

## Our markets

### Transport links are essential for economic growth and for communities to flourish.

All of our services are critical enablers of economic growth and improving quality of life for people and communities. People need to travel for a wide range of reasons – business, education, healthcare, social and recreation – and across our five divisions, FirstGroup responds to these needs for our customers. While each of our markets has some unique characteristics, several key themes are important to each of them.

### Urbanisation

The world is becoming increasingly urbanised and globalised. The falling cost and increasing efficiency of transport links help create inter-connected economies, even as more people and economic activity move into urban areas. More than half of global GDP is already generated in the largest 600 cities, and more than half the world's population today already live in urban areas – and both trends are set to increase. Despite ever more sophisticated forms of long distance communication, the rapid rise of cities globally is expected to continue, given the importance of face-to-face interactions in increasingly knowledge-based economies. Transport links within cities (such as those provided by First Transit and First Bus) and between them (such as provided by Greyhound and First Rail) will continue to be an important driver and beneficiary of these trends.

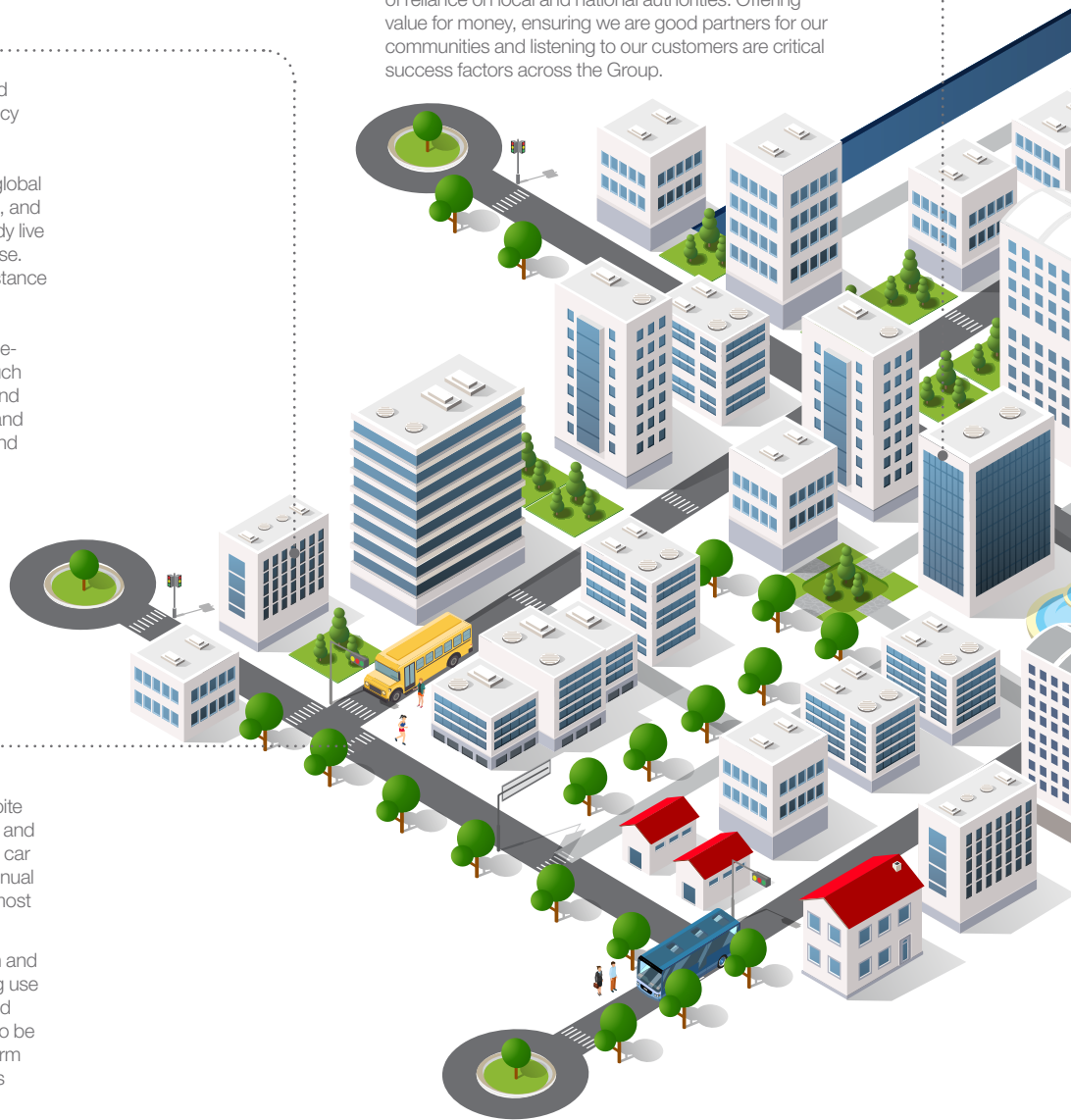
### Congestion

With 1.5m people globally moving to urban areas each week, maintaining mobility within cities despite this increasing population density is a key priority, and it is clear that an approach based primarily on the car is no longer sufficient. Some estimates put the annual cost of congestion to the average UK driver at almost £1,000 a year.

The cost is also counted in air quality degradation and higher carbon emissions. It is clear that increasing use of public transport systems is vital to the continued prosperity of cities. Whilst our businesses can also be affected by congestion day-to-day, they clearly form part of the long term solution by allowing travellers to leave their cars behind. We also strive to be at the forefront of technologies to minimise our own environmental footprint, as outlined in the corporate responsibility section on page 23.

### Local and national authorities

As good transportation services deliver such a wide range of social and economic benefits, many of our services are mandated or financially supported by the communities they serve. Indeed, all of our divisions either emerged from, or compete alongside, publicly funded models of transport provision. In all cases, private sector operators such as FirstGroup have been given the opportunity to operate services commercially in order to increase competition (improving value for money and efficiency) and bring innovation and agility in an increasingly fast-moving and complex environment. Across the Group a variety of funding and specification models exist, with varying degrees of reliance on local and national authorities. Offering value for money, ensuring we are good partners for our communities and listening to our customers are critical success factors across the Group.



