shareholder) and TPE (100 per cent. owned) as well as one open access rail service, Hull Trains, and a second, East Coast Trains, launching later in 2021. It also operates the Tramlink network on behalf of Transport for London.

The passenger services delivered by these operations form a critical part of the UK's national transport infrastructure, and as a result they have been sustained in operation throughout the COVID-19 pandemic by the UK government. First Rail has more than 25 consecutive years of participation in the UK rail industry, with experience running all types of rail operation and a strong track record of delivering complex projects. As one of the largest incumbents in the industry and with its extensive history in the sector, First Rail is well-positioned as the UK government completes the transition of the industry's commercial structure to a lower-risk and more predictable National Rail Contract model.

UK rail industry transition

The UK government is currently working through the process of transitioning from the revenue risk-based franchising system, which was in place prior to the COVID-19 pandemic, to a management contract-style structure with a more appropriate balance of risk and reward for all parties. Under the proposed new National Rail Contracts, operators are expected to be paid a fixed management fee with performance incentives for delivery against specific punctuality and other operational targets. Under the new contract model, there is expected to be no passenger revenue risk and limited cost risk for operators as well as no significant contingent capital requirements. This is expected to result in a more sustainable long term commercial structure, putting service delivery for passengers at the centre. First Rail is currently discussing a new

National Rail Contract to 28 May 2023 for SWR (with an extension period of up to two further years at the discretion of the DfT), and up to 31 March 2032 for the West Coast Partnership (with the core and extension periods to be determined). Meanwhile GWR is currently operating under an Emergency Measures Agreement contract which runs to 1 April 2023, with a possible extension of up to one further year at the DfT's discretion. Assuming SWR and TPE are agreed, First Rail therefore expects to be operating approximately a quarter of the UK's passenger rail system until at least the end of March 2023. Overall, the new model is expected to deliver a successful railway system that works better for passengers while generating more resilient and consistent returns for Shareholders.

The future

Looking ahead, First Rail's expertise and experience in the UK passenger rail industry since privatisation provides a strong platform for further National Rail Contract awards in the future. First Rail can draw on a strong track record of delivery on major projects to enhance passenger experience, including fleet introductions, major timetable changes, capital projects on behalf of Network Rail, innovations such as multi-modal trains and managing the impact of significant infrastructure changes from network electrification through to route upgrades.

In addition, the Retained Group's rail division has developed skills and expertise in a range of related areas. First Rail has set up open access operations (both with Hull Trains and with the East Coast Trains open access operation which is due to start services from London to Edinburgh later in 2021), developed and deployed new rail technology such as next generation on-board WiFi, on-train entertainment, as well as integrated passenger information and analytics systems. First Rail also delivers high levels of customer satisfaction and efficiency through its integrated passenger contact centre which was built based on scalability and the latest technology. The bespoke customer service centre operates at a lower cost than First Rail's previous outsourcing arrangements and provides a single service for all customer queries across several First Rail operations. First Rail will also seek to build on its consultancy experience as 'shadow operator', to the HS2 infrastructure project since last year.

First Rail also has an important contribution to make in meeting the challenges of climate change and is working with its partners to reduce carbon emissions, for example through the introduction of electric trains to replace diesel where possible. This includes future rolling stock for Avanti West Coast, the introduction of bi-mode trains by TPE and Hull Trains in the last year which can run on both electrified and non-electrified track, while GWR recently took delivery of the UK's first tri-mode train which can use overhead wires, third rail or diesel power. Plans to upgrade the SWR fleet continue with new suburban rolling stock starting to enter service this year. The UK government has set out an ambition to remove all diesel trains from service by 2040 and First Rail's operations have committed to use their expertise and capability to help deliver this.

For some time, FirstGroup has advocated for a longer-term approach to the railway with passengers at the core, underpinned by a more sustainable balance of risk and reward for all parties. The Group is well positioned to work closely with industry partners, including the government, to bring this to reality in the coming years.

Governance and Group functions

Each of the Group's divisions is run in a decentralised way, with clear commercial strategies and related capital allocation, so as to be responsive to the needs of their local customers. All, however, are managed in accordance with the Group's overall vision and values and the strategic direction set by the Group. The lean corporate centre focuses primarily on fostering a high performance culture, setting strategic direction, raising and allocating capital, overseeing succession planning and personnel development, establishing key targets and standards and monitoring performance.

The Group has reorganised and reduced the costs associated with the corporate centre in recent years and it is envisaged that a further reduction of at least £10 million per annum in these costs will follow from the 2023 financial year given the material reduction in the Group's scale and complexity.

Financial policy framework of the Retained Group

The targeted financial policy framework for the Retained Group can be summarised as follows:

| Metric | Objective |
|---------------|---|
| Revenue | <ul style="list-style-type: none">• First Bus: Planning for a range of post-pandemic scenarios; central case envisages passenger volumes recover to between approximately 80 per cent. and 90 per cent. of pre-pandemic levels during the first year after social distancing restrictions on public transport end, with further growth thereafter.• First Rail: opportunities to build on base business of four contracted operations with no revenue risk. |
| Profitability | <ul style="list-style-type: none">• First Bus: targeting 10 per cent. margins in first full financial year after social distancing restrictions on public transport end.• First Rail: profitability driven by delivering against performance targets under the National Rail Contracts while adding earnings in adjacent rail opportunities.• Reduction in central costs of at least £10 million per annum from FY23. |
| Investment | <ul style="list-style-type: none">• First Bus: approximately £90 million per annum from FY23, mainly driven by the commitment to operating a zero-emission bus fleet by 2035.• First Rail: expected to continue to be cash capital-light under the National Rail Contracts. |
| Leverage | <ul style="list-style-type: none">• Target leverage ratio of less than 2.0x net debt (pre-IFRS 16)/ Bus and non-contracted Rail EBITDA, plus contracted Rail dividends, minus central costs. |
| Dividend | <ul style="list-style-type: none">• Intention to pay regular dividends to shareholders commencing in FY23.• Subject to a normalisation of trading conditions post-pandemic, targeting annual dividend around 3x covered by new Adjusted Profit After Tax measure.• Adjusted Profit After Tax defined as Bus and non-contracted Rail adjusted operating profit, plus contracted Rail dividends, minus central costs, minus treasury interest, minus tax. |

In summary, the Retained Group is expected to be a sustainable and cash generative business with a well-capitalised balance sheet, and an operating model that will support an attractive dividend for Shareholders.

Greyhound

Greyhound remains non-core and FirstGroup continues to pursue all exit options for the business in order to conclude the Group's portfolio rationalisation strategy. Sale discussions are ongoing but the process has been affected by the COVID-19 pandemic's impact on this passenger volume-based business. The impact on Greyhound's financial performance and cash generation continues to be mitigated by tight cost control and recoveries of 5311(f) grants for operating key coach services under the US CARES Act. As noted above, approximately \$250 million of the Net Disposal Proceeds will be utilised to buy out the legacy pension and substantially de-risk the self-insurance liabilities associated with Greyhound. The Group will continue to actively manage the Greyhound property portfolio for value alongside Greyhound's reduced residual liabilities. For the

purposes of the Retained Group pro forma net debt position, approximately £15 million of finance leases attributable to Greyhound have been excluded.

FirstGroup Board

As a natural consequence of the Transaction, and as the Group enters a new strategic phase, the composition and background of the Board will evolve. FirstGroup announced on 23 April 2021 that Jane Lodge and Peter Lynas will be joining the Board as non-executive directors on 30 June 2021. David Robbie has also notified the Group that he will not seek re-election at the 2021 AGM and will stand down from the Board on 30 June 2021. The Nomination Committee, led by Chairman David Martin, will continue to oversee an orderly and appropriate evolution of the Board in order to ensure it has the right balance of skills, experience and diversity for the Retained Group's future needs.

8. Current trading, financial position and future prospects of the Group

On 23 April 2021, the Company published an update on trading and liquidity which included the following summary of the significant trends in the recent financial performance of the Group:

"Whilst some uncertainty remains due to the COVID-19 pandemic, the Board's visibility over the Group's performance has continued to improve since the half-yearly results announced on 10 December 2020. Due to strong cost control and other actions to manage the consequences of the pandemic, FirstGroup now expects adjusted operating profit for the 2021 financial year to be ahead of management's previous expectations.

Since the Group's last update in December 2020, the proportion of First Student's bus fleet operating either full service or on a hybrid basis has increased, to 95% in the second week of April, and First Transit's service levels have remained broadly stable. Greyhound volumes have improved modestly and the division is now operating just over half of its pre-pandemic mileage. Passenger volumes in First Bus and First Rail have also increased as UK lockdown restrictions have started to ease.

The Group has continued to take all prudent and appropriate action to maintain a robust financial position and strong liquidity. The Group's free cash (before rail ring-fenced cash) and committed undrawn banking facilities was c.£905m as at 22 April 2021. Since the last liquidity update in December 2020, the Group has repaid the £350m April 2021 bond mainly funded from drawdown of the £250m bridge facility entered into in March 2020, secured £102m in cash proceeds from the sale of Greyhound properties announced at the end of December 2020, while operating cash flow in the second half of the financial year was positive and ahead of our expectations. In March the Group renewed the £300m in commercial paper issued through the CCFF scheme for a further year and secured a further £300m committed bridge facility from the CCFF maturity in March 2022, thereby providing adequate financial resources for the short to medium term."

There has been no significant change to the current trading of the Group since this statement was made. The Board believes that adjusted operating profit for the year ended 31 March 2021 will be ahead of the top of the range of analyst consensus forecasts of approximately £171 million as at the date of the announcement of the Transaction.⁶ A further update on current trading and prospects of the Group will be provided when results for the year ended 31 March 2021 are published in June 2021.

9. Risk factors and further information

You should read the whole of this document and should not just rely on the summarised information, including the summarised financial information, contained in this Part I (*Letter from the Chairman*). In particular, your attention is drawn to the risk factors set out in Part II (*Risk factors*) of this document.

⁶ This profit estimate is on a basis of accounting which is consistent with the accounting policies of the Group and remains subject to completion of the audit process for the Group's 31 March 2021 results.

10. General Meeting

The Transaction is of sufficient size relative to FirstGroup to constitute a class 1 transaction for FirstGroup under the Listing Rules. As such, the sale is conditional upon the approval of Shareholders at the General Meeting.

A notice convening the General Meeting, to be held at 8th Floor, The Point, 37 North Wharf Road, London W2 1AF at 1.00 p.m. on 27 May 2021, is included on pages 67 to 71 of this document. Given the continued social distancing measures and health and safety guidance imposed by the UK Government as a result of the COVID-19 pandemic, the General Meeting will be convened with the minimum quorum of Shareholders (which will be facilitated by FirstGroup's management) in order to conduct the business of the General Meeting. The health and safety of our Shareholders and colleagues is always our utmost priority and Shareholders are strongly advised not to seek to attend the General Meeting in person. The General Meeting will be held with limited physical attendance, and Shareholders (and any appointed proxies (other than the chairman of the General Meeting) or corporate representatives) may not be granted access to the General Meeting in person. We strongly urge Shareholders to vote online in advance or by proxy on the Resolution as early as possible, and the Board recommends that Shareholders appoint the chairman of the General Meeting as their proxy. If any other person is appointed as proxy, they may not be permitted to attend the General Meeting in person.

Shareholders will be able to remotely follow the General Meeting via an audiocast on the Virtual Meeting Platform, where they will also be able to submit questions relating to the business of the General Meeting during the meeting. Details of how to access the Virtual Meeting Platform are set out in the Notice of General Meeting.

Shareholders who wish to ask a question of the Board relating to the business of the General Meeting can do so by submitting questions in advance of the meeting also by email to companysecretariat@firstgroup.com. The Board will consider all questions received in advance of the General Meeting and, to the extent practicable, answers will be published on FirstGroup's website.

The Resolution will be decided on a poll. The Board believes a poll is more representative of Shareholders' voting intentions because Shareholders' votes are counted according to the number of shares held and all votes tendered are taken into account.

The results of the General Meeting will be published on the Company's website (<https://www.firstgroupplc.com/investors>) and will be released via a Regulatory Information Service as soon as practicable following the closing of the General Meeting.

11. Action to be taken

Your support is important to us. You can appoint a proxy (and are strongly encouraged to appoint the chairman of the General Meeting) and submit voting instructions in any of the following ways:

- logging on to www.sharevote.co.uk;
- via CREST; or
- by completing and returning the paper Proxy Form if one has been sent to you.

Please read the notes to the Notice of General Meeting on pages 67 to 71 of this document for further details of the General Meeting, including the appointment of proxies and how to follow the General Meeting via the live audiocast on the Virtual Meeting Platform.

12. Financial advice

The Board has received financial advice from Rothschild & Co, J.P. Morgan Cazenove and Goldman Sachs in relation to the Transaction. In providing their advice to the Board, Rothschild & Co, J.P. Morgan Cazenove and Goldman Sachs have relied upon the Board's commercial assessment of the Transaction.

13. Recommendation to Shareholders

The Board considers the Transaction (and the Resolution necessary to implement the Transaction) to be in the best interests of FirstGroup and its Shareholders as a whole and, accordingly, the Board unanimously recommend that Shareholders vote in favour of the Resolution at the General Meeting.

The Directors intend to vote in favour of the Resolution at the General Meeting in respect of their respective individual beneficial holdings, being in aggregate 1,324,829 FirstGroup Shares representing approximately 0.11 per cent. of the total issued share capital of the Company as at Latest Practicable Date.

Yours faithfully,

David Martin
Chairman

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the Resolution at the General Meeting, Shareholders should consider the factors and the risks associated with the Transaction, together with all other information contained in this document, including, in particular, the risk factors described below. The risks disclosed are those that the Company considers: (i) are material risks relating to the Transaction; (ii) will be material new risks to the Retained Group as a consequence of the Transaction; or (iii) are existing material risks for the Group that will be impacted by the Transaction.

The risk factors set out in this document are those that are required to be disclosed under the Listing Rules, and do not seek to cover all of the material risks which generally affect the Group. Further information on the material risks which generally affect the Group are set out in FirstGroup's 2020 Annual Report.

The following is not an exhaustive list or explanation of all the risks that may affect FirstGroup Shares or the Group. Additional risks and uncertainties relating to FirstGroup Shares and the Group that are not currently known to the Directors, or that the Directors currently deem immaterial, may, individually or cumulatively, also have a material adverse effect on the business, financial results or financial condition and prospects of the Group, and, if any such risk should materialise, the price of FirstGroup Shares may decline and investors could lose all or part of their investment.

The information given is at the date of this document and, except as requested by the FCA or required by the Listing Rules or any other applicable law, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-looking statements" at the beginning of this document.

1. Risks relating to the Transaction

1.1 *The Transaction may not proceed to Completion*

Completion of the Transaction is subject to certain conditions under the Purchase Agreement, including (without limitation) the receipt of certain antitrust and regulatory approvals and the passing of the Resolution at the General Meeting prior to the End Date. Completion is also subject to the accuracy of the representations and warranties made by each party in the Purchase Agreement as at the date of Completion (subject to certain exceptions relating to materiality) and each party to the Purchase Agreement complying in all material respects with the covenants and agreements applicable to such party prior to or on the date of Completion.

