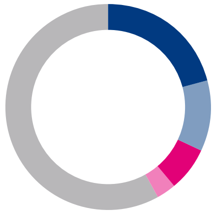
Dennis Maple
President, First Student

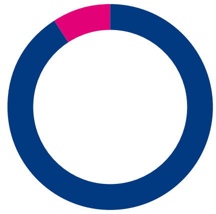
Year to 31 March	2018	2017
Revenue	**$2,350.6m**	$2,323.3m
Adjusted operating profit	**$210.4m**	$222.0m
Adjusted operating margin	**9.0%**	9.6%
Number of employees	**48,000**	50,500

First Student share of outsourced market
(around 38% of total market)



First Student	**21%**
National Express	**11%**
STA	**7%**
Illinois Central, Krapf, Cook Illinois	**3%**
Others	**58%**

2018 approximate revenue by type



Home-to-school contracts	**91%**
School and third party charter	**9%**

Our priorities:

- **Leverage market leadership**
- **Grow through higher contract retention, innovation and selective M&A**
- **Enhance efficiency of our cost base**

5m student journeys per day

460 operating locations

1,100 multi-year contracts

First Student market review and trends

North America's 14,000 school districts deploy around 530,000 yellow school buses to provide home-to-school transportation for millions of students, with the total market estimated to be worth around $25bn per annum. Approximately 38% is outsourced by the school districts to private operators, with the remainder operated in-house. Buses are also used for charter services, either for school customers in addition to scheduled school runs or for other customers such as church and community groups or businesses.

Demand for home-to-school services is principally driven by the size of the school age population. School districts are funded from state and local sources, including property tax receipts, and their budgets for all expenditure, including transportation, tend to be linked to the macroeconomic climate. The likelihood of school districts to outsource and changes in local criteria for service provision also play a part in the size of the addressable market.

Market conditions continue to support positive but limited organic growth and modest conversions to outsourced providers, having been through a period when the economic downturn put significant pressure on school board budgets, which led to organic contraction, price pressure and atypical levels of contract churn. School districts focus on value for money and quality of execution, including safety. High-quality, efficient outsourced providers have been able to achieve above-inflation price increases in recent years, in part reflecting increasing shortages of drivers in certain regions as the US employment market has strengthened.

Customers

School districts' obligations to provide student transportation are determined by criteria set at state level. Contracts are typically three to five years in duration after which they are often competitively re-tendered, and specify fixed or annually indexed pricing, meaning that private operators bear cost risk. In addition to customers outsourcing for the first time ('conversion'), and the price indexation, growth is also driven by additional routes due to population growth or other factors ('organic growth').

Competitors

The private outsourced market is highly fragmented, with only three companies operating fleets of more than 10,000 buses; together they account for around 40% of the outsourced market. 13 other operators have 1,000+ bus fleets, and the remaining half of the outsourced market is operated by several thousand smaller operators, termed 'mom and pops'. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, provide additional growth opportunities.

Market attractions

- Contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Customer service, security and safety track record often as important as price
- Established relationships with local communities a barrier to entry
- Fragmented marketplace – multiple bolt-on M&A opportunities

First Student's revenue was $2,350.6m (2017: $2,323.3m), with increases from the fourth year of our contract pricing strategy, some organic growth and indexation on existing contracts offset by contracts not renewed. The business operated for a similar number of days overall in the year, with the additional operating days in the 53rd week offset by the timing of Easter. In constant currency and excluding the 53rd week, revenue decreased by 1.1%. Reported revenue was £1,771.1m (2017: £1,780.3m).

Adjusted operating profit decreased by 5.3% to $210.4m (2017: $222.0m) in constant currency, an adjusted operating margin of 9.0% (2017: 9.6%). Contract portfolio pricing improvements and cost efficiency savings were offset by ongoing driver shortage costs and other inflation, lower contract retention rates than we had targeted for and the impact of the severe weather experienced in the second half. The net impact from bad weather was made up of a relatively high number of weather make up days in the first half (reflecting the severe winter in 2017), largely offset by an unusually high number of days lost to bad weather in the last quarter, some of which we expect to get back in the 2018/19 financial year as schools add them to the end of their academic calendar. In reported currency, adjusted operating profit decreased 8.5% to £156.5m (2017: £171.1m) and the division reported a statutory profit of £88.4m (2017: £119.0m).

Focused and disciplined bidding

During the summer 2017 bid season we continued to focus our bidding strategy on only retaining or bidding for contracts at prices that reflect an appropriate return on the capital we invest. With a substantial proportion of the portfolio already benefiting from this strategy in previous years, the moderating 5.3% average price increase on 'at risk' business was largely as expected, as was the higher 'at risk' retention rate of 83% compared with the prior year (equivalent to 94% of the entire fleet). Combined with a modest level of organic growth and some conversions from in-house to private provision, we are operating a bus fleet of approximately 42,000 vehicles for the balance of this school year.

Continuous improvement in operating and financial performance

First Student delivered further cost efficiencies, including from changes to our engineering practices using the expertise of First Transit's vehicle maintenance services segment, and from our ongoing focus on best practice sharing and standardised processes within the division. These initiatives have delivered recurring cost savings of approximately $13m in the year. These initiatives have been delivered despite the ongoing challenge of finding and retaining drivers in some locations due to the strong US employment market. We continue to invest in our recruitment marketing, onboarding and retention programmes to contain the resulting driver cost inflation. Despite driver shortages, our non-school charter bus offering, which benefits our asset utilisation rates, grew revenues by 7.1% on a per bus basis.

