Business review
First Student

Dennis Maple
President, First Student

- **Leverage our market leading platform**
- **Targeting organic and M&A-led growth, entry into adjacent markets and complementary transportation services**
- **Enhance efficiency of our cost base**

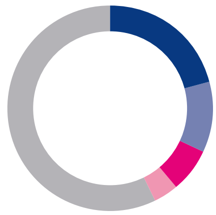
5m student journeys per day

460 operating locations

1,100 multi-year contracts

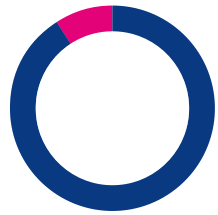
Year to 31 March	2019	2018
Revenue	**$2,424.9m**	$2,350.6m
Adjusted operating profit	**$230.0m**	$210.4m
Adjusted operating margin	**9.5%**	9.0%
Number of employees	**48,000**	48,000

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



First Student	21%
National Express	11%
STA	7%
Illinois Central, Krapf, Cook Illinois	4%
Others	57%

2019 approximate revenue by type



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

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% of the total bus fleet 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 typical 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. 15 other operators have 1,000+ bus fleets, and the remaining half of the outsourced market is operated by several thousand small local operators. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, provide further growth potential.

Market attractions
- Multi-year 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 M&A opportunities.

First Student's revenue increased to $2,424.9m (2018: $2,350.6m), representing growth in constant currency of 3.4%. Following a number of years when our 'up or out' returns-based bidding strategy resulted in net business losses, this is the first year in more than a decade that First Student has grown each of revenue, bus fleet, and market share. Growth was driven by strong retention, net new business, pricing in excess of driver wage cost inflation and a net positive weather effect, partially offset by fewer operating days compared with the prior year due to the previous year's 53rd week and the overlay of the academic calendar with our financial year. Reported revenue was £1,845.9m (2018: £1,771.1m).

Adjusted operating profit increased faster than revenue to $230.0m (2018: $210.4m), resulting in an adjusted operating margin of 9.5% (2018: 9.0%, with contract portfolio pricing improvements, cost efficiency savings and new business wins exceeding the costs of driver shortages that persist as a result of the strong US employment market. The net weather impact was positive in the year, with both higher weather make up days (reflecting the severity of the winter in 2018) and a less severe 2019 winter. In reported currency, adjusted operating profit increased 10.9% to £173.5m (2018: £156.5m) and the division reported a statutory profit of £115.3m (2018: £88.4m), principally adjusting for amortisation of intangibles and First Student's portion of the North American self-insurance charge.

Focused and disciplined bidding

As previously noted, First Student had a strong summer 2018 bid season resulting in growth in bus fleet count for the first time in a number of years. 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. We secured average price increases in excess of the employee cost inflation we face from the strong employment market in parts of the US, while achieving a retention rate on 'at risk' business of 92%, the highest level for more than five years. Across the entire portfolio of multi-year contracts, retention was 97%. This strong performance on existing business was supplemented by new business won mainly from competitors and conversions from in-house to private provision representing approximately 1,580 additional buses, which was also ahead of our budget. Combined with a modest level of organic growth, we will be operating a bus fleet of approximately 42,500 vehicles for the balance of this school year.

Continuous improvement in operating and financial performance

First Student delivered further cost efficiencies, mainly from improvements to our engineering and maintenance practices and additional shop management strategies, in part using the expertise and technology solutions of First Transit's vehicle maintenance services segment. These and other management actions have delivered recurring cost savings of approximately $17m in the year.

We continue to invest in our driver recruitment, onboarding and retention programmes in response to the driver shortage pressures the industry faces, and this year have launched a driver app to help connect and engage with our geographically diverse workforce. We are also piloting additional driver connectivity systems which will further improve the driver experience while allowing us to manage and respond to route and other changes in real time. We were very encouraged to see a significant improvement in employee satisfaction scores in this year's survey, given the importance of driver commitment to the service we deliver for our customers.

We aim to grow our services to markets adjacent to the traditional home-to-school market. This includes our charter business (now 9% of divisional revenues) which benefits our asset utilisation rates, though growth has been held back by the driver shortages experienced in our home-to-school business. In the year we began to market First Transportation Services to school boards who currently manage home-to-school bus services in-house, which will grow to encompass a suite of managed technologies and mobility services previously only available to our outsourcing customers.