In addition, the Purchaser's obligation to complete the Transaction is subject to the absence of a material adverse effect on the financial condition or results of operation of the Target Businesses since 26 December 2020, subject to certain exceptions (including impacts due to the COVID-19 pandemic). The performance of the Target Businesses may be impacted by a number of factors up to Completion beyond those contemplated and disclosed as at the date of signing of the Purchase Agreement including, but not limited to, the ongoing effects of the COVID-19 pandemic and the associated restrictions on public life. For example, in respect of First Student, there is uncertainty as to the near-term demand for school services in the face of potential further school closures, and for First Transit, should air travel remain restricted and/or universities suspend physical learning, its shuttle services could see a significant reduction in service. There is no guarantee that each of these conditions will be satisfied and, as such, no certainty that the Transaction will proceed to Completion.

If the Transaction does not proceed to Completion, in addition to not receiving the Net Disposal Proceeds, FirstGroup will not realise any of the potential benefits of the Transaction and FirstGroup will have incurred material costs in connection with the Transaction. In certain specified circumstances (including where all conditions to Completion are fulfilled in accordance with the terms of the Purchase Agreement but the Purchaser fails to comply with its completion obligations under the Purchase Agreement), the Purchaser must pay a Reverse Termination Fee of \$250 million to FirstGroup. However, there is no guarantee that the circumstances in which the Purchase Agreement is terminated will require the Purchaser to pay FirstGroup any termination

fee. Further, the Purchase Agreement provides for circumstances in which FirstGroup itself is required to pay the Purchaser a specified termination fee.

1.2 *The Transaction may have a disruptive impact on First Student or First Transit*

Any disruption to First Student or First Transit as a result of the Transaction could impact the value, position and prospects of either or both of First Student or First Transit, in particular if the Transaction does not proceed to Completion as set out in 1.1 (*The Transaction may not proceed to Completion*) of this Part II.

Consummation of the Transaction will require significant work and resource among the senior management and employees of both First Student and First Transit that could otherwise be spent productively operating the divisions in the ordinary course. First Student's and First Transit's management, employees, suppliers and customers may become distracted by the Transaction and any perceived uncertainty as regards the future ownership of First Student or First Transit and as a consequence may become reluctant to make long-term commitments to these divisions. If suppliers or customers delay, defer or change commitment decisions, the revenue of First Student or First Transit could be adversely impacted. If key management and employees of either First Student or First Transit decide to leave, the relevant business may encounter additional costs in recruiting and there is no guarantee they will identify appropriate replacements.

1.3 *Third party interference with the Transaction*

FirstGroup may receive unsolicited competing offers for First Student and First Transit, or one of them, in the period prior to the date of the General Meeting. The Directors might consequently be required (in accordance with their fiduciary duties and subject to the terms of the Purchase Agreement) to amend or withdraw their recommendation in favour of the Resolution and the Transaction, postpone or cancel the General Meeting.

FirstGroup has limited rights to terminate the Purchase Agreement in the event it receives a competing offer for First Student and First Transit. Therefore, if a competing offer for First Student and First Transit is received, FirstGroup is likely to be obliged to proceed with the Transaction on the terms set out in the Purchase Agreement (unless a Change in Recommendation is made by the Board of Directors in accordance with the terms of the Purchase Agreement, the Resolution is not passed at the General Meeting or a separate termination right becomes applicable).

In addition, as a listed company, FirstGroup could be exposed to approaches from third parties seeking to instigate a public takeover of FirstGroup and, prior to the General Meeting, the Directors might consequently be required (in accordance with their fiduciary duties and subject to the terms of the Purchase Agreement) to withdraw their recommendation in favour of the Resolution and the Transaction, which may result in the Transaction not proceeding to Completion.

1.4 *FirstGroup's, First Student's or First Transit's reputations may be harmed if the Transaction does not proceed to Completion*

FirstGroup, First Student and First Transit are well known companies and often face press and public scrutiny in the countries in which they operate. As such the Transaction is likely to receive extensive media coverage in the UK, the US and Canada. If the Transaction does not proceed to Completion, the reputations of FirstGroup, First Student and First Transit may be adversely impacted as a result of such public scrutiny. This could, in turn, have a material adverse effect on the Group's business, results of operations and overall financial condition. Failure to complete the Transaction may also have a negative impact on the Group's ability to pursue its rationalisation strategy.

1.5 *FirstGroup may incur liability under the Purchase Agreement*

The Purchase Agreement contains customary warranties, indemnities and other contractual protections given by FirstGroup in favour of the Purchaser. FirstGroup has undertaken a customary due diligence and disclosure exercise against the warranties, and the Purchaser has conducted its own due diligence exercise. The Purchaser has also obtained representation and warranty insurance which, following Completion, will be its main recourse for any claim in respect

of the warranties given by FirstGroup in the Purchase Agreement (subject to limited exceptions). Notwithstanding the foregoing, any liability to make a payment arising from a successful claim by the Purchaser under any of the relevant provisions of the Purchase Agreement (that is not covered by the Purchaser's representation and warranty insurance) would reduce the Net Disposal Proceeds and could have an adverse effect on the business and financial condition of the Group, or if the Transaction proceeds to Completion, the Retained Group. FirstGroup's liability in relation to the indemnities it gives in the Purchase Agreement is uncapped.

1.6 *The consideration payable in respect of the Transaction is exposed to currency exchange fluctuations*

The consideration payable in respect of the Transaction is denominated and payable in US Dollars. FirstGroup has adopted a range of risk management strategies to hedge the risks of exchange rate fluctuations associated with the Transaction, including purchased option contracts totalling approximately £350 million (at an exchange rate of USD:GBP \$1.41:£1.00), together with a further £200 million forward contracts (at an exchange rate of USD:GBP \$1.39:£1.00) and existing cross currency swaps that fully hedge all GBP denominated net debt into USD. Notwithstanding the foregoing, there is a risk that exchange rate fluctuations will result in the Sterling proceeds from the Transaction being lower than FirstGroup currently anticipates, which may have an adverse impact on the Retained Group's intended use of the proceeds from the Transaction.

2. *New material risks relating to the Retained Group*

2.1 *The Retained Group will be less diversified and will be more dependent on the performance of the relevant members of the Retained Group*

Risks immediately following the Transaction

The Target Businesses constitute the majority of the Group's North American business. Therefore, following Completion, there will be a reduction in the operational and geographical diversity of the Group, and it will be more dependent on the performance of, and revenue from, its UK divisions. As a result, the Retained Group's performance will be more exposed to changes in the UK market.

After Completion, Greyhound will be the Retained Group's only business outside the UK and Ireland. As a result, the Retained Group's operational costs in North America (in particular, insurance costs) could increase, which could result in there being a material adverse effect on the Retained Group's business and financial condition (notwithstanding the fact that the Group intends to use some of the proceeds of the Transaction to settle legacy Greyhound liabilities).

Post Completion, the substantially reduced Retained Group will remain liable for the existing and future North American Insurance Liabilities in respect of Greyhound. The required reserve level will be disproportionately large compared to the size of the Retained Group and greater pressure will be placed on the remaining divisions. Should the claims environment continue to deteriorate, the reserve would need to increase. Such increase, or any delay or increased cost of de-risking the North American Insurance Liabilities of the Retained Group, would place additional strain on the Retained Group's overall financial condition.

Risks following the Transaction and anticipated future disposals

After Completion, the Retained Group's core divisions will be First Rail and First Bus which are both UK-based. This will leave the Retained Group more susceptible to risks faced by bus and rail operators in the UK and adverse developments in those sectors.

The UK public transport market is still feeling the effects of the COVID-19 pandemic, with substantial reductions in passenger volumes seen across the country. There remains uncertainty as to near-term customer demand, longer term customer and commuting behaviour, and the level of procurement and financial support measures governments and national and local government authorities will be willing or able to continue to provide. If the Retained Group is more dependent on its UK divisions, the current uncertainty surrounding the long-term effects of the COVID-19 pandemic on the use of public transport will become more profound. For First Bus specifically, if

passenger levels do not return to pre-COVID-19 pandemic volumes before the end of social distancing, the division will see a drop in revenue as it will no longer benefit from the funding received from the UK government under the CBSSG Scheme.

For both divisions, there is also risk that there will be a long-term change in consumer behaviour. Such changes, without limitation, could include less demand for public transport if working from home and online shopping trends persist, a disinclination to travel on public transport, and a heightened sensitivity to cleanliness, hygiene standards and social distancing measures. Changes in consumer preferences could result in diminished demand for the Group's services (particularly if the Group cannot adapt its business accordingly) and/or higher operational costs in order to meet new consumer expectations. If this is the case, existing forms of competition to both these divisions, principally the private car, but also disruptive technologies and services such as Uber which make access to alternative private transport solutions easier for consumers, may be strengthened.

As First Rail will be a proportionally greater part of the Retained Group, the performance of the Retained Group will be more susceptible to political and regulatory intervention by the UK authorities. Governmental intervention is prominent within the UK rail industry and the structure and performance of First Rail's operations are highly dependent on the decisions of the DfT. Currently, rail franchise awards from the DfT account for the majority of private train operations. However, the UK government has announced its intention to bring the UK's current rail franchising system to an end and replace it with a new model for delivery of rail passenger services by private operators. The new contracts will not include the same revenue opportunity as was provided for under the franchise agreement and will require negotiation with the DfT. Such negotiations will include a determination of the final termination payments payable by FirstGroup to the DfT for termination of the pre-existing franchising contracts. The Group has recently announced that it has agreed termination sums in relation to two of its franchises, SWR and the West Coast Partnership, and the process to agree a termination sum for the Group's TPE franchise is ongoing. The Group is negotiating new directly awarded management contracts with the DfT, under which the incumbent train operator will deliver passenger rail services in future. These new contracts are expected to be based on a more appropriate balance of risk and reward between rail operators, passengers and the taxpayer. Although the Board believes that the transition will lead to a better balance of risk and reward for stakeholders, the future performance of First Rail, and thereby the Retained Group, will be intrinsically aligned with the outcome of the negotiations with the DfT over the contractual terms of these new directly awarded management contracts.

The performance of First Rail in the near future is also susceptible to the speed of such contract negotiations and the risk of social distancing rules continuing for an extended period. Although actions taken by the DfT during the COVID-19 pandemic (initially EMAs and after 20 September 2020, an extended EMA in respect of GWR until 26 June 2021 and ERMA in respect of all other First Rail franchises) kept the railways operational, they had a negative effect on First Rail's opportunity for revenue growth. Since the DfT has announced that the new directly awarded contracts will only come into force on cessation of the EMAs and ERMA (late May 2021 at the earliest for SWR and TPE, and March 2022 for the West Coast Partnership), the risk for First Rail is that both lengthy negotiations and/or a worsening of the impact of the COVID-19 pandemic in the UK could leave First Rail subject to the existing measures for a longer period of time. This would continue to restrict the fee potential of a far less diversified Retained Group at a time when it has become more reliant on First Rail's performance.

Moreover, if the Group is unable to agree satisfactory terms with the DfT in relation to the proposed directly awarded management contracts, the current agreements will terminate in accordance with their terms. A reduction of First Rail's portfolio resulting from any such termination would have an adverse impact on the Retained Group's revenues, its cash flows and cash deposits associated with those operations, and would result in the Retained Group being less diversified and more dependent on the performance of First Bus.

2.2 *The Retained Group's income stream will be reduced*

Following Completion, the Retained Group will no longer receive the contribution that the Target Businesses make to the consolidated trading position of the Group. For the financial year ended

31 March 2020, First Student and First Transit together contributed revenue of £3,109.1 million and adjusted operating profit of £186.7 million. Therefore, the Target Businesses contributed 40 per cent. of Group revenues and 62 per cent. of Group adjusted operating profit. As a result of its reduced income stream following the Transaction, the Retained Group's debt capacity will be significantly reduced and the operating cash flow, before taking into account lower interest costs on the Retained Group's outstanding debt balance, will be lower.

2.3 *The Retained Group will continue to operate substantial defined benefit pension schemes to which it is required to make future additional contributions*

The Group has significant defined benefit pension obligations relating to its operations in the UK and North America.

The deficit of the Group's defined benefit schemes disclosed in the accounts is dependent on the market value of the assets of that plan and on the value placed on its liabilities. As at 30 September 2020, net pension deficit of the Group's defined benefit schemes in the UK and North America was £359.9 million. This represented an increase of £46.5 million from the beginning of the six month period ending 30 September 2020, principally as a result of declining yields. Although the Group is working with pension scheme trustees to de-risk investment strategies, it is not possible to completely negate the impact of various factors, including those outside the Group's control, which may adversely affect the value of a scheme's assets and liabilities (such as discount and inflation rates, exchange rates, investment performance and actuarial assumptions (for example, in relation to life expectancy)). Depending on the severity of these impacting factors, contributions may need to increase substantially.

Furthermore, the extent to which reported accounting values for pension assets and liabilities can change over reporting periods is not uniform across the Group's pension schemes, and there can be no assurance that any deterioration, if sustained, would not adversely affect future funding valuations, or the future financial position and financial performance of the Retained Group.

Following the Transaction, the Retained Group will continue to be responsible for all pension schemes other than those relating to the Target Businesses. Although the Group intends to use some of the Net Disposal Proceeds to make a contribution to the First UK Bus Pension Scheme and the FirstGroup Pension Scheme, the Retained Group's ability to contribute to the Pension Schemes on an ongoing basis will be dependent on the profits of a less diversified business with a reduced operating cash flow, in particular, in relation to the First UK Bus Pension Scheme.

3. Existing material risks to the Group that will be impacted by the Transaction

3.1 *The market price of FirstGroup Shares may fluctuate on the basis of market sentiment surrounding the Transaction*

The value of an investment in FirstGroup may go down as well as up. The price of FirstGroup Shares will be influenced by a large number of factors, some specific to the Retained Group and its operations and some which may affect the markets and segments in which the Retained Group operates as a whole. The sentiment of the stock market regarding the Transaction is one such factor. The other factors that may affect FirstGroup's share price include (but are not limited to) (i) actual or anticipated fluctuations in the financial performance of the Retained Group, (ii) market fluctuations, and (iii) legislative or regulatory changes in the markets and segments in which the Retained Group operates.

3.2 *The Group's credit ratings may not be sustained*

The Group benefits from its corporate investment grade credit ratings (long term debt: BBB- (S&P's), BBB- (Fitch); short term debt: A-3 (S&P's), F3 (Fitch)). Given the Group's current level of net financial indebtedness, there is a risk that, in the current economic climate and trading conditions, the Group's current ratings will not be preserved. In addition, if the Transaction does not complete and accordingly the Group does not receive the Net Disposal Proceeds, the Group will not be able to reduce its financial indebtedness and its credit ratings may be downgraded to below investment grade. Whilst the Group intends, following Completion, to apply a portion of the Net Disposal Proceeds to make a significant reduction in net financial indebtedness, the rating agencies are likely to weigh any such actions against the fact that the Group will be deemed to

be less diversified and more dependent on the performance of members of the Retained Group, meaning there is no guarantee that the reduction in net financial indebtedness will enable the Group to preserve its current ratings.

Any deterioration in the Group's credit ratings may increase its cost of funding, its ability to invest in its operations or otherwise affect its ability to obtain credit from other counterparties. Any of these factors could have a material adverse effect on the Group's business, results of operations and overall financial condition.

3.3 ***The Group may fail to attract and retain senior management, skilled personnel and capabilities***

The attraction, development, retention, reputation and succession of senior management and individuals with key skills are critical factors in the successful execution of the Group's strategy, and operation of the Group's divisions. This is especially relevant in the highly competitive markets in which the Group currently operates or plans to operate and at times when the business is subject to high levels of public scrutiny. The reduction in size and diversification of the Retained Group following the Transaction and/or any negative publicity associated with the Transaction may make it more difficult for the Group to attract and retain talented employees, which could compromise the achievement of the Group's strategic objectives.