Prudent investment in our key assets

We have sustained our investment in systems and processes that differentiate our offering and enhance our customer service levels and safety performance. Our FirstView smartphone app, which provides real-time bus location tracking for parents and school boards, now covers 140,000 students with 22,000 registered users to date; additional functionality for school districts has recently been added to the system. We have sustained our investment in the fleet and continue to improve our approach to cascading buses around our operations, which is a significant competitive advantage of our scale. Our average fleet age reduced slightly to 7.1 years.

During the year we completed a small acquisition in the Chicago area, which is performing in line with our plans, and we are building up our pipeline of potential bolt-on acquisition targets for the future.

Responsible partnerships with our customers and communities

We are entrusted with the safety and security of millions of children every day, and we take that responsibility extremely seriously. We maintained our safety track record during the year and are investing to improve our performance further. We also maintained our already high customer service scores and increased our likelihood to recommend scores. We have also begun a partnership with the US School Superintendents' Association to support the National Superintendent of the Year Program as part of our commitment to support our communities.

Our priorities and outlook

In the year ahead our focus is increasingly on profitable growth. We have had an encouraging start to the bid season with improved retention rates and some major new contracts already secured. In addition to improving contract retention and our ongoing pricing strategy, we intend to strengthen our charter proposition, increase promotion of our nascent managed services offering to school boards who provide home-to-school services in-house, and will more actively consider inorganic sources of growth such as small bolt-on acquisitions. We will continue to improve our cost efficiency through initiatives such as enhanced on-board technology that will enhance daily operations and driver management, the full roll out of an employee smartphone app which is transforming our ability to communicate with our workforce and is specifically aimed at helping boost driver retention, and the ongoing integration of our maintenance organisation and practices with First Transit.

First Student partnering key industry programme

The School Superintendents Association ('AASA') announced a partnership with First Student to support their National Superintendent of the Year program which celebrates the contribution, leadership and professionalism of public school superintendents. The partnership highlights our support of school leaders in creating world-class teaching environments.

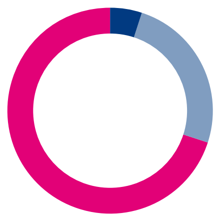
Find out more
www.firststudentinc.com

First Transit

Brad Thomas
President, First Transit

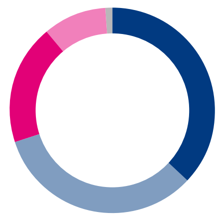
Year to 31 March	2018	2017
Revenue	**$1,420.4m**	$1,358.9m
Adjusted operating profit	**$77.8m**	$95.2m
Adjusted operating margin	**5.5%**	7.0%
Number of employees	**19,000**	19,500

Approximate First Transit share of c.$30bn North American transit market
(of which c.30% is outsourced)



First Transit	5%
Other outsourced providers	25%
In-House	70%

2018 approximate revenue by type



Fixed route	37%
Paratransit	33%
Shuttle	19%
Vehicle services	10%
Rail	1%

Our priorities:

- Maintain value leadership in core business
- Pilot new business models
- Growth from adjacent services and new geographies

12,600 vehicles owned or operated

330 contracts with an average value of less than $5m

340m passengers a year

First Transit market review and trends

The transit market is worth around $30bn per annum in North America, of which around 30% is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts which typically last for three to five years. The market includes fixed route bus services (c. $20bn segment, of which more than 10% is outsourced), paratransit bus services (c.$5bn segment, three-quarters outsourced), private shuttle services (c.$2bn segment, around 90% outsourced) and vehicle maintenance services (c.$3bn segment, more than 30% outsourced). Internationally, the outsourced market for such services is at an earlier stage of development, though opportunities are increasing.

With aging populations and increasing urban congestion, the range and sophistication of transportation services that municipal authorities seek (or in some cases mandated) to provide is rising. Private sector contractors are well placed to enhance fleet productivity, deliver innovation to improve passenger experience and provide an efficient alternative to in-house provision, which results in the continued growth of the outsourced market. Meanwhile the shuttle segment continues to grow, with private companies, universities and airports seeking to offer improved services to their own customers and employees.

Customers

A wide range of customers contract out fixed route and paratransit services, including municipal transit authorities, federal, state and local agencies. These contracts typically are to operate and manage vehicle fleets owned by the client. Institutions such as universities, hospitals, airports and private companies are the main clients for the shuttle segment, and usually require provision of the vehicle fleet. Vehicle maintenance services include contracts for private and public sector clients, including municipalities, and fire and police departments.

Competitors

First Transit has around 15% of the outsourced market in North America, which accounts for c.30% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America. First Vehicle Services business is estimated to be one of the largest providers in the outsourced fleet maintenance market, with Penske and Ryder being the main competitors. A number of small and medium sized companies represent a significant proportion of the outsourced market. The market continues to attract aggressive new entrants, though reputation and track record remain important differentiators.

Market attractions

- Contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Low levels of capital investment required (apart from in shuttle)
- Aging populations and congestion trends provide support for continued international growth through further outsourcing.