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, is now available in 203 school districts covering 350,000 students with 50,000 registered users to date. With the increase in retention rates and new business wins our investment in our fleet has increased and we continue to improve our approach to cascading buses around our operations, a significant competitive advantage of scale in the industry. Our average fleet age reduced to 6.9 years (2018: 7.1 years). In August 2018 we acquired a 70-bus business in Ontario which is performing in line with our plans. During the year we continued to build our pipeline of other potential acquisition opportunities as we look to benefit from the returns available from local consolidation in the highly fragmented home-to-school market.

Responsible partnerships with our customers and communities

We are entrusted with the safety and security of millions of children every day, and the seriousness of that responsibility is central to our culture as an organisation. We maintained our firm commitment to safety during the year and continue to focus on improving our performance further.

We were very pleased to maintain our high customer satisfaction score of 8.75 out of ten and our likelihood to recommend scores in the year, reflecting our continued emphasis on serving our customers through deep relationships at a local level and not just meeting our contractual obligations. We believe this approach differentiates us from the competition, and is reflected in the award of some contracts in the year where we were not the lowest priced bid, or where we were able to deliver a flawless start-up for 6,000 students on six weeks' notice when a competitor was unable to proceed.

Our services also support our customers and communities in other ways. The American School Bus Council estimates that each school bus takes 36 cars off the road during the morning and evening peaks, reducing congestion and fossil fuel use. Without school buses more than 17m more cars could be transporting students to school each day in the US. First Student's own emissions of particulates and nitrogen oxides (NOx) have fallen by 29% and 15% respectively year-on-year, largely from our replacement of older fleet with lower-emission alternatives. We also continue to add to our alternative fuel fleet which now numbers more than 2,100 vehicles; principally Compressed Natural Gas (CNG) buses. First Student's carbon emissions have remained largely unchanged at 741,854 tonnes CO_2(e), comprising 28% of the entire Group footprint.

First Student priorities and outlook

We are pleased with First Student's improved performance in the year, and confident that as the largest business in the home-to-school market, it is now restored to a position of generating sustainable growth, cash and returns from its multi-year contract portfolio. We are focused on delivering further profitable growth through a combination of continued disciplined bidding, new business wins based on our market-leading credentials in safety and customer service, some organic growth, development of complementary mobility services and M&A. In the 2019 bid season we will be striving to repeat the extremely strong retention and growth performance of last summer. We are also targeting further incremental margin improvements underpinned by our pricing strategy and efficiencies including several procurement, maintenance and driver labour initiatives.

Business review
First Transit

Brad Thomas
President, First Transit

Year to 31 March	2019	2018
Revenue	**$1,411.4m**	$1,420.4m
Adjusted operating profit	**$67.7m**	$77.8m
Adjusted operating margin	**4.8%**	5.5%
Number of employees	**19,500**	19,000

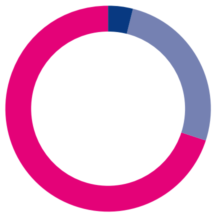
- **Maintain value leadership in core business**
- **Growth from attractive adjacent markets**
- **Leverage partnerships to stay at the forefront of innovation in the mobility services sector**

12,900 vehicles owned or operated

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

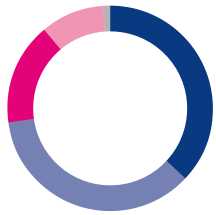
324m passengers a year

Approximate First Transit share of c.$32bn North American transit market
(of which c.30% is outsourced)



First Transit	4%
Other outsourced providers	26%
In-house	70%

2019 approximate revenue by type



Fixed route	37%
Paratransit	36%
Shuttle	16%
Vehicle services	10%
Rail	1%

First Transit
Market review and trends
The transit market is worth around $32bn per annum in North America, of which around 30% is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts that typically last for three to five years. The market includes fixed route bus services (c. $20bn segment, of which around 10% is outsourced), paratransit bus and related services (c.$7bn segment, around two thirds outsourced), shuttle services (c.$3bn segment, around 90% outsourced) and vehicle maintenance services (c.$2bn 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 are 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, airports and others 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. Customer demand for a broader range of mobility services solutions is increasing.

Competitors
First Transit has c.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
- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Modest levels of capital required (apart from in shuttle)
- Aging populations and congestion trends provide support for continued international growth through further outsourcing.

First Transit's revenue was $1,411.4m (2018: $1,420.4m), a reduction of 0.4% in constant currency (and increased by 1.4% adjusting for the 53rd week in the prior year). As expected, contract awards and organic growth in the rest of the division were sufficient to offset the loss of revenue from a number of contracts in the Canadian oil sands region and elsewhere which completed at the end of the prior year. Reported revenue increased modestly to £1,075.8m (2018: £1,072.7m).