PART III

SUMMARY OF THE PRINCIPAL TERMS OF THE TRANSACTION DOCUMENTS

1. Purchase Agreement

1.1 *Parties and structure*

The Purchase Agreement was entered into on 22 April 2021 by and between FirstGroup and the Purchaser (together the “**Parties**”, and each a “**Party**”) for the sale and purchase of the Target Businesses. The Purchase Agreement is governed by the laws of the state of Delaware.

The Purchaser will purchase FirstGroup Investment Corporation and First Transit, Inc., subject to the completion of Pre-Completion Restructuring Transfers. Prior to Completion, the TMS Businesses may be carved-out from First Transit (see paragraph 1.4 of this Part III) and, to the extent carved-out by Completion, will not be sold as part of the Transaction.

1.2 *Consideration*

The net cash proceeds from the Transaction before the Earnout payable by the Purchaser at Completion are approximately \$3,065 million (approximately £2,190 million), subject to certain adjustments and net of transaction costs. The Purchaser has also agreed to the Earnout, being a deferred, contingent payment of up to \$240 million (approximately £170 million) as further described below). The adjustments will account for, among other things, changes in the Target Businesses’ working capital, cash and debt positions between 27 March 2021, being the Locked Box Date, and Completion.

The Earnout is based on the future value of First Transit, calculated and payable on the earlier of a future sale of, or certain other specified transaction involving, First Transit by the Purchaser or the third anniversary of Completion. Pursuant to the Earnout, the Purchaser will pay FirstGroup 62.5 per cent. of the proceeds (calculated based on an adjusted equity value derived from an initial enterprise value of \$370 million) from such sale of or other transaction involving First Transit within three years of Completion, up to a maximum of \$240 million.

As part of the Transaction, First Student and First Transit self-insurance liabilities valued at approximately \$545 million are being transferred to the Purchaser, as well as approximately \$305 million in long term debt and debt-like items relating to the Target Businesses and other enterprise value adjustments of approximately \$400 million (including pension and environmental liabilities relating to the Target Businesses and working capital and other deductions). In summary, the net cash proceeds from the Transaction before the Earnout are expected to be approximately \$3,065 million, equivalent to approximately £2,190 million, as shown in the table in paragraph 5 (*Principal terms of the Transaction*) of Part I (*Letter from the Chairman*) of this document.

1.3 *Conditions to Completion*

The Transaction is conditional upon satisfaction of certain conditions, including:

- (A) all Closing Approvals having been obtained, fulfilled, taken or made and, as the case may be, remaining in full force and effect and all waiting periods imposed in respect thereof having terminated or expired or been waived by the applicable Governmental Authority;
- (B) no court of competent jurisdiction in the United States, Canada or United Kingdom having issued any injunction or judgment, and no applicable law having been enacted, that prohibits, enjoins or renders illegal the consummation of the Transaction;
- (C) the passing of the Resolution at the General Meeting (the “**Shareholder Approval Condition**”); and
- (D) the North American Insurance Liabilities relating to Greyhound having been transferred out of the Target Businesses, such that any underlying liabilities will be assumed by the Retained Group.

Each of FirstGroup and the Purchaser's obligation to complete the Transaction is also subject to the satisfaction or waiver of certain other conditions, including:

- (E) the Fundamental Warranties of the other Party being true and correct in all material respects as of Completion;
- (F) the pre-Completion covenants and obligations of each respective Party having been performed or complied with in all material respects by such Party;
- (G) the representations and warranties of the other Party, other than the Fundamental Warranties, being true and correct as of the date of Completion, subject to certain exceptions relating to materiality; and
- (H) delivery by the Parties of customary Completion deliverables.

The Purchaser's obligation to complete the Transaction is also subject to:

- (I) FirstGroup having delivered to the Purchaser (and not withdrawn) specified audited FY21 financial information of the Target Businesses and, if applicable, certain unaudited quarterly financial information of the Target Businesses;
- (J) the Pre-Completion Restructuring Transfers (as defined in paragraph 1.4 of this section below) having been consummated in accordance with the terms of the Purchase Agreement; and
- (K) no material adverse effect having occurred between the date of the Purchase Agreement and Completion.

FirstGroup's obligation to complete the Transaction is also subject to:

- (L) the Purchaser having arranged replacement support arrangements for certain letters of credit and guarantees issued by a member of the Group (the "**Key Support Arrangements**") in a form and substance reasonably satisfactory to FirstGroup, such that:
 - (i) the Group entities will be fully released from all the Key Support Arrangements at no cost to the Group entities at Completion; and
 - (ii) the Group will have no obligation or liability with respect to or arising out of the Key Support Arrangements from and after Completion.

The Parties have, subject to certain exceptions, agreed to use a best efforts standard to consummate the Transaction as promptly as practicable following the date of the Purchase Agreement. In the case of the Shareholder Approval Condition, FirstGroup has agreed to use reasonable best efforts to:

- (i) publish and send this Circular as promptly as reasonably practicable following the date of the Purchase Agreement; and
- (ii) convene the General Meeting as promptly as reasonably practicable following the date on which this Circular is so published.

In the case of the Closing Approvals, the Purchaser must, on the terms set forth in the Purchase Agreement, take all actions necessary or appropriate to avoid or eliminate each and every impediment to the Transaction to discharge its best efforts obligation (subject to certain limited exceptions). Such actions include, but are not limited to, the Purchaser entering into a settlement with or required by any Governmental Authority and defending any action, suit or proceeding that challenges any of the transactions contemplated by the Purchase Agreement.

In the case of the Shareholder Approval Condition, FirstGroup has agreed to include in this document the recommendation of the Board of Directors that Shareholders vote in favour of the Resolution, which is set out in paragraph 13 of Part I (*Letter from the Chairman*) of this document (the "**Seller Parent Recommendation**"). The obligation to include and make the Seller Parent Recommendation is subject to the fiduciary, statutory and other applicable law duties of the Board of Directors from time to time. If, prior to the passing of the Resolution by Shareholders, the Board of Directors determines in good faith, after consultation with its financial advisers and outside legal advisers, that the failure to withdraw or modify the Seller Parent Recommendation

would be inconsistent with such fiduciary, statutory and other duties, the Board of Directors may so withdraw or modify the Seller Parent Recommendation (a “**Change in Recommendation**”), provided that first, to the extent permissible, FirstGroup will notify the Purchaser prior to such determination and, if the Purchaser responds in 48 hours stating that it is willing to negotiate in good faith with FirstGroup such modifications to the Purchase Agreement that would cause the failure to make such Change in Recommendation to no longer be inconsistent with the Board of Directors’ duties, FirstGroup will be required to negotiate in good faith with the Purchaser. Following a Change in Recommendation, the General Meeting may be postponed or adjourned indefinitely. Upon a Change in Recommendation, the Purchase Agreement may be terminated by FirstGroup or the Purchaser, and such termination may require the payment of a termination fee by FirstGroup (see paragraph 1.13 (*Termination fees*) below).

1.4 **TMS Carve-out and the Pre-Completion Restructuring Transfers**

The Purchase Agreement contemplates the TMS Carve-out and certain pre-Completion reorganisation steps (the “**Pre-Completion Restructuring Transfers**”), which are intended to ensure that there is a complete division of the Target Businesses from the Retained Group.

FirstGroup has agreed to use best efforts to obtain consents to extract certain transit management services businesses operated by First Transit (the “**TMS Businesses**”) from First Transit prior to Completion (the “**TMS Carve-out**”).

As part of the Pre-Completion Restructuring Transfers, certain assets and liabilities that are currently owned by entities comprising the Target Businesses but which do not form part of First Student or First Transit, will be transferred to entities comprising the Retained Group. These assets and liabilities include assets and liabilities related to Greyhound.

The Pre-Completion Restructuring Transfers are required to be effected in accordance with a detailed steps plan agreed among the Parties and delivered with the Purchase Agreement (the “**Pre-Completion Transfer Plan**”). The Pre-Completion Transfer Plan may be amended or modified by FirstGroup with prior written consent of the Purchaser (such consent not to be unreasonably withheld, conditioned or delayed).

FirstGroup is to use reasonable best efforts to cause the Pre-Completion Restructuring Transfers to be consummated, including the settlement, repayment, cancellation or termination (effective as of the date of Completion) of all intercompany accounts between any member of the Retained Group and the Target Businesses prior to Completion.

1.5 **FirstGroup’s representations and warranties, indemnities and limitations of liability**

FirstGroup has made representations and warranties to the Purchaser in the Purchase Agreement that are customary for a transaction of this nature, including a representation and warranty that there has been no material adverse change to the financial condition or results of operation of the Target Businesses since 26 December 2020. These representations and warranties also include, among other things, a representation and warranty that either FirstGroup or an entity within the Target Businesses owns all the shares or other applicable equity interests in each entity within the Target Businesses, directly or indirectly, free from any lien (other than those incurred by the Purchaser or any affiliate of the Purchaser or those arising under applicable securities laws). Other representations and warranties provided by FirstGroup cover, among other things, the incorporation and capital structure of the entities within the Target Businesses, litigation, financial statements, legal and regulatory compliance, real estate, intellectual property, labour relations, employee benefit plans, environmental matters, tax and material contracts.

The Purchaser has obtained a representation and warranty insurance policy (“**R&WI Policy**”). Following Completion, the Purchaser’s main recourse for any inaccuracy in or breach of the representations and warranties given by FirstGroup will be against the R&WI Policy (other than in respect of claims for fraud and with respect to certain fundamental representations and warranties of FirstGroup).

From and after Completion, FirstGroup has agreed to indemnify the Purchaser and its affiliates from and against all losses, damages, costs and expenses, interest, awards, judgments and penalties actually suffered or incurred by them, directly or indirectly, to the extent arising out of

or resulting from, among other things: (a) any breach or inaccuracy of certain fundamental representations and warranties of FirstGroup; (b) the breach or nonfulfillment of any covenant by FirstGroup; (c) the conduct or operation of the Retained Group from and after the date of Completion or any liability of the Retained Group or relating to the business of the Retained Group; (d) any failure to consummate the Pre-Completion Restructuring Transfers; (e) any COVID-19 pandemic government funding (to the extent the same has been remitted to the Retained Group or paid by the Target Entity to the Retained Group) that the Target Entities are required to pay back or return to any governmental authority; and (f) any pension plan liabilities with respect to TMS Businesses. FirstGroup's liability in respect of the matters covered by these indemnities is uncapped save that, in respect of (a) above, the indemnified Purchaser party must first seek full recourse under the R&WI Policy.

1.6 *Purchaser's covenants, representations and warranties, indemnities and limitations of liability*

The Purchaser has agreed that, for 12 months following Completion, it and its subsidiaries, including First Student and First Transit, will use commercially reasonable efforts to continue to pursue COVID-19 pandemic government funding with respect to operations of the Target Businesses on or prior to the Locked Box Date for the benefit of FirstGroup. Such government funding includes, without limitation, grants, stimulus payments and subsidy payments under legislation or schemes designed to address the impact of the COVID-19 pandemic, such as the US CARES Act, the American Rescue Plan Act, the Coronavirus Economic Relief for Transportation Services program and the Canada Emergency Wage Subsidy.

The Purchaser has made certain representations and warranties to FirstGroup in the Purchase Agreement that are customary for a transaction of this nature. These include, among other things, a representation and warranty that the Purchaser has received duly executed Commitment Letters which are in full force and effect as at the date of the Purchase Agreement.

From and after Completion, the Purchaser has agreed to indemnify members of the Retained Group from and against any and all losses, damages, costs and expenses, interest, awards, judgments and penalties actually suffered or incurred by it, directly or indirectly, to the extent arising out of or resulting from, among other things: (a) any breach or inaccuracy of certain fundamental representations and warranties of the Purchaser; (b) the breach or nonfulfillment of any covenant by the Purchaser; and (c) the conduct or operation of the Target Businesses from and after the date of Completion or any liability of the Target Businesses (excluding liabilities in respect of entities subject to the Pre-Completion Restructuring Transfers). The Purchaser has also agreed to indemnify FirstGroup from and against all liabilities arising from Parent Support Arrangements that have not been replaced or released at Completion (see paragraph 1.10 of this Part III for further detail). The Purchaser's liability in respect of the matters covered by these indemnities is uncapped.

1.7 *"No shop"*

FirstGroup has agreed that it will not (and will not authorise or permit any of its Subsidiaries or representatives to):

- (A) enter into discussions or negotiations in relation to or that could reasonably be expected to lead to any competing proposal for the Target Businesses or provide access to its properties, books, records or any other non-public information or data relating to the Target Businesses in connection with the foregoing;
- (B) solicit, initiate, encourage or procure any person or their professional advisers or other agents to make, or consider making, a competing proposal for the Target Businesses; or
- (C) enter into any letter of intent, agreement in principle or other agreement relating to or providing for a competing proposal for the Target Businesses.

Notwithstanding the above, if, prior to Completion (provided the Purchase Agreement has not been terminated in accordance with its terms), FirstGroup receives an unsolicited proposal in relation to the Target Businesses, FirstGroup is obliged to: (i) notify the Purchaser promptly of the relevant unsolicited proposal; and (ii) disclose to the Purchaser the material terms and conditions

of the same. Nevertheless, FirstGroup shall not be required to take any actions described in the immediately preceding sentence if the taking of such actions is prohibited by applicable law or by the terms of any confidentiality agreement with the person making such proposal executed prior to the date of the Purchase Agreement.

If, prior to the Resolution being passed at the General Meeting, FirstGroup receives an unsolicited competing proposal that did not result from a breach of the provisions of the “no shop” described above or the exclusivity agreement entered into by and among FirstGroup and the Sponsors, which the Board of Directors determines in good faith, after consultation with its financial advisers and legal counsel, constitutes a Superior Proposal (as described below), FirstGroup may engage in or otherwise participate in discussions or negotiations with any person making such proposal, subject to first providing the Purchaser with a five business day notice period, during which FirstGroup will be required to negotiate in good faith with the Purchaser (to the extent the Purchaser wishes to do so) modifications to the Purchase Agreement that would cause such competing proposal to no longer constitute a Superior Proposal.

“**Superior Proposal**” means a bona fide written competing proposal that: (i) would: (A) be more favourable to FirstGroup from a financial point of view; or (B) consistent with the Board’s fiduciary, statutory and other applicable law duties, otherwise be on terms and conditions more favourable to FirstGroup, in each case, than the terms and conditions set out in the Purchase Agreement (taking into account any amendment or modification proposed by the Purchaser in accordance with the procedure described immediately above; and (ii) is reasonably likely to be completed in a timely manner in accordance with its terms, taking into account all terms and conditions of such proposal and the legal, regulatory, financial (including financing terms) and other aspects of such proposal.

1.8 ***Purchaser financing***

The Purchaser has agreed to use reasonable best efforts to arrange and to consummate certain equity and debt financing (the “**Financing**”), on the terms and subject to the conditions described in the equity commitment letter from the Sponsors to the Purchaser and the debt commitment letters entered into between the Purchaser and certain financial institutions (the “**Commitment Letters**”). These include, amongst other things, using reasonable best efforts to negotiate and execute definitive agreements in respect of the Financing on terms and conditions no less favourable, in aggregate, to the Purchaser than those contained in the Commitment Letters (including any ‘flex’ provisions) or on such other terms and conditions acceptable to the Purchaser and its financing sources that would not reasonably be expected to prevent, impede, or delay the completion of the transactions contemplated by the Purchase Agreement.