Piloting autonomous vehicles

In California, First Transit has signed an exclusive agreement with the GoMentum Station testing centre to carry out research and development. The team tested autonomous vehicles in tough winter conditions in Minnesota and is now providing car park shuttles for the Texas Rangers baseball and Dallas Cowboys NFL teams. We will use learnings from First Transit in the UK where we have secured government funding to carry out the first trial of such vehicles on UK roads, at Milton Park business and science hub in Didcot.

Find out more
www.firsttransit.com

First Transit's revenue was $1,420.4m (2017: $1,358.9m), an increase of 2.4% in constant currency and excluding the 53rd week. As expected, contract awards and organic growth in the rest of the division was partially offset by lower shuttle bus activity in the Canadian oil sands region compared with the prior year. Reported revenue increased to £1,072.7m (2017: £1,042.0m).

Adjusted operating profit was $77.8m (2017: $95.2m), representing an adjusted operating margin of 5.5% (2017: 7.0%). A disappointing first half margin principally reflected higher costs in relation to certain poorly performing contracts; First Transit succeeded in improving its second half margin as forecasted, reflecting the reversal of a provision against receivables made in light of the hurricanes which devastated Puerto Rico in the first half and despite higher medical costs and continued cost pressure from driver shortages in certain regions. In reported currency, adjusted operating profit decreased by 20.6% to £58.2m (2017: £73.3m) and statutory profit was £34.3m (2017: £71.3m).

Focused and disciplined bidding

Our shuttle business successfully renewed several university campus and airport contracts in the year; however, two of our contracts in the Canadian oil sands region were not, resulting in a £5.4m restructuring charge in the year; the loss of these high margin contracts will have an impact on the division's margin going forward.

In addition to the oil sands contracts, we also completed work on the two relatively large poorly performing contracts discussed at the half year stage, where we had bid significantly higher prices and lost, resulting in our retention rate on 'at risk' contracts of 82% during the year. First Transit did however have a good year for new business, with 33 new contracts including major paratransit and fixed route wins from the Vancouver and Los Angeles authorities, respectively. We were pleased to retain or extend a number of significant pieces of business during the year, such as our Greater Richmond paratransit contract where we initially fulfilled a short term emergency contract that we have now extended into a multi-year relationship, and our City of Phoenix fixed route contract which we have operated for over a decade. We are taking a measured approach to applying our expertise to new geographies and services to secure additional sources of growth. In the year, we extended our successful Panama contract by an additional two-and-a-half years, participated in significant North American commuter rail and light rail competitions, and are working to establish a solid footprint in the Indian market.

Continuous improvement in operating and financial performance

We continue to develop our technology infrastructure, management expertise and national service platform to help to sustain First Transit's performance in highly competitive markets. We also upgraded our recruitment, retention and training systems and processes to ensure we maintain the necessary capability in what remains a tight US employment market. In the year we had some success initiating a programme to recruit unemployed Puerto Rican drivers to take on roles on the mainland in response to the driver shortages we are experiencing in some areas.

Prudent investment in our key assets

In the majority of our contracts we operate or manage services on behalf of our clients rather than providing vehicles. We have maintained our investment in the latest driver management, predictive analytics and routing technology. We are also investing in autonomous vehicle (AV) technology, and now have six AV operational partnerships underway, including our first vehicle on public streets scheduled to start in June 2018. Additionally we have established teaming agreements with several leading AV manufacturers to provide new growth opportunities in this market.

Responsible partnerships with our customers and communities

We remain committed to offering the best value package to our customers and the communities we serve, which means our professionalism, technical and operational expertise and safety standards are as important as our cost effectiveness in winning or retaining business. We have completed the roll out of our safety behavioural change programme, which has had a positive impact on our safety performance, and we were pleased to have further increased our already strong customer satisfaction score during the year.

Our priorities and outlook

First Transit continues to develop our diversified platform of sector expertise and exceptional management strength in North American transit markets through continuous investment in our people and technology. We see opportunities for further growth in our core markets, particularly in shuttle and in vehicle services, increasingly for corporate as well as public clients. We also expect to have opportunities in adjacent markets where we have now established our credentials – such as light rail, commuter rail and bus rapid transit (BRT) – to become increasingly significant for our business. We continue to develop partnerships with ridesharing companies to provide Americans with Disabilities Act-compliant transportation.

We remain confident that our services are a compelling option for both local authorities and private customers to outsource their transportation management needs. We will therefore keep bidding for contracts offering good margins with modest capital investment, while seeking to replenish and grow our portfolio of contracts both within our core markets and by piloting new business models.

Dave Leach
President, Greyhound

Year to 31 March	2018	2017
Revenue	**$912.7m**	$894.0m
Adjusted operating profit	**$32.8m**	$55.2m
Adjusted operating margin	**3.6%**	6.2%
Number of employees	**6,000**	6,500

Our priorities:

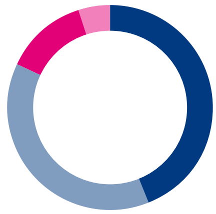
- **Capture maximum value from our brand and nationwide network**
- **Extend successful 'Express' model**
- **External business review**

4,000 destinations across North America

1,000 Point-to-Point Greyhound Express city pair combinations

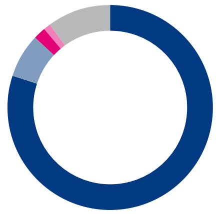
1,600 approximate vehicle fleet

Distribution of Greyhound passengers by mileage band



1-200 miles	**44%**
201-450 miles	**38%**
451-1,000 miles	**13%**
1,000+ miles	**5%**

2018 approximate revenue by type



Passenger	**80%**
Package Express	**7%**
Food	**2%**
Charter	**1%**
Other	**10%**

Greyhound market review and trends

In the last ten years the US intercity coach industry has enhanced its relevance to potential passengers through improvements in the onboard experience and new or improved offerings such as point-to-point 'express' services on high density routes. The potential market size remains a significant opportunity, with 42m people considering coach travel every year, of whom a quarter currently use Greyhound. Even regular coach users choose competing modes 75% of the time, but a combination of convenient city centre destinations, tailored services and price has the potential to grow ridership and frequency of use, particularly for relatively short haul journeys.