Adjusted operating profit was $67.7m (2018: $77.8m), representing an adjusted operating margin of 4.8% (2018: 5.5%). New business wins and non-recurrence of prior year effects such as the Puerto Rico hurricane did not fully offset the impact of the completion of the high margin contracts in the Canadian oil sands region noted above, and above-inflation cost increases reflecting increased self-insurance costs and the acute driver shortages in certain areas. In reported currency, adjusted operating profit decreased to £51.5m (2018: £58.2m) and the division reported a statutory profit of £23.1m (2018: £34.3m), principally adjusting for amortisation of intangibles and First Transit's portion of the North American self-insurance charge.

Focused and disciplined bidding

We were pleased that we significantly increased our retention of 'at risk' contracts to 89% (2018: 82%) in the year, though we converted fewer new business opportunities this year compared with last. Notable renewals included a major fixed route contract for the Denver Regional Transportation District, a paratransit contract in Washington DC and one in Maryland that also included a major extension. We also renewed shuttle contracts with United Airlines in Houston, Texas and Georgia Southern University, Georgia, as well as a large maintenance contract with New York City Parks and Recreation, New York. New business wins included shuttle contracts for Stanford University, California, the City of Lawrence/University of Kansas and an energy sector customer in Western Canada, integrated fixed route and paratransit services for the city of Visalia, California, Tulsa, Oklahoma and Sussex County, Delaware and a fleet maintenance contract for the City of Roswell, New Mexico.

Continuous improvement in operating and financial performance

We continue to adapt and develop our technology infrastructure, management expertise and national service platform to underpin First Transit's performance in highly competitive markets. We are focused on further improvements to our recruitment, retention and training processes to offset the challenges of the tight US employment market. We continue to invest in systems to optimise our procurement, driver operations and maintenance functions in order to remain competitive in a dynamic market place where labour cost inflation remains a focus.

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 continue to invest in driver management, predictive analytics and routing technology. First Transit has more than 70 ASE Blue Seal-certified maintenance shops in North America, more than all of our competitors combined, which demonstrates our commitment to stewardship of our customers' assets. We continue to take a disciplined approach to applying our expertise to new services and geographies to secure additional sources of growth. We are actively developing our expertise in Mobility as a Service (MaaS) systems, and we were recently selected as a MaaS preferred partner by Denton County Transportation Authority. We are actively participating in several SAV pilot programmes, and secured four new operations in Texas, California and Florida in the year. We continue to examine opportunities to extend our presence in adjacent markets where we believe we have a competitive advantage.

Responsible partnerships with our customers and communities

Our focus is on offering the best value package to our customers and the communities we serve, which means our service standards, expertise and safety credentials are as important as our cost efficiency in winning or retaining business. We continue to develop our safety behavioural change programme, focusing on our key risks, and we were pleased to have maintained our strong customer satisfaction scores during the year. First Transit is also a leader in operating mass transit technologies with low or no tailpipe emissions, such as the electric vehicles we operate in Minnesota as well as for our various SAV projects. We recently also added more than 40 electric vehicles to our shuttle fleet for one of our university campus clients, with further vehicles being added to the fleet in the year ahead.

First Transit priorities and outlook

Although revenue growth in any one year will as ever depend on the mix of contract wins and losses, we have significant sector expertise and exceptional management strength in North American transportation markets, where outsourcing trends continue to produce opportunities to achieve attractive returns and cash generation with relatively modest capital requirements. In the near term we expect our margins to be flat, reflecting the current cost inflationary environment in certain areas. We are confident in the long term prospects for further growth in our core markets, particularly in shuttle and in vehicle services, and we continue to pursue opportunities in certain adjacent markets where we have now established our credentials – such as commuter rail, bus rapid transit (BRT), and autonomous vehicle management. As our markets continue to evolve, we will look to enhance existing and new partnerships with ridesharing and other Transportation Network Companies (TNCs).

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 where we can provide good value to clients while achieving appropriate margins with modest capital investment, as we continue to build our platform in mobility services.

Business review
Greyhound

Dave Leach
President, Greyhound

Year to 31 March	2019	2018
Revenue	**$846.7m**	$912.7m
Adjusted operating profit	**$14.2m**	$32.8m
Adjusted operating margin	**1.7%**	3.6%
Number of employees	**5,500**	6,000

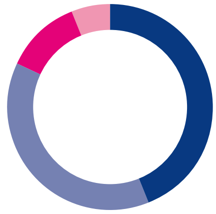
- **Capture maximum value from our brand and nationwide network**
- **Deliver improved performance potential from revenue, cost reduction and fleet investment**
- **Continue property rationalisation**

2,400 destinations across North America

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

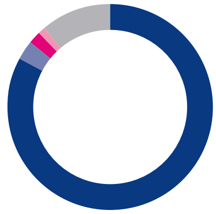
1,500 approximate vehicle fleet

Distribution of Greyhound passengers by mileage band



1-200 miles	**44%**
201-450 miles	**38%**
451-1,000 miles	**12%**
1,000+ miles	**6%**

2019 approximate revenue by type



Passenger	**83%**
Package Express	**3%**
Food	**2%**
Charter	**1%**
Other	**11%**

Greyhound
Market review and trends

In the past 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 an estimated 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.