The Purchaser has agreed to keep FirstGroup informed on a reasonably current basis in reasonable detail of all material developments concerning the status of the Financing (including, but not limited to, its efforts to arrange such Financing), and to provide FirstGroup with prompt notice of, amongst other things, any breach (if such breach would result in a material delay of, or in any way limit, the availability of the aggregate amount of the Financing) or termination of the Commitment Letters or any definitive agreement relating to the Financing of which it becomes aware.

1.9 ***Conduct of business between signing and Completion***

FirstGroup has agreed, subject to certain exceptions, in the period up to Completion, to cause the Target Businesses to conduct its business and operations in the ordinary course in all material respects. Notwithstanding the foregoing, FirstGroup is permitted to take, among certain other actions:

- (A) any action expressly contemplated by the Purchase Agreement;
- (B) any action as required by applicable law, authorisation, permits, licenses or any Governmental Authority; and
- (C) any action in connection with any plans, procedures and practices adopted that are necessary or prudent in connection with the COVID-19 pandemic.

1.10 **Replacement of FirstGroup credit support obligations**

Prior to and, if applicable, after Completion, the Purchaser has agreed to, and shall cause its subsidiaries to, use reasonable best efforts to replace and secure the full and unconditional release of each member of the Retained Group from all obligations it may have under the Parent Support Arrangements (at no cost to the Retained Group), so that the Retained Group will have no obligation or liability under the Parent Support Arrangements from and after Completion.

Where the Purchaser has not been able to demonstrate as of seven business days prior to the date of Completion that the unconditional release from certain Parent Support Arrangements will occur as of the Completion, the Retained Group is, at its option, entitled to settle, repay, cancel, terminate or pay off the underlying liability that relates to such Parent Support Arrangement in order to obtain the release of the related Parent Support Arrangement. The Purchaser has also agreed to indemnify FirstGroup in respect of any liabilities the Retained Group incurs under any Parent Support Arrangement which has not been replaced and released at Completion.

1.11 **Non-solicitation of employees and non-competition**

Each Party has agreed to customary restrictions on the solicitation and hiring of certain senior employees of the other Party and its affiliates for two years after Completion. Limited carve-outs have been agreed for hiring individuals including from conducting a general solicitation, advertisement or search firm engagement or individuals who have not been employed by such other Party or its affiliates for at least six months prior to such solicitation.

FirstGroup has agreed, for a period of five years following Completion in respect of First Student and for a period of four years following Completion in respect of First Transit, subject to certain exceptions, not to (and to cause entities within the Retained Group not to) engage in any business that directly competes with the business of First Student and First Transit as at Completion within the United States and Canada.

1.12 **Termination**

The Purchase Agreement may be terminated: (i) by mutual written consent of the Parties; or (ii) in specified circumstances as summarised below, at the sole option of FirstGroup or the Purchaser, as applicable.

The Purchase Agreement may be terminated at the option of FirstGroup or the Purchaser (as applicable) in any of the following scenarios:

- (A) if Completion has not occurred before the End Date, unless it was the material breach of the Party requesting to terminate which prevented Completion occurring by such date;
- (B) if the consummation of the Transactions would violate any non-appealable final order, decree or judgment of any Governmental Authority in the United States, Canada or the United Kingdom or applicable law makes Completion illegal or otherwise prohibited;
- (C) prior to passing the Resolution at the General Meeting, if the Board makes a Change in Recommendation;
- (D) if the Resolution is not passed at the General Meeting; or
- (E) if there is a material breach of any representation, warranty, covenant or agreement on the part of the other Party (the “**Defaulting Party**”), such that certain conditions cannot be satisfied prior to Completion (unless it is a curable breach which is cured within 45 days of the Defaulting Party receiving notice of the breach from the other Party and provided the Party requesting to terminate is not in material breach of any provision of the Purchase Agreement).

The Purchase Agreement may also be terminated at the option of FirstGroup only if:

- (F) (a) FirstGroup is ready, willing and able to consummate Completion; (b) all of the conditions of the Transaction have been satisfied (other than those which by their nature are satisfied at Completion) or waived by FirstGroup (where applicable); (c) FirstGroup has notified the Purchaser of the foregoing matters described in (a) and (b); and (d) the

Purchaser has failed to consummate Completion in accordance with the Purchase Agreement.

1.13 **Termination fees**

Under the Purchase Agreement, each of FirstGroup and the Purchaser is obliged to pay certain termination fees to the other Party upon the termination of the Purchase Agreement in certain specified circumstances, as further detailed below.

Purchaser termination fee

The Purchaser shall be liable to pay FirstGroup a termination fee in the amount of \$250 million in the event of FirstGroup exercising the termination right described in paragraph 1.12(E) of this Part III or in paragraph 1.12(f) of this Part III (the “**Reverse Termination Fee**”), together with certain interest, costs or expense reimbursement, as set out in the Purchase Agreement.

FirstGroup termination fee

In the event that: (A) at any time until the passing of the Resolution at the General Meeting, FirstGroup makes a Change in Recommendation; and (B) the Purchaser terminates the Purchase Agreement as a result of: (i) such Change in Recommendation; or (ii) due to the fact that the Resolution has not been passed at the General Meeting, FirstGroup will be liable to pay to the Purchaser a termination fee equal to \$14,394,000. In the event of willful breach under the Purchase Agreement by FirstGroup (where the FirstGroup termination fee does not apply), FirstGroup’s liability will be capped at the amount of the Reverse Termination Fee.

2. Reverse Transitional Services Agreement

The Reverse Transitional Services Agreement will be entered into by or at Completion between Greyhound and FirstGroup America. Under the terms of the Reverse Transitional Services Agreement, FirstGroup America will agree to provide or procure the provision of certain limited transition services from the Target Businesses to Greyhound following Completion.

2.1 **Term and termination**

Each transition service will be provided for a specified service term, which may not be extended. Notwithstanding the agreed term of any service, Greyhound shall be permitted to terminate such service on not less than 30 days’ prior written notice to FirstGroup America.

2.2 **Service standard and fees**

In respect of each transitional service provided under the Reverse Transitional Services Agreement, FirstGroup America agrees to use commercially reasonable efforts to perform the service in a way such that the standard and level of service and quality is substantially the same as was provided immediately prior to Completion. The Parties have agreed the fees payable by Greyhound with respect to the services provided under the Reverse Transitional Services Agreement as part of the Purchase Agreement.

2.3 **Liability**

The maximum aggregate liability of the FirstGroup America in connection with the Reverse Transitional Services Agreement is limited to 100 per cent. of the service charges paid or payable thereunder (except in the event of fraud, gross negligence or wilful misconduct). The Reverse Transitional Services Agreement includes a customary exclusion for any indirect or consequential loss or damage and any loss of profits.

PART IV

HISTORICAL FINANCIAL INFORMATION RELATING TO THE TARGET BUSINESSES

The following unaudited historical financial information relating to the Target Businesses has been extracted without material adjustment from the consolidation schedules and accounting records that underlie the audited consolidated financial information of the Group for the financial years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the Group's unaudited condensed interim financial statements for the six months ended 30 September 2020.

The financial information in this Part IV (*Historical financial information relating to the Target Businesses*) has been prepared using the accounting policies of the Group, as adopted in the published unaudited condensed interim financial statements for the six months ended 30 September 2020 and each of the financial years presented.

The financial information reflects, therefore, the Target Businesses' contribution to the Group during this period, applying the relevant accounting policies.

It is not possible to present a meaningful allocation of tax as this item is managed centrally by Group and not on a subsidiary by subsidiary basis. Therefore, the financial information presented has only been prepared to a profit before tax level.

The financial information contained in this Part IV (*Historical financial information relating to the Target Businesses*) does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The consolidated statutory accounts of the Group in respect of the years ended 31 March 2018, 31 March 2019 and 31 March 2020 have been delivered to the UK registrar of companies.

Deloitte LLP was the auditor of the Group in respect of the years ended 31 March 2018, 31 March 2019 and 31 March 2020. PricewaterhouseCoopers LLP was appointed as the Group's statutory auditor for the year ended 31 March 2021.

Shareholders should read the whole of this document and not rely solely on the information contained in this Part IV (*Historical financial information relating to the Target Businesses*).

1. Historical income statement information for the Target Businesses for the three years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the six months ended 30 September 2020

| | 12 months ended 31 March 2018 £m | 12 months ended 31 March 2019 £m | 12 months ended 31 March 2020 £m | 6 months ended 30 September 2020 £m |
|---------------------------------|---|---|---|--|
| Revenue | 2,840.6 | 2,918.2 | 3,109.1 | 888.9 |
| Operating costs | (2,718.4) | (2,780.5) | (3,042.0) | (927.2) |
| Operating profit/(loss) | <u>122.2</u> | <u>137.7</u> | <u>67.1</u> | <u>(38.3)</u> |
| Investment cost | (1.6) | (0.2) | (6.7) | (1.0) |
| Finance costs | (119.9) | (121.4) | (113.7) | (43.5) |
| Profit/(loss) before tax | <u>0.7</u> | <u>16.1</u> | <u>(53.3)</u> | <u>(82.8)</u> |
| EBITDA | <u>414.5</u> | <u>423.0</u> | <u>450.1</u> | <u>96.0</u> |

Notes:

- The income statements presented above are unaudited.
- The income statements above do not include an allocation of tax as it is not possible to provide a meaningful allocation to the Target Businesses.
- "EBITDA" is adjusted operating profit, less capital grant amortisation plus depreciation. 'Adjusted' figures provided are before strategy costs, restructuring/reorganisation costs, rail termination sums, other intangible asset amortisation charges and certain other items as set out in the 'business segments and geographical information' note in the applicable Annual Report or Interim Results. EBITDA, as adjusted, for the financial years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the six months ended 30 September 2020 is as follows:

| | 12 months ended 31 March 2018 £m | 12 months ended 31 March 2019 £m | 12 months ended 31 March 2020 £m | 6 months ended 30 September 2020 £m |
|---------------------------------------|---|---|---|--|
| Operating profit/(loss) | 122.2 | 137.7 | 67.1 | (38.3) |
| Add back | | | | |
| Other intangible amortisation charges | 57.5 | 8.6 | 2.4 | 1.5 |
| Other adjustments ⁴ | 34.5 | 73.5 | 117.2 | – |
| Depreciation | 200.3 | 198.7 | 258.0 | 129.9 |
| Software amortisation | – | 4.5 | 5.4 | 2.9 |
| EBITDA | <u>414.5</u> | <u>423.0</u> | <u>450.1</u> | <u>96.0</u> |

- "Other adjustments" provides for the non-GAAP adjustments to EBITDA in order to recognise the impact of the following: (i) strategic projects undertaken in the Target Businesses; (ii) fuel over-hedging as at 31 March 2020 (as a result of the COVID-19 pandemic); (iii) losses incurred by First Student pursuant to onerous contractual provisions (as a result of the COVID-19 pandemic); (iv) North American insurance costs; (v) legal settlement costs incurred by First Transit; (vi) (gains)/losses incurred on property disposals; and (vii) restructuring and reorganisation costs.

2. Historical net asset statement for the Target Businesses as at 31 March 2020 and 30 September 2020

| | As at 31 March 2020 £m | As at 30 September 2020 £m |
|----------------------------------|---------------------------------|-------------------------------------|
| Non-current assets | | |
| Goodwill | 1,579.2 | 1,550.4 |
| Other intangible assets | 30.2 | 27.7 |
| Property, plant and equipment | 1,519.8 | 1,510.6 |
| Deferred tax assets | 9.4 | – |
| Derivative financial instruments | 1.7 | 0.9 |
| Investments | 30.3 | 35.5 |
| | <hr/> 3,170.6 | <hr/> 3,125.1 |
| Current assets | | |
| Inventories | 26.3 | 22.4 |
| Trade and other receivables | 622.6 | 397.0 |
| Current tax assets | – | 10.4 |
| Cash and cash equivalents | 47.9 | 165.9 |
| Assets held for sale | 1.0 | 1.2 |
| | <hr/> 697.5 | <hr/> 596.9 |
| Total assets | <hr/> 3,868.1 | <hr/> 3,722.0 |
| Current liabilities | | |
| Trade and other payables | 388.8 | 396.1 |
| Borrowings | 71.6 | 142.0 |
| Net intercompany balances | 2,009.2 | 1,898.6 |
| Derivative financial instruments | 1.7 | 5.4 |
| Provisions | 152.6 | 144.3 |
| | <hr/> 2,623.8 | <hr/> 2,586.4 |
| Net current liabilities | <hr/> (1,926.3) | <hr/> (1,989.5) |
| | As at 31 March 2020 £m | As at 30 September 2020 £m |
| Non-current liabilities | | |
| Borrowings | 132.2 | 155.3 |
| Derivative financial instruments | 17.7 | 6.2 |
| Retirement benefit liabilities | 46.0 | 54.7 |
| Deferred tax liabilities | 42.2 | 38.5 |
| Provisions | 294.9 | 267.4 |
| | <hr/> 533.0 | <hr/> 522.1 |
| Total liabilities | <hr/> 3,156.8 | <hr/> 3,108.5 |
| Net assets | <hr/> 711.3 | <hr/> 613.5 |

Notes:

1. The net asset statements presented above are unaudited.
2. The net asset statements above do not include the final tax assets or liabilities as it is not possible to provide a meaningful allocation to the Target Businesses.

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RETAINED GROUP

SECTION A – PRO FORMA INFORMATION

The unaudited pro forma statement of net assets of the Retained Group set out below (the “**Unaudited Pro Forma Financial Information**”) has been prepared in accordance with Annex 20 of the Prospectus Regulation and on the basis of the notes set out below to illustrate the effect of the Transaction on the consolidated net assets of the Retained Group as if the Transaction had occurred on 30 September 2020.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the financial information of the Group as at 30 September 2020, the date to which the latest unaudited condensed interim financial information in relation to the Group was prepared. The Unaudited Pro Forma Financial Information has been prepared pursuant to Listing Rule 13.3.3R in a manner consistent with the accounting policies of the Group.

The Unaudited Pro Forma Financial Information is shown for illustrative purposes only and because of its nature addresses a hypothetical situation. It does not represent the actual financial position of the Retained Group. Furthermore, it does not purport to represent what the Retained Group’s financial position would actually have been if the Transaction had been completed on the indicated date and is not indicative of the results that may or may not be expected to be achieved in the future. The Unaudited Pro Forma Financial Information set out in this section does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

Shareholders should read the whole of this document and not rely solely on the Unaudited Pro Forma Financial Information contained in this Section A of this Part V (*Unaudited pro forma financial information of the Retained Group*).

PricewaterhouseCoopers LLP’s report on the Unaudited Pro Forma Financial Information is set out in Section B of this Part V (*Unaudited pro forma financial information of the Retained Group*).