The substantial and rapid fall in at-pump fuel prices in the final months of 2014 resulted in a reduction in coach passenger demand as the cost of other forms of transport became more attractive. More recently, competition from ultra low cost airlines, that have added significant capacity to their fleets in recent years, has had a significant impact, particularly on longer journeys.

As well as passenger revenues, income is generated from package express services, charter and tour organisation and also terminal catering outlets. Partnerships between Greyhound and independent bus lines ('interlining'), extend the reach of our national network.

Customers

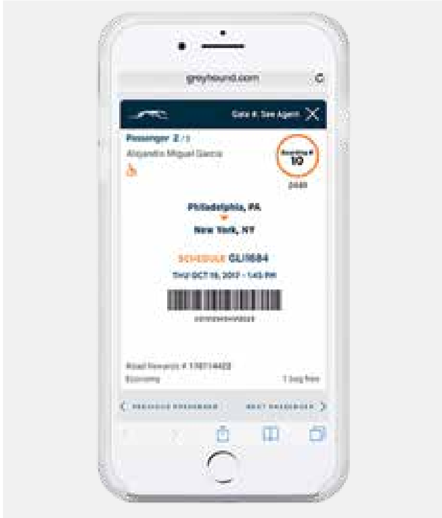
North American intercity coach firms serve a wide range of customers, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services such as Greyhound Express and BoltBus have begun to attract a younger, urban demographic with less interest in maintaining a private car. Historically customers typically bought tickets at terminals on their day of travel, but increasingly customers purchase in advance online or on smartphones.

Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including budget airlines and the private car. The intercity coach market is highly competitive in dense travel corridors such as the US north east and north west, where coach also competes with air and rail.

Market attractions

- Private car use becoming less attractive particularly to younger customers, due to increasing urbanisation, congestion and costs of motoring
- Target demographic segments responsive to innovation through technology and value-for-money offering
- Opportunities to expand penetration and footprint in US and Mexico
- Under-utilised services may be part-funded by transport authorities.



Quick and easy tickets across the network

Greyhound launched mobile ticketing in September, rolling it out across the network in November. This allows customers to purchase tickets quickly and easily from the greyhound.com website and board a bus by simply showing their mobile device. The new paperless capability is streamlining the travel and boarding process for drivers and customers alike across North America.

Find out more
www.greyhound.com

Greyhound's revenue was $912.7m (2017: $894.0m), with like-for-like revenue decreasing by 0.7%. This reflects short haul growth including 7.7% like-for-like growth achieved by Greyhound Express being more than offset by declines in long haul demand, where competition from ultra low cost airlines in particular is intensifying. These competitors are bringing significant additional aircraft capacity into operation while also connecting to a growing number of secondary airports. We have also experienced reductions in traffic in the southern border regions due to tighter immigration and law enforcement. Including the 53rd week and reflecting stronger translation rates into pounds Sterling, reported revenue increased by 0.8% to £690.2m (2017: £684.7m).

Adjusted operating profit was $32.8m (2017: $55.2m), representing an adjusted operating margin of 3.6% (2017: 6.2%), with our ability to mitigate the revenue challenges noted above through further cost efficiencies limited by the ongoing increases in fleet maintenance and driver costs previously highlighted. Greyhound was also affected by this year's difficult weather conditions in some of the busiest parts of our network. Recognising the difficult trading conditions in the year and the outlook, we have impaired the carrying value of the division's goodwill and other assets by $387.3m or £277.3m. Adjusted operating profit in reported currency decreased 40.1% to £25.5m (2017: £42.6m) and the division reported a statutory loss of £266.3m (2017: £53.7m profit).

Driving growth through attractive commercial propositions

Greyhound is a unique business thanks to its iconic brand and access to by far the largest intercity coach network in North America. Over recent years we have taken major steps to transform all areas of the customer experience throughout the business. With the trends in different parts of our business diverging, we are adapting our business in response. Our point-to-point Greyhound Express and BoltBus brands, which offer higher density timetables between popular city pair destinations, have successfully grown since their introduction and we aim to convert more of the traditional network to run similar schedules. These have been strong beneficiaries of the transformation in Greyhound's business systems in recent years; and since February our entire network is now benefiting from real-time pricing and yield management. We are further developing our relationship management systems to offer benefits for customers and deployed modest marketing spend during the year to promote awareness of these changes through targeted online advertising. We are continuing to upgrade our online offerings, building on the well-received mobile app we introduced in 2016/17, with the majority of our customers now buying tickets using this app or online. Throughout the US network e-tickets and bus-side scanning have now been rolled out, streamlining the boarding process. We have also strengthened our punctuality processes and systems, and have recently updated and standardised our customer pledges on service delivery whilst upgrading our terminals where needed to improve the passenger experience.