Coach passenger demand typically improves when at-pump fuel prices are high, and reduces when fuel prices fall, as the cost of other forms of transport became more attractive. More recently, competition from ultra low cost airlines, that have continued to add significant capacity to their fleets over recent years, has had a significant impact on coach demand.

As well as passenger revenues, income is generated from charter and tour organisation, terminal catering outlets and package express services. 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 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 today more than half buy online via computer or smartphone.

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 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.

In the year, Greyhound's revenue was $846.7m (2018: $912.7m), a reduction of (7.0)% in constant currency, driven by the withdrawal from Western Canada in October 2018, and the 53rd week in the prior year. Like-for-like revenue was +0.2%. In the year short haul growth including like-for-like growth of 0.2% by Greyhound Express was exceeded by growth in the 1,000+ mile long haul segment. Mid-range trips were slightly down year-on-year, experiencing competition from airline capacity increases in certain markets. Reported revenue reduced by £45.1m to £645.1m (2018: £690.2m).

Adjusted operating profit was $14.2m (2018: $32.8m), representing an adjusted operating margin of 1.7% (2018: 3.6%). The margin was heavily affected by higher maintenance, driver training and fleet costs, partially offset by management actions and gains on sales of property of $10.8m or £8.4m. Adjusted operating profit in reported currency decreased by 55.3% to £11.4m (2018: £25.5m) and the division reported a statutory loss of £33.8m (2018: loss of £266.3m) reflecting restructuring and reorganisation costs associated with the withdrawal from Western Canada and Greyhound's share of the North America insurance charge, partially offset by property disposals. The Group estimates that disposal proceeds from surplus properties in Western Canada will largely offset the cash costs of restructuring and reorganisation, over time.

Greyhound's performance has been disappointing, but it has begun to benefit from the changes we made following a review of its business and prospects during the first half of the financial year. We have brought new capabilities into the commercial team including the appointment of a new commercial director with a background at a leading US airline, delivered overhead reductions, and implemented a series of revenue improvement, cost reduction and investment initiatives in the middle of the year to turn around Greyhound's financial performance and enhance our services for customers. In the year we also completed the withdrawal of service in Western Canada from October, following the earlier closures of routes in British Columbia. In the second half revenue per mile and yield trends were stronger than the first half, benefitting from the pricing and other actions we have taken together with an increase in demand in the US south west.

Driving growth through attractive commercial propositions

Greyhound is a unique business with an iconic brand and, by linking large 'point-to-point' short haul markets together to serve more than 245,000 smaller 'network' markets, we have the only true intercity coach network in North America. The business has taken several steps to transform all areas of the customer experience over recent years through investment in technology. During the current year the business has delivered further enhancements to its website, mobile app, customer call handling, onboard infotainment systems, as well as bus-side ticket scanning, which streamlines boarding times. Greyhound also continues to refine and enhance our pricing and yield management system by implementing forecasting and network optimisation functionality to leverage our network, similar to large airlines. Strategic marketing expenditure, highly targeted on our core customer demographic, is increasingly integrated with the commercial team's tactics across all market types.

Continuous improvement in operating and financial performance

We continue to strengthen our processes and maintenance systems to improve reliability, and this, assisted by our fleet renewal programme, resulted in an improvement in punctuality statistics from the middle of the year. In addition to the changes made to the Canadian network footprint, we continue to optimise overhead, procurement, driver training and other expenditures to improve efficiency and reduce cost. In the year we have also largely completed the integration of our Bolt point-to-point operations back into Greyhound.

Prudent investment in our key assets

Our maintenance and fleet availability performance is also beginning to improve with the investments we are making in fleet renewal and refurbishment. As noted elsewhere, following a number of years where the business required few additional vehicles, we have stepped up our fleet renewal plan, resulting in the addition of 108 new vehicles to the fleet this year. All have high-quality amenities as standard, including free onboard entertainment, Wi-Fi, leather seats and generous legroom.