1. The Retained Group unaudited consolidated pro forma statement of net assets as at 30 September 2020

| | Adjustments | | | | Retained Group (Pro Forma) (Note 5) £m |
|---|--|---|--------------------------------|--|---|
| | Group as at 30 September 2020 (Note 1) £m | Target Businesses as at 30 September 2020 (Note 2) £m | Net proceeds (Note 3) £m | Other Transaction related adjustments (Note 4) £m | |
| Non-current assets | | | | | |
| Goodwill | 1,634.3 | (1,550.4) | – | – | 83.9 |
| Other intangible assets | 47.4 | (27.7) | – | – | 19.7 |
| Property, plant and equipment | 4,294.0 | (1,510.6) | – | – | 2,783.4 |
| Deferred tax assets | 41.3 | – | – | – | 41.3 |
| Retirement benefit assets | 52.5 | – | – | – | 52.5 |
| Derivative financial instruments | 0.8 | (0.9) | – | – | (0.1) |
| Investments | 38.0 | (35.5) | – | – | 2.5 |
| | <u>6,108.3</u> | <u>(3,125.1)</u> | <u>–</u> | <u>–</u> | <u>2,983.2</u> |
| Current assets | | | | | |
| Inventories | 55.9 | (22.4) | – | – | 33.5 |
| Trade and other receivables | 1,062.5 | (397.0) | – | – | 665.5 |
| Current tax assets | 5.4 | (10.4) | – | – | (5.0) |
| Cash and cash equivalents ¹ | 1,439.4 | (165.9) | 2,339.6 | (2,447.8) | 1,165.3 |
| Assets held for sale | 4.2 | (1.2) | – | – | 3.0 |
| Derivative financial instruments | 7.4 | – | – | – | 7.4 |
| | <u>2,574.8</u> | <u>(596.9)</u> | <u>2,339.6</u> | <u>(2,447.8)</u> | <u>1,869.7</u> |
| Total assets | <u>8,683.1</u> | <u>(3,722.0)</u> | <u>2,339.6</u> | <u>(2,447.8)</u> | <u>4,852.9</u> |
| Current liabilities | | | | | |
| Trade and other payables | 1,940.9 | (396.1) | – | – | 1,544.8 |
| Tax liabilities – Current tax liabilities | 8.8 | – | – | – | 8.8 |
| Tax liabilities – Other tax and social security | 20.5 | – | – | – | 20.5 |
| Borrowings | 1,372.4 | (142.0) | – | (726.0) | 504.4 |
| Net intercompany balances | – | (1,898.6) | – | 1,898.6 | – |
| Derivative financial instruments | 28.4 | (5.4) | – | – | 23.0 |
| Provisions | 395.1 | (144.3) | – | (30.0) | 220.8 |
| | <u>3,766.1</u> | <u>(2,586.4)</u> | <u>–</u> | <u>1,142.6</u> | <u>2,322.3</u> |
| Net current liabilities | <u>(1,191.3)</u> | <u>1,989.5</u> | <u>2,339.6</u> | <u>(3,590.4)</u> | <u>(452.6)</u> |
| Non-current liabilities | | | | | |
| Borrowings | 3,051.8 | (155.3) | – | (811.2) | 2,085.3 |
| Derivative financial instruments | 13.6 | (6.2) | – | – | 7.4 |
| Retirement benefit liabilities | 412.4 | (54.7) | – | (428.9) | (71.2) |
| Deferred tax liabilities | 20.4 | (38.5) | – | – | (18.1) |
| Provisions | 402.6 | (267.4) | – | (55.7) | 79.5 |
| | <u>3,900.8</u> | <u>(522.1)</u> | <u>–</u> | <u>(1,295.8)</u> | <u>2,082.9</u> |
| Total liabilities | <u>7,666.9</u> | <u>(3,108.5)</u> | <u>–</u> | <u>(153.2)</u> | <u>4,405.2</u> |
| Net assets | <u>1,016.2</u> | <u>(613.5)</u> | <u>2,339.6</u> | <u>(2,294.6)</u> | <u>447.7</u> |

1 Cash and cash equivalents included Rail ring-fenced cash of £726.0 million.

Notes:

- The net assets relating to the Group have been extracted without material adjustment from the consolidated unaudited interim financial statements of the Group as at 30 September 2020, which were prepared in accordance with IFRS.
- This adjustment removes the assets and liabilities of the Target Businesses and has been sourced without material adjustment from the historical financial information of the Target Businesses as at 30 September 2020 contained in Part IV (*Historical Financial Information relating to the Target Businesses*) of this document.
- The adjustment to cash and cash equivalents reflects net proceeds of £2,339.6 million (\$3,316.2 million):

| | Note | \$m | £m |
|---|------|----------------|----------------|
| Headline enterprise value | | 4,556.0 | 3,247.1 |
| Earnout Amount | i) | (240.0) | (171.4) |
| Debt, debt-like items and transaction costs | ii) | (999.8) | (736.1) |
| Net proceeds | | 3,316.2 | 2,339.6 |

- As noted in paragraph 1.2 (*Consideration*) of Part III (*Summary of the principal terms of the Transaction Documents*) of this document, as part of the headline enterprise value of \$4,556 million, the Purchaser has agreed to a deferred, contingent payment of up to approximately £171.4 million (\$240.0 million) calculated and payable on the earlier of a sale of First Transit by the Purchaser or the third anniversary of closing the Transaction. This is excluded from the net proceeds adjustment in the Unaudited Pro Forma Financial Information.
- Adjustment to reflect the terms of the Purchase Agreement, under which headline enterprise value will be adjusted for debt and debt-like items. The adjustment for debt and debt-like items reflects the relevant balances at 30 September. On Completion, as set out in the Purchase Agreement, the actual adjustment will be based on balances at 27 March 2021. Transaction costs have also been deducted as part of this adjustment to arrive at net proceeds.

As noted in paragraph 1.6 (*The consideration payable in respect of the Transaction is exposed to currency exchange fluctuations*) of Part II (*Risk Factors*) of this document, FirstGroup has purchased option contracts totalling £345.3 million (\$493.5 million) of the net disposal proceeds at an effective rate of £1.00 to US\$1.429. This portion of the USD headline enterprise value has been translated at this hedged rate for the purposes of this Unaudited Pro Forma Financial Information, with the remaining net proceeds translated at a rate of £1.00 to US\$1.40 (other than debt and debt-like items which reflect the position at 30 September 2020 and have therefore been translated into GBP at the September 2020 rate of £1.00 to US\$1.27).

- The adjustments arising from the Transaction are set out below:
 - The outflow of cash and cash equivalents of £2,447.8 million comprises:
 - Net disposal proceeds used to repay £1,537.2 million of borrowings:

| | £m |
|-------------------------------|----------------|
| 2021 Bond | 367.4 |
| Bank loans and overdrafts | 655.1 |
| US Notes | 215.0 |
| Loan notes | 0.7 |
| CCFF | 299.0 |
| Total repayment of borrowings | <u>1,537.2</u> |

Of the total repayment of £1,537.2 million, £726.0 million is in respect of current borrowings and £811.2 million is in respect of non-current borrowings.

This adjustment reflects the application of the net proceeds to repay the borrowings outstanding as at 30 September 2020. On Completion, the net disposal proceeds will be used to repay the borrowings outstanding at that date. In addition to repaying the borrowings set out in the Unaudited Pro Forma Financial Information above, the Retained Group also intends to repay the 2022 Bond (provided that it has put in place a new appropriately-sized revolving credit facility, which it is expecting to enter into prior to Completion). Repayment of the 2022 Bond is therefore not reflected in this Unaudited Pro Forma Financial Information, nor are the estimated £33 million of make whole costs that would be incurred as a result of its early repayment.

- Proposed Return of Value of £365.0m of cash to Shareholders on the basis set out in paragraph 6 (*Use of proceeds, proposed Return of Value to Shareholders and financial effects of the Transaction on the Retained Group*) of Part I (*Letter from the Chairman*).
 - £336.0 million contribution to the First UK Bus Pension Scheme and the FirstGroup Pension Scheme (of which £116 million is to be held in escrow, as agreed with the Pension Trustees and on the basis set out in paragraph 6 (*Use of proceeds, proposed Return of Value to Shareholders and financial effects of the Transaction on the Retained Group*) of Part I (*Letter from the Chairman*)).
 - £31.0 million of make whole costs in connection with the repayment of the US Notes.
 - £178.6 million (approximately \$250.0 million) of the net disposal proceeds will be used to pay down a substantial portion of the legacy Greyhound pension liabilities (£92.9 million (\$130 million) and the self-insurance liabilities (£85.7 million (\$120 million)).
- The adjustment to net intercompany balances reflects the capitalisation and waiving of £1,898.6 million owed by the Target Businesses to the Group as part of the Pre-Completion Transfer Plan.
- No account has been taken of any trading or results of the Group or the Target Businesses since 30 September 2020.

SECTION B – ACCOUNTANTS REPORT ON THE PRO FORMA FINANCIAL INFORMATION



The Directors
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AB24 5RP

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25 Bank Street
Canary Wharf
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United Kingdom
E14 5JP

N. M. Rothschild & Sons Limited
New Court
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10 May 2021

Dear Ladies and Gentlemen,

FirstGroup plc (the “Company”)

We report on the unaudited pro forma financial information (the “**Pro Forma Financial Information**”) set out in section A of Part V (*Unaudited pro forma financial information of the Retained Group*) of the Company’s circular dated 10 May 2021 (the “**Circular**”).

This report is required by item 13.3.3R of the Listing Rules of the Financial Conduct Authority (the “**Listing Rules**”) and is given for the purpose of complying with that Listing Rule and for no other purpose.

Opinion

In our opinion:

- (A) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (B) such basis is consistent with the accounting policies of the Company.

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules, as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of preparation

The Pro Forma Financial Information has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed sale of First Student and First Transit might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 September 2020.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council ("**FRC**") in the United Kingdom. We are independent in accordance with the FRC's Ethical Standard as applied to Investment Circular Reporting Engagements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP

Chartered Accountants

PART VI

ADDITIONAL INFORMATION

1. Responsibility

FirstGroup and the Directors, whose names are set out in paragraph 3 of this Part VI (*Additional information*) below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of FirstGroup and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company is the parent company of an international surface based passenger transport group with headquarters in the UK. The Company's current legal and commercial name is FirstGroup plc and it is a public limited company quoted on the London Stock Exchange. The Company was incorporated and registered in Scotland on 31 March 1995 as a public company limited by shares. The Company's registered office is at 395 King Street, Aberdeen, AB24 5RP (telephone number +44 (0)1224 650100). The Directors are based at the Company's London corporate office at 8th Floor, The Point, 37 North Wharf Road, London, United Kingdom, W2 1AF.

The principal legislation under which FirstGroup operates is the Companies Act 2006.

3. Directors

| Name | Position | Appointed |
|-----------------|---|--------------------------------|
| David Martin | Non-Executive Chairman | 15 August 2019 |
| Matthew Gregory | Group Chief Executive | 1 December 2015 ⁽¹⁾ |
| Ryan Mangold | Group Chief Financial Officer | 31 May 2019 |
| David Robbie | Senior Independent Non-Executive Director, Chair of the Audit Committee | 2 February 2018 ⁽²⁾ |
| Warwick Brady | Independent Non-Executive Director | 24 June 2014 |
| Sally Cabrini | Independent Non-Executive Director, Chair of the Remuneration Committee | 24 January 2020 |
| Steve Gunning | Independent Non-Executive Director | 1 January 2019 |
| Martha Poulter | Independent Non-Executive Director, Chair of the Board Safety Committee | 26 May 2017 |
| Julia Steyn | Independent Non-Executive Director | 2 May 2019 |
| Anthony Green | Group Employee Director | 15 September 2020 |

(1) Matthew Gregory was first appointed to the Board on 1 December 2015 as Chief Financial Officer and became Chief Executive Officer in November 2018.

(2) David Robbie was first appointed to the Board on 2 February 2018 and became Senior Independent Director in May 2019. He served as Interim Chairman during July and August 2019.

4. Company Secretary

David Isenegger is FirstGroup's Group General Counsel and Company Secretary and was appointed to his current role on 1 December 2020.

5. Directors' shareholdings and options

5.1 Holdings in FirstGroup Shares

The total direct interests of the Directors in FirstGroup Shares as at the Latest Practicable Date are set out below:

| Name | Number of shares | % of total voting rights in FirstGroup |
|-----------------|------------------|--|
| David Martin | 250,000 | 0.020% |
| Matthew Gregory | 557,061 | 0.046% |
| Ryan Mangold | 189,067 | 0.015% |
| David Robbie | 160,000 | 0.013% |
| Warwick Brady | 108,701 | 0.009% |
| Sally Cabrini | Nil | 0.000% |
| Steve Gunning | Nil | 0.000% |
| Martha Poulter | 60,000 | 0.005% |
| Julia Steyn | Nil | 0.000% |
| Anthony Green | Nil | 0.000% |

5.2 Awards granted to FirstGroup Directors

As at the Latest Practicable Date, the Directors have outstanding awards over FirstGroup Shares as set out below.

Long Term Incentive Plan

The Long Term Incentive Plan ("LTIP") is designed to incentivise the Executive Directors to execute the Group's strategy and drive long-term value creation and alignment with longer term returns to Shareholders.

Under the normal award policy there is a maximum award opportunity of 200 per cent. of base salary for the Group Chief Executive and 175 per cent. of base salary for other Group Executive Directors. Awards are measured over three financial years from the year of award. Shares which vest under the LTIP are subject to an additional holding period of two years. Malus and clawback applies to all incentive awards.

Before an award vests the Remuneration Committee must be satisfied that the underlying performance of the Group is satisfactory. The Remuneration Committee has the ability to amend the formulaic vesting outcome if it believes it appropriate. The Remuneration Committee believes that having a performance override is an important feature of the LTIP as it mitigates the risk of unwarranted vesting outcomes.

| Director | Date of grant | Award granted | Vesting date | Expiry date |
|-----------------|-------------------|---------------|--------------|--------------|
| Matthew Gregory | 5 July 2018 | 909,550 | 1 April 2021 | 1 April 2022 |
| | 14 November 2018 | 232,998 | 1 April 2021 | 1 April 2022 |
| | 19 August 2019 | 1,079,748 | 1 April 2022 | 1 April 2023 |
| | 24 September 2020 | 3,164,556 | 1 April 2023 | 1 April 2024 |
| Ryan Mangold | 19 August 2019 | 765,175 | 1 April 2022 | 1 April 2023 |
| | 24 September 2020 | 1,962,274 | 1 April 2023 | 1 April 2023 |

Executive Annual Bonus Plan

The Executive Annual Bonus Plan ("EABP") comprises a cash element and a deferred share element. At least half of the bonus award (the maximum amount of which is 150 per cent. of the base salary of the Group Executive Directors) under the EABP must take the form of deferred shares (the "Deferred Share Element"). The EABP as a whole is designed to focus the Executive Directors on the delivery of annual goals, striving for superior performance and achieving specific targets that support the Group's strategy. The Deferred Share Element aims to encourage Executive Directors to remain with the Group and create a link between the EABP bonus and share price growth.

EABP awards are subject to the discretion of the Remuneration Committee, and whether an award is made will depend on the Group's performance in respect of certain financial and non-financial targets over the year. The targets are set by the Remuneration Committee based on a number of factors such as the Group's business plan, individual business unit level performance, consensus and expectations for the coming year.

As with the LTIP, malus and clawback apply to awards under the EABP.

| Director | Date of Grant | Award granted | Vesting date |
|-----------------|---------------|---------------|--------------|
| Matthew Gregory | 19 June 2018 | 86,958 | 19 June 2021 |
| | 2 July 2019 | 138,406 | 2 July 2022 |

Save-as-you-earn (SAYE) Plan

The SAYE plan is based on eligible employees being granted options. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

| Director | Date of Grant | Award granted | Vesting date | Release date |
|---------------|-----------------|---------------|-----------------|--------------|
| Anthony Green | 6 December 2018 | 1,542 | 1 February 2022 | 31 July 2022 |

6. Directors' service contracts and letters of appointment

Key details on the terms of the Directors' service contracts and letters of appointment providing for benefits upon termination of employment are summarised below.