Continuous improvement in operating and financial performance

Greyhound ended its long-standing pool arrangements with Peter Pan Lines in the US North East during the year, allowing us to develop our own separate offering in the region, providing customers with all of the benefits available to our passengers elsewhere. We are also taking action to improve the efficiency of our fleet management with the development of a new specialised centre in Brownsville, Texas.

Our Canadian operations (15% of Greyhound revenue) remain loss-making. Despite a range of cost-reduction and efficiency measures over several years, we continue to experience demand challenges. In the year we applied to eliminate services on the majority of our routes in British Columbia which will take effect from 1 June 2018.

Prudent investment in our key assets

Following a number of years where the business required few additional vehicles, this year our fleet renewal plan saw the introduction of 88 new buses into our fleet with high-quality amenities as standard including free Wi-Fi, leather seats and generous legroom. We regularly review opportunities to move to intermodal transport hubs or new facilities tailored to our needs, and during the year we relocated to the new Intercity Bus Terminal at the Jacksonville Regional Transportation Center in Florida, as well as two renovated terminals at the Amtrak station in Salem, Oregon and Union Station in Springfield, Missouri. We now occupy a new intermodal terminal in Baltimore, Maryland. July will mark the third anniversary of providing international links to and domestic services within Mexico, where we provide options for customers connecting from Monterrey to Nuevo Laredo and major hubs in Texas. We will make further modest investments to deliver on the opportunities available to us in this market.

Responsible partnerships with our customers and communities

Further customer service training was undertaken in the year, focusing on allowing our employees to take advantage of the improved ticket data and service information now available throughout the business.

Our priorities and outlook

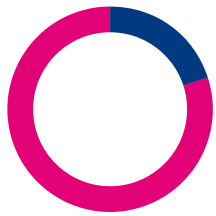
The strategic challenge for Greyhound is that our unique network across North America is a significant competitive advantage versus other coach companies but intensifying low cost airline competition is putting increasing pressure on the long haul segment. The business review that is underway is directed at determining the most appropriate response for the Group to this change in the market conditions faced by Greyhound. In the near term we continue to invest to support Greyhound's growth opportunities while adjusting the current network and timetables, though maintaining the division's earnings will be challenging given the changes in the long haul competitive environment.

Business review
First Bus

Giles Fearnley
Managing Director, First Bus

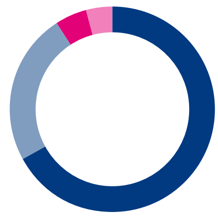
Year to 31 March	2018	2017
Revenue	**£879.4m**	£861.7m
Adjusted operating profit	**£50.2m**	£37.0m
Adjusted operating margin	**5.7%**	4.3%
Number of employees	**16,500**	17,000

Approximate First Bus market share of UK market outside London



First Bus	**20%**
Others	**80%**

2018 approximate revenue by type



Passenger revenue	**67%**
Concessions	**24%**
Tenders	**5%**
Other	**4%**

Our priorities:

- **Prioritise investment where we can work in partnership with local authorities**
- **Frictionless customer offering to drive growth**
- **Drive further efficiencies in cost base**

1.6m
passengers per day

5,800
approximate fleet of buses

First Bus market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services provided by private operators, though a small number of local authority-owned operators still exist. In local bus markets, operators set fares, frequencies and routes commercially while operating some 'socially necessary' services under local authority contracts. Around 2.7bn passenger journeys are made on bus services outside of London, generating revenues of approximately £4.2bn a year.

Partnerships between operators and local authorities are a core principle for the industry and central government, to support service delivery, minimise congestion and drive innovation and investment. The DfT promotes this through initiatives such as Better Bus Area grants and the Green Bus Fund. In recent years, operators have improved their offering to passengers through smart and multi-operator ticketing, more flexible fare options, real-time passenger information and increasingly tailored local services.

Since deregulation, local authorities have had the ability to regulate services in their area if they demonstrate the existing model is failing to deliver for passengers, though such powers have not been exercised anywhere to date. The Bus Services Act, which received royal assent in April 2017, has somewhat simplified the process of exercising franchising powers for qualifying local authorities, though it also enhances the range of partnership models available to local authorities, which First Bus already supports in areas such as Sheffield, Doncaster, Hampshire, the West of England, Cornwall and most recently Leeds.

Customers

Bus market revenues principally comprise passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares). A significant proportion of customers use bus services to commute (to work or education), to go shopping and for leisure. Income is also generated through tendered local bus services and bespoke contracts such as Park & Ride schemes.

Competitors

The UK bus market (outside London) is deregulated and highly competitive with hundreds of bus operators; we face competition in all markets in which we operate. Through the year operators have both entered and left the market. The main competitor is the private car.

Market attractions

- Growth potential from strategies tailored to specific customer segments or to enhance convenience; opportunity in youth demographic, where car ownership is falling
- Local bus trips account for 59% of all journeys by public transport in England and form an important component of local authorities' ability to fulfil their air quality obligations
- Bus travel diversified by journey type.