We continue to review our terminal footprint, looking for opportunities to move to intermodal transport hubs or new facilities better tailored to our needs. In addition to a number of smaller terminal changes, this year we completed the sale of a major Greyhound maintenance facility in Chicago. The resulting gain on sale of £9.3m was treated as an adjusting item.

We were the first international operator to provide both international links and domestic operations in Mexico, and in the year we launched a major new route in this market.

Responsible partnerships with our customers and communities

We continue to invest in customer service training and apprenticeships to improve our customer relationships further at the front line.

We also continue to work to improve our environmental impact, principally through our investments in more efficient and aerodynamic buses. At 32.5g per passenger km, intercity travel by Greyhound already offers the lowest per-passenger carbon emissions of any modal alternative – around 89% lower emissions than an equivalent domestic passenger plane journey and 85% lower than the average US passenger car, largely unchanged from last year. Our 2018/19 investments in new, lower emission vehicles helped us drive down emissions, energy use and improve local air quality, reducing our emissions of particulates by 16%, and we expect to make further progress as our fleet modernisation programme continues.

Greyhound priorities and outlook

Since the changes we made following our review took effect during the year, we have begun seeing an encouraging improvement in key indicators such as revenue and yield per mile, which underpin our confidence that the mid-single digit margin target will be achieved in the medium term. We believe that at this stage in Greyhound's development, value for shareholders can best be delivered by seeking new owners for the business that will further support the delivery of the improved performance potential. As such a formal sale process for Greyhound is underway. During this time we will continue to execute our plans to enhance Greyhound's performance and our services for our customers with pace and commitment.

Giles Fearnley
Managing Director, First Bus

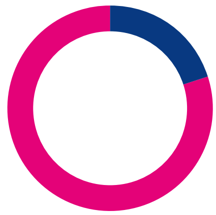
- **Prioritise investment where we can work in partnership with local authorities**
- **Frictionless customer offering to drive growth**
- **Drive further efficiencies in cost base**

1.6m
passengers per day

5,700
approximate fleet of buses

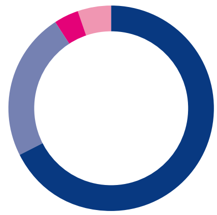
Year to 31 March	2019	2018
Revenue	**£876.1m**	£879.4m
Adjusted operating profit	**£65.8m**	£50.2m
Adjusted operating margin	**7.5%**	5.7%
Number of employees	**16,500**	16,500

Approximate First Bus market share of UK market outside London



First Bus	20%
Others	80%

2019 approximate revenue by type



Passenger revenue	67%
Concessions	23%
Tenders	4%
Other	5%

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 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 2017 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 Doncaster, Leeds, Sheffield, York, Cornwall, Norfolk, Hampshire and the West of England.

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 shop 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 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 purpose.

First Bus like-for-like passenger revenue growth was 1.6%, though reported revenue of £876.1m (2018: £879.4m) was (0.4)% lower in constant currency terms, largely reflecting the 53rd week in the prior year. Like-for-like commercial passenger revenue increased by 2.0% and revenue per mile by 4.0%, although conditions for the industry remain uncertain and demand patterns continue to vary significantly amongst our local markets. As previously reported, retail footfall trends continue to affect demand in many markets, particularly in the North and Scotland, whilst traffic congestion in a number of cities magnifies these challenges. The overall like-for-like passenger volume decline of (0.7)% mainly reflected further reductions in concessionary passengers due to changes in bus pass entitlement and funding in the year. Our contract and tendered revenue decreased slightly in the year, primarily reflecting reduced funding from local authorities.

Adjusted operating profit was £65.8m (2018: £50.2m), or an adjusted margin of 7.5% (2018: 5.7%). Adjusted margin increased by 180bps, reflecting stabilised passenger volumes, the cumulative effect of our past and present cost efficiency and network actions and a fuel tailwind. Principally reflecting restructuring and reorganisation costs and the loss on disposal and impairments in Manchester, the division reported a statutory profit of £27.4m (2018: £29.3m).

Driving growth through attractive commercial propositions

Our customer offering continues to develop with a particular focus on easy and convenient ticketing. In September we became the first major UK bus operator to offer contactless payment on all our buses. Combined with increased mobile ticketing uptake we met our goal to reduce cash transactions to less than 45% of on-bus revenue by year end. Digital and other non-cash payments will accelerate boarding times while reducing our back office costs. We upgraded our passenger app to incorporate both multi-modal journey planning and mobile ticketing, and also introduced a customer feedback tool to the app in the year.

Drawing on our extensive Park & Ride experience, in the year we have rationalised and relaunched the Taunton, Somerset operations having taken commercial responsibility for routes that would otherwise have been withdrawn following reductions in local authority funding. We delivered contracted services for events such as the European Championships in Glasgow in August and numerous rail replacement services.