6.1 Executive Directors

The Executive Directors are engaged under rolling contracts of employment with no fixed term which entitle them to 12 months' written notice from the Company in the event of termination other than for an immediately terminable cause. Executive Directors' contracts allow for termination with contractual notice from the Company or an enforced period of garden leave of up to twelve months, or termination with a payment in lieu of notice, in each case at the Company's discretion.

The Executive Directors are required to give the Company 12 months' written notice. Each Executive Director is required to mitigate his loss by seeking appropriate alternative employment during any notice period.

There are no agreements between the Company and its Executive Directors providing for additional compensation for loss of office or employment that occurs as a result of a public takeover bid for FirstGroup.

No award or grant of options or rights under a share option, share incentive or long-term incentive scheme will be made when the Executive Director is under notice of termination of employment or is suspended. Any such options or rights may also be subject to malus and clawback provisions and these will be applied on the terms set out in the rules of the respective scheme or plan or in any applicable policy adopted by the Company from time to time.

6.2 Non-Executive Directors

The Non-Executive Directors are engaged under letters of appointment which provide for their appointment for an initial three year period. The Non-Executive Directors may be invited by the Board to serve an additional term of three years at the end of this appointment. Nevertheless, the Company in accordance with the Corporate Governance Code requires that the Non-Executive Directors stand for re-election annually at its annual general meeting. If the relevant Non-Executive Director fails to be re-elected at an annual general meeting, their appointment will terminate automatically. As a condition of Anthony Green's position as Group Employee Director, he must also have been elected at the Employee Director Forum and, after three years, be re-elected at an Employee Director Forum in accordance with the terms of the memorandum of understanding between FirstGroup and the Members of the FirstGroup Employee Directors' Forum. The Non-Executive Director's letters of appointment will also terminate automatically if the relevant Non-Executive Director stops being a director in accordance with the Articles of Association.

The letters of appointment are terminable on three months' notice by either party or summarily by FirstGroup in the event of, among other things, a material breach of the terms of his or her letter of appointment or of his or her obligations to the Company, including an obligation not to breach statutory, contractual, fiduciary and common-law duties.

The Non-Executive Directors are not entitled to compensation or damages for loss of office on termination of their letters of appointment, nor to any fee in respect of any unexpired portion of their term of appointment.

As set out in paragraph 7 of Part I (*Letter from the Chairman*), Jane Lodge and Peter Lynas will be joining the Board as non-executive directors on 30 June 2021. Jane Lodge and Peter Lynas have entered into letters of appointment in customary form which take effect from their appointments.

7. Major Shareholders

As at the Latest Practicable Date, in so far as is known to FirstGroup, the following underlying investors have a notifiable interest (in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules) in the issued ordinary share capital of the Company.

| Shareholder | % of FirstGroup Shares in issue |
|-------------------------------|---------------------------------|
| Coast Capital Management, LLC | 13.61 |
| Schroders Plc | 12.19 |
| Ameriprise Financial Inc | 10.67 |
| Aberforth Partners LLP | 4.82 |
| BlackRock Inc | 4.78 |
| The Vanguard Group Inc | 4.36 |
| Dimensional Fund Advisors | 4.36 |
| Majedie Asset Management (UK) | 4.05 |
| Standard Life Aberdeen | 3.97 |

8. Key individuals

The following individuals are deemed by FirstGroup to be key to the operations of First Student and First Transit.

| Name | Position |
|----------------------|---|
| First Student | |
| Paul Osland | President of First Student |
| Scott Spivey | Senior Vice President and Chief Financial Officer |
| Dean Suhre | Chief Operating Officer |
| First Transit | |
| Brad Thomas | President of First Transit and First Vehicle Services |
| Mark Williams | Senior Vice President and Chief Financial Officer |
| Beverly Edwards | Chief Operating Officer |

9. Material contracts

9.1 *The Retained Group*

No contracts have been entered into by the Retained Group (other than contracts entered into in the ordinary course of business): (i) within two years immediately preceding the date of this document that are, or may be, material to the Retained Group, or (ii) that contain provisions under which any member of the Retained Group has an obligation or entitlement that is, or may be, material to the Retained Group as at the Latest Practicable Date, save as disclosed below.

Purchase Agreement and Reverse Transitional Services Agreement

A summary of the principal terms and conditions of the Purchase Agreement and the Reverse Transitional Services Agreement is set out in Part III (*Summary of the principal terms of the Transaction Documents*) of this document.

Revolving Credit Facility

On 7 November 2018, FirstGroup entered into a syndicated, multicurrency revolving credit and guarantee facility (the “**RCF**”). Under the terms of the RCF, the lenders (including, amongst them, The Royal Bank of Scotland plc, MUFG Bank, Ltd. and Banco Santander S.A.) make available to FirstGroup a revolving credit and guarantee facility in aggregate amount of £800 million.

The RCF is intended for the general corporate purposes of the Group.

The RCF features customary representations by, and affirmative and negative covenants of the obligors, as well as customary events of default. The RCF contains a leverage financial covenant and a fixed charge cover ratio financial covenant.

The scheduled maturity date of the RCF is currently 9 November 2023. FirstGroup has the right at any time to voluntarily prepay any outstanding loans and/or to cancel the total commitments under the RCF in whole or in part (subject to minimum thresholds and any applicable break costs). In the event of a change of control of FirstGroup, and if, following good faith negotiations any lender’s concerns about such change of control have not been resolved, the relevant lender’s commitments must be prepaid and cancelled.

The RCF is governed by English law.

The Group also has an uncommitted £150 million accordion facility which is connected to the RCF.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, upon Completion, the RCF will be repaid in full and terminated.

US Private Placement Notes

FirstGroup has issued and privately placed the following transferrable US private placement notes (the “**US Notes**”):

- (A) \$100 million loan notes with an interest rate of 4.17 per cent. due in March 2025; and
- (B) \$175 million loan notes with an interest rate of 4.29 per cent. due in March 2028

each between FirstGroup (as issuer) and certain financial institutions (as purchasers).

The terms and conditions of the US Notes are substantially similar, save with respect to amount, pricing and maturity as summarised above. Each US Note:

- (A) allows optional prepayment of all or any part of the notes constituted thereunder, subject (in certain cases) to the payment of a make-whole prepayment premium;
- (B) contains customary representations by, and affirmative and negative covenants as well as customary events of default; and
- (C) is governed by English law.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, upon Completion, the US Notes will be repaid in full and terminated.

Covid Corporate Financing Facility

The Group was confirmed an eligible issuer under the UK government’s Covid Corporate Financing Facility (the “**CCFF**”) on 23 March 2020, with an issuer limit of £300 million in commercial paper based on its credit ratings under the terms of the scheme as published by the Bank of England. The Group’s Euro-Commercial Paper Programme under the CCFF was renewed for a further year in December 2020. In order to ensure its liquidity levels, on 4 March 2021 the Group re-borrowed the maximum amount under its issuer limit.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, upon Completion, the Company will redeem the commercial paper issued under this facility in full.

Sterling Bonds

FirstGroup (as Issuer), on the dates listed below, issued the following sterling bonds (together, the “**Bonds**”):

- (A) on 29 November 2012, £325 million sterling bonds with a coupon of 5.250 per cent. maturing in November 2022 (the “**2022 Bond**”); and
- (B) on 18 September 2009, £200 million sterling bonds with a coupon of 6.875 per cent. maturing in September 2024 (the “**2024 Bond**”).

The terms and conditions of the Bonds are substantially similar, save with respect to amount, pricing and maturity (as summarised above). Each Bond:

- (A) allows redemption at FirstGroup’s option of the bonds constituted thereunder, subject to the payment of a make-whole amount, and redemption at par at the bondholders’ option within a set period around a change of control if the bonds have a non-investment grade rating;
- (B) contains a negative pledge;
- (C) contains an interest ratchet mechanism linked to FirstGroup’s rating under which the rate of interest can be stepped up or down;
- (D) contains customary events of default, including, without limitation default in payment of any principal or interest, cross default, insolvency, insolvency process and cessation of business; and
- (E) is governed by English law.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, the 2022 Bonds will only be repaid once the Retained Group has put in place a new appropriately-sized revolving credit facility. The Company expects to enter into such new revolving credit facility prior to Completion. The 2024 Bond will be retained by the Retained Group.

£250 million Bridging Loan

On 19 March 2020 FirstGroup entered into a committed £250 million bridging loan with, amongst others, MUFG Bank, Ltd. and National Westminster Bank, plc for the purpose of redeeming the £350 million April 2021 bond (the “**Bridging Loan**”). The Bridging Loan is currently fully drawn.

The Bridging Loan has customary covenants and affirmative and negative representations of the borrower, as well as customary events of default. The Bridging Loan contains a leverage financial covenant and a fixed charge cover ratio financial covenant.

The Bridging Loan is governed by English law.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, upon Completion, the Bridging Loan will be repaid in full and terminated.

Committed Supplier Financing Facility

The Group is party to a \$250 million committed supplier facility with Daimler (the “**Committed Supplier Facility**”). Under the Committed Supplier Facility, the Group has agreed amortising debt contracts until 2027 for approximately \$220 million.

£300 million CCFF Bridging Loan

On 24 March 2021 FirstGroup entered into a committed £300 million bridging loan for the purpose of redeeming the Group’s £300 million of commercial paper, which is due to mature in March 2022, issued pursuant the Group’s Euro-Commercial Paper Programme under the CCFF (the “**CCFF Bridging Loan**”). The CCFF Bridging Loan is currently undrawn and has an initial termination date of 31 March 2022.

The CCFF Bridging Loan has customary covenants and affirmative and negative representations of the borrower, as well as customary events of default. The CCFF Bridging Loan contains a leverage financial covenant and a fixed charge cover ratio financial covenant.

The CCFF Bridging Loan is governed by English law.

Bilateral facilities

The Group is party to a three-year £60 million term loan facility with CaixaBank, S.A. acting through its United Kingdom branch, CaixaBank S.A., UK Branch dated 19 June 2019 and a three-year £60 million revolving credit facility with China Construction Bank Corporation London Branch dated 11 October 2019 (the “**Bilateral Facilities**”). Each of these facilities contains customary financial covenants.

As shown in the use of Net Disposal Proceeds table in paragraph 6 of Part I (*Letter from the Chairman*) above, upon Completion, the Bilateral Facilities will be repaid in full and terminated.

Non-binding Memoranda of Understanding with Pension Trustees

As part of the Transaction, FirstGroup entered into a non-binding memorandum of understanding with the trustee of the First UK Bus Pension Scheme (“**Bus Scheme**”) (“**Bus MoU**”) on 19 April 2021 and a non-binding memorandum of understanding with the trustee of the FirstGroup Pension Scheme (“**Group Scheme**”) (“**Group MoU**”) on 14 April 2021.

The Bus MoU provides, among other things:

- (A) For a one-off contribution of £220 million to be paid to the Bus Scheme.
- (B) For a further contribution to be paid to an insolvency remote funding vehicle to support the Bus Scheme, the amount of such contribution depending on the amount returned to Shareholders pursuant to the proposed Return of Value. Based on the expected amount of the proposed Return of Value (£365 million), such further contribution will be an amount of £95 million. The further contribution is subject to an overall cap equal to the amount required (together with the £220 million one-off contribution) to eliminate the Bus Scheme’s deficit by reference to a self-sufficiency basis.
- (C) For a triennial valuation of the Bus Scheme to be carried out with an effective date of 5 April 2021.
- (D) For the parties to seek to agree an investment strategy which has the objective for the Bus Scheme to reach full funding by reference to a self-sufficiency basis, but without limiting the trustee’s powers of investment.
- (E) For certain release mechanisms to apply to the Bus Scheme’s funding vehicle, for example, if the 2024 triennial valuation shows a deficit based on the Bus Scheme’s self-sufficiency basis, an amount equal to that deficit would be released to the Bus Scheme with the potential for any residual to be paid to the Group. The Bus Scheme’s funding vehicle will also be subject to other customary terms and triggers which are still to be formally agreed with the trustee.
- (F) For the Bus Scheme’s existing guarantee to remain in force on a basis which is no less favourable than its existing terms.

The Group MoU provides, among other things:

- (G) For a one-off contribution of £20 million to be paid to an insolvency remote funding vehicle to support the Group Scheme. This contribution may escalate in increments of £1m to a maximum of £24m depending on the depending on the amount returned to Shareholders pursuant to the proposed Return of Value.
- (H) Depending on the funding position of the Group Scheme, for certain release mechanisms to apply to the Group Scheme’s funding vehicle, for example, if the 2030 triennial valuation shows a deficit based on the Group Scheme’s self-sufficiency basis, an amount equal to that deficit would be released from the Group Scheme’s funding vehicle to the Group

Scheme and any residual would be paid to the Group. The Group Scheme's funding vehicle will also be subject to other customary terms and triggers.

- (I) For a triennial valuation of the Group Scheme to be carried out with an effective date of 5 April 2021 on the expectation that:
 - (i) following that valuation, no further valuation will be required until 2024; and
 - (ii) except in relation to expenses, no contributions will be required directly to the Group Scheme (other than in respect of the Group Scheme's funding vehicle).
- (J) That the Group Scheme's existing guarantee will be terminated and replaced with a guarantee by FirstGroup which will terminate once the scheme is fully funded to the Group Scheme's self-sufficiency basis.

9.2 ***The Target Businesses***

No contracts have been entered into by the Target Businesses (other than contracts entered into in the ordinary course of business): (i) within two years immediately preceding the date of this document that are, or may be, material to the Target Businesses or (ii) that contain provisions under which any member of the Target Businesses has an obligation or entitlement that is, or may be, material to the Target Businesses as at the Latest Practicable Date.

10. **Legal or arbitration proceedings**

10.1 ***The Retained Group***

Save as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which FirstGroup is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Retained Group.

SWR Proposed Collective Proceedings

First MTR South Western Trains Limited ("**FSWT**"), a subsidiary of the Company and the operator of the SWR rail franchise, is currently facing proposed collective proceedings before the UK Competition Appeal Tribunal (the "**CAT**") in respect of alleged breaches of UK competition law. Stagecoach South Western Trains Limited ("**SSWT**") (the former operator of the SWR rail franchise) is also a proposed defendant to these proceedings. A separate set of proceedings has been issued against London & South Eastern Railway Limited ("**LSER**") in respect of another rail franchise. The two sets of proceedings are being heard together. The first substantive hearing, at which the CAT was asked to determine whether or not to certify the proposed collective proceedings, took place between 9 and 12 March 2021.

The proposed class representative alleges that FSWT, SSWT and LSER breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey.

At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

10.2 ***The Target Businesses***

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which FirstGroup is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Target Businesses.

11. **Working capital**

In the opinion of FirstGroup, taking into account the net proceeds of the Transaction, the working capital available to the Retained Group is sufficient for its present requirements; that is, for at least the next 12 months following the date of this document.

12. Significant changes

12.1 The Retained Group

There has been no significant change to the financial position or financial performance of the Retained Group since 30 September 2020, the date to which FirstGroup's last published unaudited interim financial information was prepared.