First Bus reported revenue of £879.4m (2017: £861.7m) for the year, an increase of 2.1%. Divisional like-for-like passenger revenue growth was 1.1%, and we are encouraged that it accelerated in each quarter of the financial year, though market conditions for the industry remain uncertain and vary by local market. High street retail footfall trends, worsening congestion in several localities, and general UK macroeconomic uncertainty all affect passenger demand in different ways. Like-for-like commercial passenger volumes increased by 0.2% in the year, though overall like-for-like volumes fell by 0.7%, reflecting further reductions in concessions volumes due to changes in bus pass entitlement and funding. Our contract and tendered revenue increased by 1.1%.

Adjusted operating profit was £50.2m (2017: £37.0m), or an adjusted margin of 5.7% (2017: 4.3%). Adjusted margin increased by 140bps, reflecting stabilised passenger volumes, the cumulative effect of our actions to tailor our network, fares, depot footprints and other costs to become more efficient and a fuel tailwind. Widespread service suspensions due to the severe snowstorms in February and March had a negative impact on revenues and profit, while the impact of the 53rd week was muted because the year included two Easter weekends, when commuter and school patronage is lower. Principally reflecting restructuring and reorganisation costs, the division reported a statutory profit of £29.3m (2017: £26.1m).

Driving growth through attractive commercial propositions

We continue to improve the simplicity and convenience of our offering for passengers, particularly in ticketing. Around 80% of our fleet has now been fitted with contactless payment card readers and we will complete the nationwide roll out by summer 2018, making us the first national UK bus company to do so. Cashless ticketing now accounts for half of our sales in some areas. In many markets, we are growing our mobile channel by differentiating between cash and digital fares, reducing the volume of cash transactions and accelerating bus boarding times. In April 2017 we launched our upgraded passenger app which provides door-to-door journey planning and our previously separate mobile ticketing system was integrated during the year.

In the contract tender market, we are an industry leader in managing Park & Ride services, winning or retaining several contracts in the year including the country's largest such operation in York. Our airport and university shuttle portfolio also increased and we delivered services for high profile events such as the UEFA Champions League final in Cardiff in June 2017.

Continuous improvement in operating and financial performance

We continue to take action to enhance our cost efficiency. At the beginning of the year we consolidated from six to four depots serving the Greater Manchester area and transferred our Galashiels-based Borders network to West Coast Motors. We have also optimised our networks in many areas to save cost and raise reliability and punctuality for passengers. Our IT investments have allowed us to standardise many of our processes, including location tracking and revenue collection, to increase the availability of accurate real-time data and plan our services more accurately. Where possible we are centralising shared functions to realise efficiencies.

Prudent investment in our key assets

As previously noted, we are investing in the First Bus fleet at lower levels than the prior year, as we focus our capital budget only on those markets where the local stakeholders recognise the importance of bus services in responding to the problems of congestion, air quality, parking and issues of social exclusion. We took delivery of 93 new Euro VI emissions standard vehicles in the year. We also operate vehicles powered by a number of alternative fuels, and alongside our hydrogen fleet in Aberdeen and electric fleet in York, we have now introduced bio-methane buses to Bristol. We are also the lead partner on the first trial of autonomous vehicles on UK roads, a 30 month project at Milton Park business and science hub near Didcot.

Responsible partnerships with our customers and communities

Buses play a key role in keeping people moving and communities prospering, with more passengers taking buses daily than any other form of public transport. In addition, they are fundamental to delivering Clean Air or Low Emissions Zones in partnership with local and regional authorities. In February, the DfT announced that 20 councils are to share a £40m fund to 'retro-fit' buses with cleaner engines. We worked with several of our local authority partners to access this funding.

In many areas, congestion prevents us from running reliable bus routes. Local authorities are key to solving this, through measures such as bus priority and traffic segregation, meaning that strong partnerships with councils are vital. We are encouraged that last year's Bus Services Act recognises the importance of such partnerships. We are working with Bristol City Council and the West of England Combined Authority on the Metrobus priority route network which launched in May 2018 and is designed to improve the bus offering in the city and attract new users. We also continue to work closely with Leeds City Council; together we are aiming to double patronage by 2025, supported by a £173.5m public funding package over four years to develop new bus-friendly schemes, whilst First Bus is committed to investing in a fully ultra-low emissions fleet by 2020 in the city.

Our priorities and outlook

Our focus remains on enhancing our ability to deliver efficient, cost effective and passenger-focused services. In the year ahead we expect to sustain the volume growth and margin improvement momentum we have delivered in the 2017/18 year. We are targeting our investment plans to that end by focusing on local markets where, by working closely in partnership with local authorities, we can deliver compelling and sustainable transport solutions.

New technology helps passengers with their journeys

We continue to invest in new payment technology that makes catching the bus much easier. Contactless payment sees growth every week, within each of our businesses. The use of mTickets is also exceeding expectations, doubling year-on-year usage. We are also improving how customers plan their journeys, enabling them to follow their bus on our app via GPS. The information that we now have from our on-board equipment enables us to manage the operations in real time as well as providing valuable data for network planning and timetabling.