Continuous improvement in operating and financial performance

We continued to take action during the year to improve our cost efficiency, including through consolidation of our depot footprint. We closed our Clacton, Essex depot in July, and in Manchester we have made a number of changes, including announcing in February the sale of the Queens Road depot and operations to the Go-Ahead Group which will complete after year end. We continuously review networks to ensure we maximise demand for our services and enhance route performance for passengers using travel pattern data we are able to track for the first time. With every bus now equipped with GPS systems we can optimise our routes in real time in response to traffic incidents. During the year we have developed a shared service centre in Leeds which is allowing us to centralise a variety of customer facing and back office functions.

Prudent investment in our key assets

We remain focused on targeting our investment in areas where local authority stakeholders recognise the importance of the bus sector's role to meet air quality targets, reduce congestion and strengthen local economies. As many of our markets are introducing more stringent air quality plans, our investment in low emission vehicles continues. We took delivery of 328 new EURO VI emissions standard vehicles in the year, a more than twofold increase over the prior year. We upgraded 215 vehicles to cleaner EURO VI standards in the year, and anticipate retrofitting 1,200 more principally funded by grants, including from the Government's Clean Air Fund. At 84g of CO_2(e) per passenger km (2018: 81g), First Bus offers 26% lower per-passenger carbon emissions than the average UK passenger car. Each of our double decker buses could take up to 68 cars off the road on average. We also continue to gain experience of alternative fuel types such as hydrogen in Aberdeen and biogas in Bristol. In York, First Bus will become one of the largest operators of electric buses outside London with delivery of 21 double deck vehicles, partly funded by OLEV grants, later this year for the Park & Ride network, joining the 12 single deck electric buses which have been operating since 2014. We continue to work with our partners toward the introduction in 2020 of autonomous vehicles at the Milton Park Business Science Hub, providing services both on site and to connect to nearby Didcot Parkway Station.

Responsible partnerships with our customers and communities

Buses have a huge role to play in delivering the UK's clean air ambitions, but for them to maximise their potential and make a real impact on mitigating the effects of congestion, it is essential that operators and local authorities work together in partnership. We are proud of our track record in doing so, working for example over many years with Bristol City Council and the West of England Combined Authority to deliver a 42% increase in bus use over the past five years, the best performance in the UK. In May 2018 we started operating the new Metrobus route network in the area which is underpinned by dedicated bus lanes, bus priority at junctions and EURO VI-compliant diesel and compressed natural gas buses which are designed specifically for quicker and fewer stops, meaning faster journeys.

We have entered into a four-year partnership with Leeds City Council and the West Yorkshire Combined Authority with the shared objective of doubling passenger numbers by 2030 and securing compliance with air quality limits. We have committed to invest in 284 ultra-low emission buses while the local authorities are investing £174m to deliver five bus corridors, city centre improvements and four new or extended Park & Ride sites. Another 105 new vehicles joined this fleet during the year.

In Glasgow, we are collaborating with the City Council and other local partners to relaunch the bus partnership. We have invested in 150 new buses in support of Glasgow's new Low Emission Zone; the City Council is in turn developing a programme of bus priority measures. We also engage extensively with the DfT and the Welsh and Scottish devolved governments, seeking to ensure that buses deliver their full potential.

First Bus priorities and outlook

Over the past two years, First Bus has improved its adjusted margin by more than three percentage points while growing revenues despite a relatively challenging market backdrop. We have reinvested in our fleet and our systems, and are benefitting from the growing digitisation of our revenue collection, commercial decision making, and operations and maintenance processes. First Bus is now on a much stronger footing as a business, with margins on a path towards the double digit levels enjoyed by peers. There are however limited synergies between First Bus and our North American businesses, and we therefore believe now is the right time to pursue structural alternatives to deliver value to shareholders, while managing the longer term liabilities of the division. While we do this, our focus will remain on improving our returns by making journeys simpler for our customers, enhancing our efficiency and optimising investment in our core markets.