## Demographic change

Transport solutions also need to take account of demographic changes. Many segments of our communities – such as those in education, retired or unable to drive themselves – have always been more reliant on mass transportation. With a rapidly aging population in many parts of the world, this proportion is set to increase. Increasing numbers of (particularly young) urban dwellers are also choosing not to drive at all, given the costs of buying and maintaining a car and the issues of parking and sustainability. There is a growing demographic which is open to using our services provided we meet its needs, and we are specifically targeting these customers – particularly in Greyhound and First Bus.

## Geographic markets

Our core markets in the UK and North America share several demographic, social and political characteristics which make them attractive for transport operators. Both are heavily and increasingly urbanised – just over 80% of the population in the UK and North America live in urban areas today, increasing to nearly 90% by 2050. High and increasing proportions of both populations are either in education or retirement age, demographic bands where use of our services is proportionately higher. Although car ownership is relatively high in both markets, national and local authorities actively seek to encourage greater use of alternatives.

Both markets also have long histories of deregulating and outsourcing transport solutions, with mature business models and regulatory frameworks that encourage partnering with the private sector for transport infrastructure and services. In the longer term, we believe there is significant opportunity globally for the services we provide, and we are actively monitoring a range of markets for opportunities.

## Service standards

Customers' requirements for safety, comfort and convenience continue to increase. The multiplication of potential transport modes and competition between operators continues to drive up quality and performance standards throughout the industry.

Our customers' requirements are complex and constantly evolving, and responding to their needs is critical. Interconnectivity between different transport modes is increasingly important, as is the provision of the real-time information necessary to make best use of them. In all of our divisions we are rolling out more convenient services through smarter and more flexible ticketing, improved onboard amenities (such as Wi-Fi) and getting to know our customers' needs better through customer relationship management techniques.

Meanwhile the growth of 'transport as a service' models, such as ridesharing, represents both an opportunity for our businesses as well as a source of potential competition.

🕒 **For more information on the market environment for each of our divisions please go to the business review section starting on page 12.**