Find out more
www.firstgroup.com

Business review
First Rail

Steve Montgomery
Managing Director, First Rail

Our priorities:

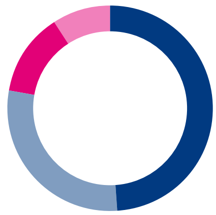
- **Deliver growth from capacity additions and service enhancements**
- **Leverage our scale to deliver efficiencies**
- **West Coast Partnership bid with partner Trenitalia**

£227m
in franchise payments to Government

7.4bn
passenger miles travelled

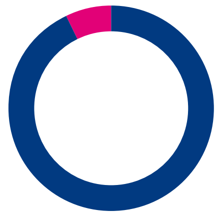
Year to 31 March	2018	2017
Revenue	**£1,968.8m**	£1,268.8m
Adjusted operating profit	**£57.8m**	£53.8m
Adjusted operating margin	**2.9%**	4.2%
Number of employees	**10,500**	7,500

Passenger revenue base of First Rail operations



Leisure	**49%**
Business	**29%**
Commuter	**13%**
Travelcard (incl Oyster)	**9%**

2018 approximate revenue by type[1]



Passenger revenue	**93%**
Other income	**7%**

1 In the year the Group received no revenue support from Government and made total franchise payments to Government of £226.9m, which are included in costs

First Rail market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through franchises awarded by the relevant authority, but may also be provided on an open access basis. Many elements of the service provided to customers are mandated as part of the franchise contract and others are left to commercial judgement. Total franchised passenger revenues in the UK are more than £9bn per annum. Rail tracks and infrastructure (signalling and stations) are owned and managed by Network Rail, and TOCs typically lease most stations from Network Rail and rolling stock from leasing companies.

Passenger numbers have more than doubled since privatisation, recently reaching a post-war high of 1.7bn, though the rate of growth has recently slowed. The Government continues to invest in upgrades to the rail infrastructure across the UK, with Network Rail delivering a number of large national projects like route electrification on Great Western.

In late 2017, the Government published its rail strategy, in which it signalled that ever closer working relationships between Network Rail and TOCs will be further encouraged through the design of future franchise competitions. The strategy also stressed the Government's desire to see more private sector involvement in the upgrade and creation of new rail infrastructure

Network Rail's new digital railway strategy promises to create more capacity and more frequent services and enable vastly improved mobile and Wi-Fi connectivity. The industry collectively (through the Rail Delivery Group) launched a campaign highlighting the partnership working to deliver more capacity and enhanced services and a consultation on reform of fare regulation, to make the fare system more attractive and accessible to customers.

Customers

Rail markets are generally categorised into three sectors: London and south east commuter services; regional; and long distance. Certain networks also offer sleeper services. Parts of GWR fall into all four categories. SWR customers are largely commuters. TPE is mainly a long distance intercity operation, and Hull Trains caters principally to long distance and leisure travellers.

Competitors

The main competitor to rail in the UK is the private car. On some passenger flows there is competition from other rail services and, to a lesser extent, from long distance coach services and airlines. First Rail bids for franchises against other operators of current UK rail franchises and public transport operators from other countries.

Market attractions

- More than £9bn of long term contract-backed passenger revenue available through 19 major franchise opportunities, of which more than half by revenue will be let by 2021
- New franchises typically have significant revenue opportunity/risk with some revenue protection, clear contingent capital requirements but low overall capital intensity
- Regulated environment, including government-capped regulated fare increases
- Historically high levels of passenger numbers across the UK.

In the year our First Rail division revenue increased to £1,968.8m (2017: £1,268.8m), principally reflecting the inclusion of the SWR franchise since August 2017. Like-for-like passenger revenue growth was 4.1% and passenger volume growth was 1.4%, in part reflecting a shift away from season ticket purchases and the way these are recorded by the industry in volume statistics. Industry studies suggest the main drivers for recent slowing in growth across the sector include UK macroeconomic uncertainty, modal shift due to sustained lower fuel prices and working practices, and the effect of rail infrastructure upgrade works taking place across the country. The latter is particularly relevant to GWR, although like-for-like passenger revenue growth of 2.7% in the franchise accelerated during the year, benefiting in part from the additional capacity generated by the introduction into service of the Intercity Express Trains (IETs). SWR's operational performance and revenue growth has been affected by the Waterloo upgrades and other infrastructure work which will permit the introduction of additional capacity by the end of 2020. TPE delivered like-for-like passenger revenue growth of 10.0%, with even greater growth required as new fleets start to be introduced into service from Autumn 2018.

Adjusted operating profit of £57.8m (2017: £53.8m) represents a margin of 2.9% (2017: 4.2%). Divisional profitability was driven by GWR and a solid part-year contribution (despite its operating challenges) from SWR, partially offset by an operating loss of £6.5m at TPE in the year, while our open access operator Hull Trains performed well despite also experiencing some operational challenges in the year. We have taken the decision to provide for forecast losses of up to £106.3m over the remaining life of the TPE contract, based on analysis of the impact of the ongoing industry-wide slowdown in growth on the financial assumptions we made in our bid. As a result, the Rail division reported a statutory loss of £50.6m (2017: £53.5m profit) for the year.

Focused and disciplined bidding

GWR currently operates under a direct award which runs to the end of March 2020 following the DfT's decision in the year to exercise an extension option. We are shortlisted as bidders for the upcoming West Coast Partnership franchise competition in a partnership with Trenitalia. Outside franchising, we continue to develop our plans for a new single-class open access service between London, north east England and Edinburgh from 2021.

Continuous improvement in operating and financial performance

We have a strong track record in close partnership working with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers. Completion of these projects typically permits the introduction into service of additional train capacity or more intense timetables, which in turn generates the patronage growth that drives the franchise business plans and consequentially the premium payments to the government.