Business review
First Rail

Steve Montgomery
Managing Director, First Rail

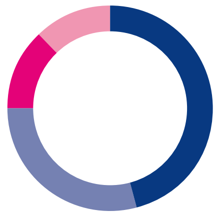
- **Deliver growth from capacity additions and service enhancements in accordance with our franchise agreements**
- **Leverage our scale to deliver efficiencies**

1,800
New carriages introduced over current franchises

9.0bn
passenger miles travelled

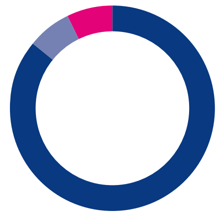
Year to 31 March	2019	2018
Revenue	**£2,666.7m**	£1,968.8m
Adjusted operating profit	**£72.3m**	£57.8m
Adjusted operating margin	**2.7%**	2.9%
Number of employees	**12,500**	10,500

Passenger revenue base of First Rail operations



Leisure	**46%**
Business	**29%**
Commuter	**13%**
Travelcard (incl Oyster)	**12%**

2019 approximate revenue by type



Passenger revenue	**86%**
Franchise subsidy receipts (£193.8m)[1]	**7%**
Other income	**7%**

1 In the year the Group also made total franchise payments to Government of £293.3m, 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 judgment. Total franchised passenger revenues in the UK are more than £10bn 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 due to a variety of factors including changing working patterns and recent service reliability issues. The Government continues to invest in upgrades to the rail infrastructure across the UK, with Network Rail delivering a number of large national projects such as route electrification on the Great Western mainline.

Network Rail's digital railway strategy aims to create more capacity and more frequent services and enable vastly improved mobile and Wi-Fi connectivity. The industry collectively launched a campaign highlighting partnership working to deliver more capacity and enhanced services and a consultation on reforms to make the fare system more accessible to customers.

In September 2018 the UK Government established the Williams Rail Review to look at the structure of the whole rail industry and the way passenger rail services are delivered. The independent review will make recommendations for reform that prioritise passengers' and taxpayers' interests. The review's findings and recommendations will be published in a government white paper in autumn 2019. Reform will begin in 2020.

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 Great Western Railway (GWR) fall into all four categories. SWR customers are largely commuters.

TransPennine Express (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 £10bn of long term contract-backed passenger revenue available through 19 major franchise opportunities
- New franchises typically have significant revenue opportunity and risk with some revenue protection, clear contingent capital requirements but low overall capital intensity
- Regulated environment, including government-capped regulated fares
- Historically high levels of passenger numbers across the UK.

First Rail division revenue increased to £2,666.7m (2018: £1,968.8m), principally reflecting the inclusion of the SWR franchise for the full financial year (FirstGroup operated SWR for seven months of the prior financial year) and the transition of GWR from premium to subsidy in the year due to the cost of new rolling stock. Like-for-like passenger revenue growth was 5.8% and passenger volume growth improved to 2.0%. Growth rates across the industry continue to be affected by UK macroeconomic uncertainty, modal shift due to lower fuel prices and changing working practices, while our networks have experienced challenges from strike action in SWR's case and the effect of rail infrastructure upgrade works. The latter is particularly relevant to GWR, although like-for-like passenger revenue growth of 5.1% 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). TPE delivered like-for-like passenger revenue growth of 8.0%, with greater growth expected as we complete the introduction into service of new fleets in the coming period. At 6.0%, SWR's like-for-like passenger revenue growth and operational performance has been affected by a number of factors including infrastructure disruption.

Adjusted operating profit of £72.3m (2018: £57.8m) represents a margin of 2.7% (2018: 2.9%), and in part reflects payments associated with network unavailability due to delays on infrastructure improvements and repairs at GWR, as well as the resolution of certain historic claims in relation to Network Rail. All of our train operating companies were to some extent affected by the national rail industry decision to defer the December 2018 timetable changes, a significant and unforeseen change in circumstances which meant we could not deliver some additional services and other passenger benefits as originally scheduled under the franchises. Certain commercial and contractual changes have been discussed with DfT and recognised in part during the period, but we remain engaged in discussions with the DfT in relation to their effects over the longer term. TPE did not utilise the provision for forecast losses during the year, though we continue to expect the provision to be used in full over the franchise life, due to the reprofiling of the timetable changes. As noted elsewhere, management have prepared updated financial forecasts for the SWR franchise. Due to the range of uncertainties facing the franchise, the Group has made provision for £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement, and this has been charged to the income statement. FirstGroup's 70% share of the losses is therefore £102.1m. The Rail division reported a statutory loss of £77.1m (2018: loss of £50.6m) 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 to exercise an extension option. Discussions are ongoing regarding the DfT's stated intention to award a subsequent short-term contract to at least 2022. We are a shortlisted bidder for the upcoming West Coast Partnership franchise with Trenitalia. Away from franchising, we continue to develop our plans for a new single-class open access service between London, the North and Edinburgh from 2021 and in March this year we finalised an order with Hitachi for new trains for this operation.