12.2 The Target Businesses

There has been no significant change to the financial position or financial performance of the Target Businesses since 30 September 2020, the date to which the historical financial information relating to the Target Businesses in Part IV (*Historical Financial Information relating to the Target Businesses*) was prepared.

13. Related party transactions

Save as disclosed (in accordance with Applicable Accounting Standards) in the information incorporated by reference at Part VII (*Information incorporated by reference*) below, FirstGroup has not entered into any related party transactions (which, for these purposes, are those set out and adopted according to Applicable Accounting Standards) during the period from 1 April 2017 up to the date of this document.

14. Consents

Rothschild & Co, who has acted as joint sponsor and joint financial adviser to FirstGroup in connection with the Transaction, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.

J.P. Morgan Cazenove, who has acted as joint sponsor, joint financial adviser and joint corporate broker to FirstGroup in connection with the Transaction, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.

Goldman Sachs, who has acted as joint financial adviser and joint corporate broker to FirstGroup in connection with the Transaction, has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.

PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion of its accountant's report on the Unaudited Pro Forma Financial Information of the Retained Group set out in Section B of Part V (*Unaudited Pro Forma Financial Information of the Retained Group*), in the form and context in which it appears.

15. Documents available for inspection

A copy of the Purchase Agreement will be available for inspection, by prior arrangement by emailing companysecretariat@firstgroup.com, during normal business hours on any business day during the period beginning with (and including) the date of this document and ending on (and including) the date of the General Meeting at FirstGroup's registered office at 395 King Street, Aberdeen, AB24 5RP and FirstGroup's London corporate office at 8th Floor, The Point, 37 North Wharf Road, London, United Kingdom, W2 1AF. If a Shareholder is not able to travel to or access either location due to the UK Government's restrictions in response to the COVID-19 pandemic, and would otherwise like to inspect the Purchase Agreement, they may email companysecretariat@firstgroup.com.

Copies of the following documents will be available for inspection on FirstGroup's website (<https://www.firstgroupplc.com/investors.aspx>) for the period beginning with (and including) the date of this document and ending on (and including) the date of the General Meeting:

- (A) the Articles of Association;
- (B) this Circular;
- (C) the written consents referred to in paragraph 14 of this Part VI (*Additional information*);

- (D) the consolidated audited accounts of the Group for the financial years ended 31 March 2018, 31 March 2019 and 31 March 2020;
- (E) the consolidated unaudited interim financial results of the Group for the six month period ended 30 September 2020; and
- (F) the report by PricewaterhouseCoopers LLP set out in Section B of Part V (*Unaudited Pro Forma Financial Information of the Retained Group*).

PART VII

INFORMATION INCORPORATED BY REFERENCE

The table below sets out the various information incorporated by reference into this document, so as to provide the information required under the Listing Rules.

| <u>Document</u> | <u>Information incorporated by reference</u> | <u>Page number(s) in this document</u> |
|---|---|--|
| FirstGroup's 2018 Annual Report and Accounts | Details of related party transactions that FirstGroup has entered into for the financial year ended 31 March 2018. | Page 153 |
| FirstGroup's 2019 Annual Report and Accounts | Details of related party transactions that FirstGroup has entered into for the financial year ended 31 March 2019. | Page 163 |
| FirstGroup's 2020 Annual Report and Accounts | Details of related party transactions that FirstGroup has entered into for the financial year ended 31 March 2020. | Page 199 |
| FirstGroup's half year unaudited interim financial results for the period ended 30 September 2020 | Details of related party transactions that FirstGroup has entered into in the six month period ended 30 September 2020. | NA |

A copy of each of the documents listed is available for inspection in accordance with paragraph 15 of Part VI (*Additional information*) of this document above (including on the FirstGroup website).

Information that is itself incorporated by reference in the above documents is not incorporated by reference into this document. It should be noted that, except as set forth above, no other portion of the above documents are incorporated by reference into this document and those portions which are not specifically incorporated by reference in this document are either not relevant for Shareholders or the relevant information is included elsewhere in this document.

PART VIII

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

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| “2022 Bond” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “2024 Bond” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “adjusted operating profit” | operating profit before strategy costs, rail termination sums, other intangible asset amortisation charges and certain other items that are significant. These could include costs of acquisitions (including aborted acquisitions), impairment of assets, property gains or losses, aged legal and self-insurance claims, movements on insurance discount rates, onerous contract provisions and pension settlement gains or losses; |
| “Adjusted Profit After Tax” | as defined in paragraph 7 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “APMs” | alternative performance measures; |
| “Applicable Accounting Standards” | the respective standard adopted, prior to 1 January 2021, according to Regulation (EC) No. 1606/2002 or, as applicable, on or after 1 January 2021, according to the UK IAS Regulations); |
| “Articles of Association” | the articles of association of FirstGroup as at the date of this document; |
| “Board” or “Board of Directors” | FirstGroup’s board of directors, whose details are set out at paragraph 3 of Part VI (<i>Additional information</i>) of this document; |
| “Bilateral Facilities” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Bridging Loan” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Bus MoU” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Bus Scheme” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Canada Emergency Wage Subsidy” | section 125.7 of the Canadian Income Tax Act; |
| “CAT” | as defined in paragraph 10.1 of Part VI (<i>Additional information</i>) of this document; |
| “CBSSG Scheme” | COVID-19 Bus Services Support Grant under which the DfT pays bus operators the costs of operation less revenue received from customers and other public sector monies on a zero surplus basis; |
| “CCFF” | Covid Corporate Finance Facility; |
| “Chairman” | the chairman of the Company; |

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| “Change in Recommendation” | as defined in paragraph 1.3 of Part III (<i>Summary of The Principal Terms of The Transaction Documents</i>) of this document; |
| “Circular” | this document; |
| “Closing Approvals” | regulatory clearances (or where applicable, exemption) from the US Surface Transportation Board, and provincial regulators in Quebec, approval from the Vermont Department of Financial Regulation in relation to the transfer of NIIC to the Purchaser and antitrust clearances (or where applicable expiration of applicable waiting periods) from the US Department of Justice and the Canadian Commissioner of Competition; |
| “Commitment Letters” | as defined in paragraph 1.8 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Committed Supplier Facility” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Company” or “FirstGroup” | FirstGroup plc, a public limited company incorporated in Scotland with registered number SC157176, whose registered office is at 395 King Street, Aberdeen, AB24 5RP; |
| “Completion” | completion of the Transaction in accordance with the terms of the Purchase Agreement; |
| “Consideration” | as defined in paragraph 1.2 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “CREST” | the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument; |
| “CREST Manual” | the rules governing the operation of CREST as published by Euroclear; |
| “CREST Proxy Instruction” | a proxy appointment or instruction made via CREST, authenticated in accordance with Euroclear’s specifications and containing the information set out in the CREST Manual; |
| “Defaulting Party” | as defined in paragraph 1.12 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Deferred Share Element” | as defined in paragraph 5.2 of Part VI (<i>Additional information</i>) of this document; |
| “DfT” | UK government’s Department for Transport; |
| “Directors” | the directors of the Company at the date of this document, whose details are set out in paragraph 3 of Part VI (<i>Additional information</i>) of this document and “Director” means any one of them; |
| “Disclosure Guidance and Transparency Rules” | the disclosure guidance and transparency rules made under Part VI of FSMA (and contained in the FCA’s publication of the same name), as amended from time to time; |
| “EABP” | Executive Annual Bonus Plan, as defined in paragraph 5.2 of Part VI (<i>Additional information</i>) of this document; |
| “Earnout” | as defined in paragraph 5 of Part I (<i>Letter from the Chairman</i>) of this document; |

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| “Earnout Amount” | as defined in paragraph 5 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “EBITDA” | earnings before interest, taxes, depreciation, and amortisation, adjusted as set out in Part IV (<i>Historical financial information relating to the Target Businesses</i>); |
| “EMAs” | emergency measures introduced by DfT to maintain UK rail services, under which the DfT waived revenue, cost and contingent capital risks for train operator companies and instead paid them a management fee to continue running the rail networks at an agreed service level; |
| “End Date” | 22 January 2022; |
| “EQT Infrastructure” | EQT Infrastructure V Collect EUR SCSp and EQT Infrastructure V Collect USD SCSp, funds of the EQT AB Group and, as the context requires, their affiliates; |
| “ERMAs” | emergency recovery measures introduced to replace certain EMAs after their initial expiry period of 20 September 2020. These emergency recovery measure agreements are similar to EMAs, but are more heavily weighted to performance delivery and with a lower fixed and overall fee potential; |
| “ESG” | environmental, social and governance; |
| “EU Withdrawal Act” | the European Union (Withdrawal) Act 2018; |
| “Euroclear” | Euroclear U.K. & Ireland Limited, the operator of CREST; |
| “Executive Directors” | the executive directors of the Company at the date of this document and “Executive Director” means any one of them; |
| “FCA” or “Financial Conduct Authority” | the Financial Conduct Authority of the United Kingdom and, where applicable, any successor body or bodies carrying out the functions currently carried out by the Financial Conduct Authority; |
| “Financing” | as defined in paragraph 1.8 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “First Bus” | FirstBus (North) Limited and FirstBus (South) Limited and its subsidiary undertakings; |
| “First Rail” | First Rail Holdings Limited and its subsidiary undertakings; |
| “FirstGroup America” | FirstGroup America, Inc.; |
| “FirstGroup Shares” | ordinary shares of five pence each in the capital of the Company; |
| “First Student” | FirstGroup Investment Corporation, its direct subsidiaries First Student, Inc (in the US) and First Canada ULC (in Canada), and their respective subsidiary undertakings; |
| “First Transit” | First Transit, Inc. and its subsidiary undertakings; |
| “FSMA” | the Financial Services and Markets Act 2000, as amended from time to time; |
| “Fundamental Warranties” | representations and warranties regarded as fundamental under the terms of the Purchase Agreement, comprising of those relating to: (a) the existence, power and authorisation of FirstGroup and the Purchaser; (b) capitalisation and title to |

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| | shares; and (c) financial entities and advisers not being retained in connection with the Transaction save for those specified; |
| “General Meeting” | the general meeting of FirstGroup to be held at 8th Floor, The Point, 37 North Wharf Road, London W2 1AF at 1.00 p.m. on 27 May 2021, as described in the Notice of General Meeting; |
| “Governmental Authority” | any transnational, national or foreign federal, state, provincial, territorial, municipal or local government (including any subdivision, court, administrative agency, regulatory body or commission or other authority thereof), or any quasi-governmental or private body exercising any regulatory, importing or other governmental or quasi-governmental authority; |
| “Greyhound” | Greyhound Lines, Inc. and Greyhound Canada Transportation ULC; |
| “Group” | FirstGroup together with its Subsidiaries; |
| “Group MoU” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Group Scheme” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “GWR” | Great Western Railway; |
| “Key Support Arrangements” | as defined in paragraph 1.3(L) of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Latest Practicable Date” | close of business on 6 May 2021 (being the latest practicable date prior to the publication of this document); |
| “Listing Rules” | the listing rules made under Part VI of FSMA (and contained in the FCA’s publication of the same name), as amended from time to time; |
| “Locked Box Date” | 27 March 2021; |
| “LTIP” | as defined in paragraph 5.2 of Part VI (<i>Additional information</i>) of this document; |
| “Lumi” | Lumi AGM UK Limited; |
| “MoUs” | as defined in paragraph 6 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “Net Disposal Proceeds” | as defined in paragraph 1 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “NIIC” | the National Insurance and Indemnity Corporation, FirstGroup’s captive insurer for the North American Insurance Liabilities; |
| “Non-Executive Directors” | the non-executive directors of the Company at the date of this document (including, for the avoidance of doubt, the Chairman) and “Non-Executive Director” means any one of them; |
| “North American Insurance Liabilities” | the liabilities arising out of the Group’s North American insurance arrangements which involve FirstGroup retaining the working loss layers related to its North American divisions and insuring against the higher value losses; |
| “Notice of General Meeting” | the notice of the General Meeting which is set out at the end of this document; |

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| “Parent Support Arrangements” | all obligations of any member of the Retained Group under any contract, arrangement or other obligation to support or facilitate either of the Target Businesses or any member of the Retained Group for which any member of the Retained Group is or may be liable as guarantor, original tenant, primary obligor, person required to provide financial support or collateral in any form whatsoever (including, but not limited to the Key Support Arrangements); |
| “Party” or “Parties” | as defined in paragraph 1.1 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Pension Schemes” or “Schemes” | the First UK Bus Pension Scheme, the FirstGroup Pension Scheme, the Railways Pension Scheme and the Local Government Pension Scheme, to which the Group contributes, and each a “Pension Scheme” or a “Scheme” as the context requires; |
| “Pension Trustees” | as defined in paragraph 6 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “Pre-Completion Restructuring Transfers” | as defined in paragraph 1.4 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Pre-Completion Transfer Plan” | as defined in paragraph 1.4 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Prospectus Delegated Regulation” | the UK version of the Commission delegated regulation (EU) 2019/980 (“EU Prospectus Delegated Regulation”) which came into effect on 1 January 2021 when EU Prospectus Delegated Regulation was incorporated into UK domestic law by the EU Withdrawal Act, with certain modifications; |
| “Prospectus Rules” | the prospectus rules made under Part VI of FSMA (and contained in the FCA’s publication of the same name), as amended from time to time; |
| “Proxy Form” | the form of proxy enclosed with this document, for use by Shareholders in connection with the General Meeting; |
| “Prudential Regulation Authority” | the Prudential Regulation Authority of the United Kingdom and, where applicable, includes any successor body or bodies carrying out the functions currently carried out by the Prudential Regulation Authority; |
| “Purchase Agreement” | the stock purchase agreement between FirstGroup and the Purchaser as described in paragraph 1 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Purchaser” | Recess Holdco Inc., a newly incorporated affiliate of the Sponsors; |
| “R&WI Policy” | as defined in paragraph 1.5 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “RCF” | as defined in paragraph 9.1 of Part VI (<i>Additional information</i>) of this document; |
| “Registrar” or “Equiniti” | Equiniti Limited, a limited company incorporated in England and Wales with registered number 6226088, whose registered office is at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA; |

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| “Regulatory Information Service” | one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information from listed companies; |
| “Remuneration Committee” | the Board’s remuneration committee; |
| “Resolution” | the ordinary resolution of the Company seeking approval for the Transaction at the General Meeting, as set out in the Notice of General Meeting; |
| “Return of Value” | as defined in paragraph 1 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “Retained Group” | the Company, its Subsidiaries and subsidiary undertakings (for the avoidance of doubt, excluding the Target Businesses), being the continuing divisions of the Group following the Transaction; |
| “Reverse Transitional Services Agreement” | the Reverse Transitional Services Agreement to be entered into by or at Completion by Greyhound Lines, Inc., as service recipient, and FirstGroup America, as service provider, as described in paragraph 2 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Seller Parent Recommendation” | as defined in paragraph 1.3 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Shareholder(s)” | holders of FirstGroup Shares; |
| “Shareholder Approval Condition” | as defined in paragraph 1.3(C) of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “Sponsors” | EQT Infrastructure V Collect EUR SCSp and EQT Infrastructure V Collect USD SCSp, in each case, acting by its manager (gérant) EQT Fund Management S.à. r.l.; |
| “Subsidiary” or “Subsidiaries” | has the meaning given in section 1159 of the Companies Act 2006; |
| “SWR” | South Western Railway; |
| “Target Businesses” | First Student and First Transit (including the related internal risk-financing services provided by NIIC, but excluding certain transit management services businesses operated by First Transit in certain circumstances); |
| “Target Entities” | the entities of the Group engaged in the Target Businesses; |
| “TCFD” | Task Force on Climate-Related Financial Disclosures; |
| “TMS Businesses” | as defined in paragraph 1.4 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “TMS Carve-out” | as defined in paragraph 1.4 of Part III (<i>Summary of the principal terms of the Transaction Documents</i>) of this document; |
| “TPE” | TransPennine Express; |
| “Transaction” | as defined in paragraph 1 of Part I (<i>Letter from the Chairman</i>) of this document; |
| “Transaction Documents” | the Purchase Agreement and the Reverse Transitional Services Agreement; |
| “UK DB Pension Schemes” | the First UK Bus Pension Scheme and the FirstGroup Pension Scheme; |

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| “UK IAS Regulation” | the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019; |
| “Unaudited Pro Forma Financial Information” | as defined in Section A of Part V (<i>Unaudited Pro Forma Financial Information of the Retained Group</i>) of this document; |
| “United Kingdom” or “UK” | the United Kingdom of Great Britain and Northern Ireland; |
| “United States” or “US” | the United States of America; and |
| “Virtual Meeting Platform” | a virtual meeting platform hosted by Lumi. |

FIRSTGROUP PLC

(registered in Scotland with registered number SC157176)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of FirstGroup plc (the “**Company**”) will be held at 8th Floor, The Point, 37 North Wharf Road, London W2 1AF at 1.00 p.m. on 27 May 2021, for the purposes of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution.

