



**Wolfhart Hauser**  
Chairman



**The Group has leading market positions in each of its five divisions and has considerable opportunities for value creation, but this year's results fell short of its potential.**

**A clear focus on the challenges and opportunities of each of the businesses will mobilise more of the Group's inherent strengths.**

FirstGroup has a diverse portfolio of market leading transport businesses, with half of revenues underpinned by multi-year contracts with national or local authorities. The Group has the long-standing bidding and operational expertise that is critical to success in its markets and it is investing to create a customer experience where improved passenger convenience helps to drive future growth. We are now a more stable and a more resilient enterprise, with a growing ability to capitalise on the leading positions we have in our markets.

However, this year's results fell short of our ambitions – we are disappointed that we did not make the further progress we intended, based on the trends we saw at the end of the previous financial year.

### Results

Overall, Group revenue increased by 13.2% and adjusted operating profit decreased by 6.5%. In constant currency excluding the benefit of the new SWR franchise and 53 weeks of trading in the Road divisions, revenue increased by 1.0% and adjusted operating profit decreased by 10.4%. Adjusted EPS was broadly stable, reflecting lower finance costs due to the improving balance sheet and the US tax reforms enacted in December 2017.

It is encouraging, however, that the Group was able to deliver a net cash inflow of £110.5m (2017: £147.2m, or £123.8m excluding the proceeds from sale of a Greyhound terminal in the year), whilst maintaining investment levels in our services for passengers. This excludes the £88.5m of start of SWR franchise cash flows; taken together the Group recorded £199.0m of free cash flow, helping to reduce our net debt: EBITDA ratio to 1.5 times (2017: 1.9 times), or to 2.1 times (2017: 2.3 times) on a Rail ring-fenced cash adjusted basis.

### Strategy

The Board is examining all appropriate means to mobilise the considerable value inherent in the Group. Initial actions from its evaluation are underway, including:

- a full external review of Greyhound's business model and future prospects, which will conclude in the coming months
- growth opportunities in First Student
- greater operational efficiency
- partnering opportunities to provide new solutions
- investment in modern customer convenience.

As we do so, we will continue to strengthen the Group by using the sustained cash generated after disciplined investment in our services to reduce leverage further and for targeted growth. Although our balance sheet is less of a constraint on our structural options than previously, our pension deficit clearly remains an important consideration for the risk profile of the Group, and we continue to actively manage it. Overall we see considerable opportunity to create shareholder value in a sustainable way while enhancing the services we provide to our customers and communities.

The Board recognises that dividends are an important component of total shareholder return for many investors. We remain committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board will not be recommending payment of a dividend in respect of the year to 31 March 2018 at the Group's Annual General Meeting but will continue to review the appropriate timing for restarting dividend payments.

## The Board

With effect from the date of this report, the Group announced that Tim O'Toole had stepped down from the Board and his role as Chief Executive. The process to select a new Chief Executive is underway. Until such time as a successor is appointed, the Board has asked me to perform the role of Executive Chairman. Matthew Gregory has been appointed Interim Chief Operating Officer and will also continue his responsibilities as Chief Financial Officer.

On behalf of the Board I would like to thank Tim for his distinguished leadership of the company since 2010. During that time the Group has reinvested in its businesses, restored free cash generation and substantially strengthened its balance sheet.

In February 2018 we welcomed David Robbie to the Board as an independent Non-Executive Director and Chair of the Audit Committee. The Board is already benefiting from his extensive experience.

## Corporate governance

Sound corporate governance is a vital facet of meeting our responsibilities to all our stakeholders, and in the year the Board has focused on further development of the Board's understanding and approach to risk appetite, delivery of the transformation plans, mobilisation of SWR, development of the Group's strategy and business objectives, and reviewing the Board performance in light of the Board evaluation exercise.

## Our people

Our frontline employees are key to the success of the Group. Across the businesses this year our employees have had to contend with extreme challenges such as hurricanes, wildfires and severe winter weather which tested their resilience to the limit. In August we welcomed thousands of SWR employees to the Group while they were in the midst of doing an outstanding job helping passengers through the London Waterloo station upgrade programme, which caused major disruption across the network. I am very proud of the way colleagues throughout the Group have put customers first despite these significant challenges and I am inspired by their extraordinary dedication to serving our customers and communities.

On behalf of the Board I would like to extend my sincere gratitude to our 100,000 employees for their continued commitment and hard work this year.

Overall, despite the issues this year, I am clear that the Group has significant potential to improve services for our customers while creating value for shareholders and other stakeholders, and that it is making progress toward that goal.

The Board's focus is firmly on taking the actions necessary to accelerate and cement that progress, so as to secure substantially increased shareholder value going forwards.

## Wolfgang Hauser

Chairman  
31 May 2018