Continuous improvement in operating and financial performance

We work closely with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects while minimising disruption for passengers. Completion of these projects allows additional train capacity or services to be introduced, generating patronage growth that in turn drives franchise business plans and premia to the government. Each of our three franchises are undergoing periods of significant change, which require careful planning, management and negotiation with Network Rail and our other partners, in particular where delays can affect the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the Group.

Network Rail's upgrade work on the Great Western mainline, including electrification, continues albeit to a different timescale than originally envisaged. GWR have worked closely with our industry partners to ensure our franchise plans reflect the impact of this extended delivery time. Suburban electrification has now been completed on GWR's Newbury line, which allowed for further new electric trains and a new timetable to be introduced in January 2019. In turn, our transfer of suburban diesel trains to enhance capacity in Bristol and the West Country is ongoing. We have now taken delivery of 93 IETs from Hitachi, enabling a 40% increase in seat numbers on long-distance services compared to 2015, with quicker journey times and more frequent services.

SWR performance levels were challenging during the 2018 calendar year, reflecting historic infrastructure issues dating from before we took over the franchise in August 2017. We are working with Network Rail on plans to return service to levels that our customers expect, as set out in the independent review by Sir Michael Holden. The improvements made as part of these plans have helped lead to more stable performance since January. Our SWR customers have also faced considerable disruption to their journeys due to unnecessary and as yet unresolved industrial action by the National Union of Rail, Maritime and Transport Workers (RMT). We have guaranteed that a guard with safety critical competencies will be rostered on every train, no guards will lose their job because of these changes, and reminded our stakeholders that SWR will want more guards in future since our plans call for more services to be introduced. SWR remains focused on delivering a resolution of the industrial dispute in the interests of our passengers.

Later this year SWR will begin introducing a fleet of 90 suburban trains manufactured by Bombardier, providing a 46% increase in peak capacity on London routes. Existing fleets are being completely refitted and refreshed, and an additional set of 18 fully refurbished trains will be re-introduced to the London-Portsmouth route by the summer. The May 2019 timetable change resulted in more than 300 additional train services a week for customers across the network, many of which have been introduced following extensive consultations and feedback sessions with local stakeholders and customers.

Our TPE franchise is being transformed into a true intercity network for the North, with capacity due to be increased by more than 80%. We have begun taking delivery of the first of 220 new carriages, comprising Hitachi IET-type trains and a further intercity fleet from CAF. TPE and others in the region were able to make changes in the December 2018 timetable which have helped to stabilise the poor performance resulting from the timetable changes earlier in the year.

First Rail continued

Our open access operator Hull Trains continues to score well in the independent National Rail Passenger Survey. The company saw some challenges due to performance issues with the fleet during the year. New trains are due to be brought into the fleet later in 2019, and in the meantime two former GWR trains have been redeployed to give greater resilience to the service.

Management of rail franchise commitments

All our plans envisage new trains to be delivered for all of our rail operations and by next year, 90% of our customers are due to 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. Several other fleets are being completely refurbished to provide customers with similar amenities. Our franchises have also introduced more convenient ticketing options including smartcards, barcodes and auto-renewing season tickets. Easier, more generous and more flexible delay compensation has also been introduced to each franchise.

Responsible partnerships with our customers and communities

Customer and Communities Improvement Funds are in place at all three of our franchises, which work with community organisations across the network to give grants for projects. More information on our work with communities can be found on page 35.
First Rail has an industry leading position in partnering to reduce carbon emissions. This includes the introduction of bi-mode diesel and overhead electric powered trains, enabling us to make use of electrification when it is available, without compromising our ability to continue servicing non-electrified parts of the network. Tri-mode trains, which draw power from a third rail, are also due to be introduced during this year. Electrification of our routes has contributed to a 15% reduction in greenhouse gas emissions per passenger km in the past three years. This progress is likely to continue as the UK power grid further decarbonises and our rail network is progressively electrified.

First Rail priorities and outlook

We remain focused on working with our industry partners to deliver our plans for more capacity and better customer experiences at all our train operating companies, which will in turn drive patronage growth over time. Our rail portfolio has continued to generate good returns overall, although, because of ongoing industry conditions and the difficult operational environment our portfolio is experiencing, we expect a smaller year-on-year adjusted operating profit contribution from the rail division in 2019/20. The payments associated with network unavailability due to infrastructure improvements and repairs will continue to cause swings in period-to-period profits.

Looking ahead, we have a portfolio of separately managed rail franchise businesses in the UK which we will operate in accordance with their contractual terms. The UK government's rail franchising system is the subject of a major review of the most appropriate organisational and commercial frameworks to deliver services in future, which is currently ongoing. Any future commitments we make to UK rail will need to have an appropriate balance of potential risks and rewards for our shareholders.