For the purposes of this resolution, capitalised terms used but not defined herein shall (unless the context otherwise requires) have the meaning ascribed to them in the Company’s Circular to Shareholders dated 10 May 2021, of which this notice forms part.

ORDINARY RESOLUTION

THAT the proposed sale of First Student and First Transit as described in the Circular on the terms and subject to the conditions contained in the Purchase Agreement and various associated and ancillary documents be and are hereby approved, and that the directors of the Company (or a duly authorised person) be and are hereby authorised to:

1. take all such steps, execute all such agreements, and make all such arrangements as may seem to them necessary, expedient or desirable for the purpose of giving effect to, or otherwise in connection with, this Resolution, the Transaction, the Purchase Agreement and/or the associated and ancillary documents relating thereto; and
2. agree and make such modification, variations, revisions, waivers and/or amendments in relation to any of the foregoing (provided that such modifications, variations, revisions, waivers or amendments are not material for the purposes of Listing Rule 10.5.2) as they may in their absolute discretion deem necessary, expedient or desirable.

By order of the Board

David Isenegger

Group General Counsel and Company Secretary

10 May 2021

Registered office

FirstGroup plc
395 King Street,
Aberdeen,
AB24 5RP

Notes to the Notice of General Meeting

The following notes explain your general rights as a member and your right to vote at the General Meeting or to appoint someone else to vote on your behalf.

What is my entitlement to vote?

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 311 of the Companies Act 2006, specifies that only those Shareholders listed on the Register of Shareholders as at 6.30 p.m. on 25 May 2021 (or, if the General Meeting is adjourned, 6.30 p.m. on the date two working days before the time fixed for the adjourned general meeting) shall be entitled to vote at the General Meeting in respect of the number of shares registered in their name at that time. In each case, changes to entries on the Register after such time shall be disregarded in determining the rights of any person to vote at the General Meeting.

Voting by proxy

Shareholders are entitled to appoint a proxy to exercise all or any of their rights to speak and vote on their behalf at the General Meeting. Shareholders are strongly encouraged to appoint the chairman of the General Meeting as their proxy. If any other person is appointed as proxy, they may not be permitted to attend the General Meeting in person due to the UK Government's restrictions in response to the COVID-19 pandemic.

To be effective, the Proxy Form and, where applicable, the original or duly certified copy (by a notary or in some other way approved by the Directors, or an office copy) of the power of attorney or other authority (if any) under which it is signed or authenticated, must be (a) received by the Company's Registrar at the address shown on the Proxy Form or received via sharevote.co.uk, no later than 1.00 p.m. on 25 May 2021, or 48 hours (excluding non-working days) before the time for holding any adjourned general meeting or (in the case of a poll not taken on the same day as the General Meeting or adjourned general meeting) for the taking of the poll at which it is to be used; or (b) lodged using the CREST proxy voting service. To request a hard copy Proxy Form please contact the Company's Registrar by calling them on 0371-384-2046 (UK) +44 121-415-7050 from Overseas. Lines are open between Monday to Friday 8.30 a.m. to 5.30 p.m.; excluding Bank Holidays in England and Wales.

Why can Shareholders not attend the General Meeting, and how do I appoint a proxy?

Given the continued social distancing measures and health and safety guidance imposed by the UK Government as a result of the COVID-19 pandemic, the General Meeting will be convened with the minimum quorum of Shareholders (which will be facilitated by FirstGroup's management) in order to conduct the business of the General Meeting. The health and safety of our Shareholders and colleagues is always our utmost priority and Shareholders are strongly advised not to seek to attend the General Meeting in person. The General Meeting will be held with limited physical attendance, and Shareholders (and any appointed proxies (other than the chairman of the General Meeting) or corporate representatives) may not be granted access to the General Meeting in person.

Shareholders will be able to remotely follow the General Meeting via an audiocast on the Virtual Meeting Platform, where they will also be able to submit questions relating to the business of the General Meeting during the meeting. Details of how to access the Virtual Meeting Platform are set out below. We will continue to closely monitor the impact of the COVID-19 pandemic, including the latest guidance from the UK government. Should it become necessary or appropriate to revise the current arrangements for the General Meeting, this will be notified to Shareholders on our website and/or via a Regulatory Information Service.

In the interests of health and safety, any: (i) proxy who is not the chairman of the General Meeting; or (ii) Shareholder seeking to attend the General Meeting in person, may be denied access to the General Meeting. We strongly urge Shareholders to vote by proxy on the Resolution as early as possible, and the Board recommends that Shareholders appoint the chairman of the General Meeting as their proxy. You can do this, and submit voting instructions, in any of the following manners:

- by logging on to www.sharevote.co.uk;

- via CREST; or
- by completing and returning the paper Proxy Form if one has been sent to you. Please read the instructions carefully to ensure you have completed and signed the form correctly. Any alterations must be initialled.

Unless you own a share jointly, if you return more than one proxy appointment relating to the same share within your holding, either by paper or electronic communication, that which is received last by the Company's Registrar before the latest time for the receipt of proxies will take priority. If a paper communication and an online communication are received on the same day, the online communication will be followed.

Where you own shares jointly, any one Shareholder may sign the Proxy Form. If more than one joint holder submits a card, the instructions given by the first listed holder on the Register of Shareholders will prevail.

By when do I have to submit my proxy appointment?

The Proxy Form and, where applicable, the original or duly certified copy (by a notary or in some other way approved by the Directors, or an office copy) of the power of attorney or other authority (if any) under which it is signed or authenticated, should be: (a) deposited by post or (during normal business hours only) by hand with the Company's Registrar at the address shown on the Proxy Form or received via www.sharevote.co.uk, no later than 1.00 p.m. on 25 May 2021, or 48 hours (excluding non-working days) before the time for holding any adjourned general meeting or (in the case of a poll not taken on the same day as the General Meeting or adjourned general meeting) for the taking of the poll at which it is to be used; or (b) lodged using the CREST proxy voting service.

I am a CREST member – how can I appoint a proxy?

CREST members who wish to appoint a proxy through the CREST electronic proxy appointment service for the General Meeting or any adjournment may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the CREST Proxy Instruction must be properly authenticated in accordance with Euroclear's specification, and must contain the information required for such instruction, as described in the CREST Manual. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid for the General Meeting and any adjournment(s) thereof, be transmitted so as to be received by the Company's Registrar, Equiniti (CREST participant ID RA19), no later than 1.00 p.m. on 25 May 2021 or, if the General Meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned general meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers, should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

I am a Nominated Person – how can I vote?

Any person to whom this General Meeting notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “**Nominated Person**”) may, under an agreement between themselves and the Shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

The statement of the rights of Shareholders in relation to the appointment of proxies set out above does not apply to Nominated Persons. The rights described in these notes can only be exercised by a member of the Company.

How do I appoint a corporate representative?

Any corporation which is a member can appoint one or more corporate representative who may exercise on its behalf all of its powers as a member provided that, if two or more representatives purport to vote in respect of the same shares:

- (a) if they purport to exercise the power in the same way as each other, the power is treated as exercised in that way; and
- (b) in other cases, the power is treated as not exercised.

Where a single corporate member appoints multiple corporate representatives to exercise powers over different shares, those same corporate representatives may vote differently from one another in relation to any particular resolution.

Can I ask a question at the General Meeting?

Any Shareholder following the General Meeting on the Virtual Meeting Platform can ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting, but no such answer need be given if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. If you ask your question on the Virtual Meeting Platform, it may be included in the recording of the meeting. Please note that this recording is solely for the purpose of creating a transcript of the meeting and will not be made publicly available.

Shareholders may also submit questions relating to the business of the General Meeting in advance of the meeting by email to companysecretariat@firstgroup.com. The Board will consider all questions received in advance of the meeting and, to the extent practicable, answers will be published on FirstGroup’s website.

How can I follow the General Meeting live?

Shareholders will be able to remotely follow the General Meeting via an audiocast and submit questions at the General Meeting via the Virtual Meeting Platform. Shareholders can access the Virtual Meeting Platform using a web browser, on a PC, smartphone device or tablet. The web browser must be compatible with the latest browser versions of Chrome, Firefox, Internet Explorer 11 (Internet Explorer v. 10 and below are not supported), Edge and Safari. To follow via the audiocast and/or submit questions using this method, please go to <https://web.lumiagm.com>. Once you have accessed <https://web.lumiagm.com> from your web browser, you will be asked to enter the Lumi Meeting ID which is 162-638-467. You will then be prompted to enter your unique Shareholder Reference Number, your SRN, and PIN. These can be found printed on the Notice of Availability attached to the Forms of Proxy. Access to the General Meeting via the website will be available from 12.00 noon on 27 May 2021, as further detailed below. If you are unable to access your SRN and PIN, please contact the Registrar by calling them on 0371-384-2046 (UK) +44 121-415-7050 from Overseas. Lines are open between Monday to Friday 8.30 a.m. to 5.30 p.m.; excluding Bank Holidays in England and Wales. Further information is set out in the Lumi Virtual Meeting Platform Guide on pages 72 and 73 of this document.

Access to the General Meeting will be available from 12.00 noon on 27 May 2021. Voting functionality will not be enabled at the General Meeting. Shareholders will be permitted to submit questions via the Virtual Meeting Platform to the Directors during the course of the General Meeting.

During the General Meeting, you must ensure you are connected to the internet at all times in order to submit questions. Therefore, it is your responsibility to ensure connectivity for the duration of the General Meeting via your wireless or other internet connection.

If your ordinary shares are held through a broker, bank, trust company or other nominee and you wish to access the Virtual Meeting Platform, you will need to contact your broker, bank, trust company or other nominee immediately. Your broker, bank, trust company or other nominee will need to have completed a letter of representation and presented this to Equiniti no later than 24 hours before the start of the General Meeting in order to obtain your unique SRN and PIN number to access the Virtual Meeting Platform. If you are in any doubt about your shareholding, please contact Equiniti on the telephone numbers set out above.

When will the General Meeting results be published?

It is expected that the total of the votes cast by Shareholders for or against or withheld on each resolution will be announced via a Regulatory Information Service and published at <https://www.firstgroupplc.com/investors.aspx> on 27 May 2021.

What is the Company's number of issued shares and total voting rights?

As at the Latest Practicable Date, the Company's issued ordinary share capital consists of 1,222,147,282 ordinary shares of 5 pence each, which, excluding treasury shares, carry one vote each. The total voting rights in the Company as at the Latest Practicable Date are 1,221,990,053 ordinary shares. This figure excludes 157,229 shares held in treasury.

Lumi Virtual Meeting Platform Guide

Electronic access

For the General Meeting, FirstGroup will be enabling Shareholders to follow a live audiocast and ask questions at the meeting electronically, should they wish to do so. This can be done by accessing the Lumi website, <https://web.lumiagm.com>.

Accessing the Lumi Website

The Lumi website can be accessed online using most well-known internet browsers such as Edge, Chrome, Firefox and Safari on a PC, laptop or internet-enabled device such as a tablet or smartphone. If you wish to access the Lumi website using this method, please go to <https://web.lumiagm.com> on the day of the General Meeting.

Logging In

On accessing the Lumi website, you will be asked to enter a Meeting ID which is **162-638-467**. You will then be prompted to enter your unique SRN and PIN which is the first two and last two digits of your SRN. These can be found printed on your Form of Proxy. Access to the General Meeting via the website will be available from 12:00pm noon on 27 May 2021.

Broadcast

The General Meeting will be broadcast as an audiocast with presentation slides. Once logged in, and at the commencement of the General Meeting, you will be able to listen to the proceeding of the meeting on your device, as well as being able to see the slides of the meeting which will include the resolution to be put forward to the meeting, these slides will progress automatically as the meeting progresses.

Questions

Shareholders following the meeting electronically may ask questions as text via the Lumi messaging function. To submit a question, select the messaging icon from within the navigation bar and type your question at the bottom of the screen, once finished, press the 'send' icon to the right of the message box to submit your question.

Questions will be moderated before being sent to the chair of the General Meeting as further detailed in the Notes to the Notice of General Meeting. This is to avoid repetition and ensure the smooth running of the General Meeting. If multiple questions on the same topic are received, the chair of the General Meeting may choose to provide a single answer to address Shareholder queries on the same topic.

Requirements

An active internet connection is required at all times in order to allow you to submit questions and listen to the audiocast. It is the user's responsibility to ensure you remain connected for the duration of the meeting.






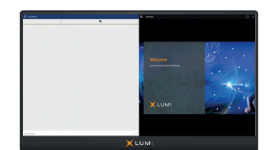

Duly appointed proxies and corporate representatives

Please contact the Company's registrar before 1.00 p.m. on 26 May 2021 on 0371-384-2046 or +44(0) 121 415 7050 if you are calling from outside the UK for your SRN and PIN. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday (excluding public holidays in England & Wales).

User Guide to Joining the General Meeting Remotely

Meeting ID: 162-638-467

To login you must have your SRN and PIN

| | | | |
|---|---|---|---|
| <p style="text-align: center;">1</p>  <p>Open the Lumi AGM website and you will be prompted to enter the Meeting ID. If a Shareholder attempts to login to the website before the meeting is live*, a pop-up dialogue box will appear.</p> <p>* 12.00 p.m. on 27 May 2021</p> | <p style="text-align: center;">2</p>  <p>After entering the Meeting ID, you will be prompted to enter your unique SRN and PIN.</p> | <p style="text-align: center;">3</p>  <p>When successfully authenticated, you will be taken to the Home Screen.</p> | <p style="text-align: center;">4</p>  <p>To view the meeting presentation, expand the "Broadcast Panel", located at the bottom of your device. If viewing through a browser, it will appear automatically.</p> <p>This can be minimised by pressing the same button.</p>  |
| <p style="text-align: center;">5</p>  <p>If you would like to ask a question, select the messaging icon. </p> <p>Type your message within the chat box at the bottom of the messaging screen.</p> <p>Click the send button to submit.</p> | | | |

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