Network Rail's electrification work continues on the Great Western mainline, albeit at a slower rate than originally envisaged, and we are working with our industry partners to reflect the impact of these delays in the level of our franchise commitments and model. Our rail franchises cover a period during which there is significant change (major infrastructure work, electrification and resignalling, and introduction of new trains). These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the Group.

With the line electrified as far as Didcot, the move of suburban electric trains to run between London and Didcot under a new timetable was able to be completed by January 2018, providing more capacity. In turn, we have also begun cascading the London suburban Turbo trains to Bristol and the West Country where they will provide more seats for the network there. We began introducing the new higher capacity IETs on longer distances from last October. When this fleet is fully operational it will enable a 40% increase in seat numbers compared to 2015, with quicker journey times and more frequent services.

We also adjust our own operating plans to take changing timescales into account and to find alternative ways to deliver our improvements for customers as soon as possible, as has been the case in TPE this year in respect of the Bolton-Preston line. In all, more than £500m is being invested in our TPE franchise to transform the operation into the true intercity network for the North, with 13 million more seats across the operation. 220 new carriages are being introduced from later this year, comprising a mix of Hitachi IET-type trains and a further intercity fleet from CAF.

New TPE trains enter testing

The first of TransPennine Express's new Nova 3 trains commenced testing in the Czech Republic in April 2018. The 13 trains will provide free Wi-Fi and USB charging points, and significantly increase seating for passengers when they enter service towards the end of the year.

Find out more
www.tpexpress.co.uk

We began operation of the SWR franchise in the middle of the extensive upgrade to London Waterloo station over the summer, when several platforms were extended for longer trains. This has led to subsequent unplanned infrastructure works with a disappointing impact on punctuality and other performance metrics. However the outcome of this improvement work, and the reopening of the former international platforms later in 2018, will deliver the infrastructure needed to support our future capacity growth plans. These include the introduction of 90 new trains manufactured by Bombardier, providing a 46% increase in peak capacity on the suburban routes into Waterloo.

In December 2017 the Rail Accident Investigation Branch (RAIB) released their report into the tragic incident which took place the previous year on the tram network in Croydon. We are grateful for their recommendations for improvements to the tram system in Croydon and across the UK. Amongst its findings, the RAIB concluded in respect of our subsidiary Tram Operations Limited (TOL) that management of fatigue was not a factor in the incident, nor was there evidence of a speeding culture contributing to it. Nevertheless, over the past year from prior to the final RAIB report, TOL has taken a series of actions, working closely with Transport for London (TfL) on whose behalf it operates the tram services, to implement additional measures including enhanced speed monitoring and restrictions, improved signage and renewed guidance on fatigue management. TOL has learned from the RAIB's analysis and its own internal reviews and will continue working hard, alongside TfL, to follow the RAIB's recommendations and make further improvements where necessary.

Prudent investment in our key assets

As noted, we continue to deliver new trains for all of our rail companies. By 2020, 90% of our customers will be travelling on a train less than five years old. Passenger benefits from these new trains include more seats and space, Wi-Fi and onboard entertainment options. We are also completely refurbishing other fleets throughout our business with similar amenities. Our redesigned passenger app has now rolled out across all our train companies, allowing customers to purchase tickets and reserve seats as well as plan door-to-door journeys.

Responsible partnerships with our customers and communities

GWR were awarded the titles of Rail Operator of the Year and Rail Business of the Year during the period, recognising the introduction of new fleets and their highest ever National Rail Passenger Survey customer satisfaction figures in 2016.

Our franchise commitments for SWR included more generous delay repay compensation which was introduced a few days after the franchise began.

During the year an agreement with Heathrow Airport was reached for GWR to run the operational aspects of Heathrow Express including the introduction of a dedicated fleet of trains by December 2019.

SWR increases capacity

South Western Railway (SWR) added 150 additional carriages on some of its busiest routes, following the completion of Network Rail's work to lengthen platforms at Waterloo station in August. The introduction of these trains allows existing stock to be transferred elsewhere on the network, boosting capacity by adding more than 5,000 additional seats for peak journeys.

Find out more
www.southwesternrailway.com

GWR also worked with TfL and industry partners to prepare for the launch of the Elizabeth Line, with suburban stations transferred to TfL Rail operation in early 2018.

Following the success of the Customer and Communities Improvement Funds at GWR and TPE, a similar scheme is being launched by SWR this year, which will work with community organisations across the network.

Our priorities and outlook

We remain focused on working with our industry partners to deliver our plans for more capacity and better customer experiences, which will in turn drive patronage growth over time.

Our current Rail portfolio as a whole has and will continue to generate good returns for the Group. Our decision to provide for forecast losses of up to £106.3m over the remaining life of the TPE contract does not affect our plans for the remainder of the franchise to increase capacity on the TPE network by more than 80% and create a true intercity railway for the North, in conjunction with our industry partners. The balance of the rail portfolio – GWR, SWR and Hull Trains – is expected to generate satisfactory returns. The payments associated with network unavailability due to infrastructure improvements and repairs will continue to cause swings in period-to-period profits.

Apprentices take over Bristol station

GWR celebrated National Apprentice Week by running an entire station, for one day, with current and former apprentices. The eleven employees worked a range of different roles at Bristol Parkway station including train dispatch, tickets sales and customer service. GWR's operations apprenticeship scheme started in 2011 and to date the company has trained more than 90 people in front line operational roles.

Find out more
www.gwr.com