

### The actions we are taking will enable us to focus on providing easy and convenient mobility for our customers.



**Wolfhart Hauser**  
Chairman

FirstGroup is a diverse portfolio of market leading transport businesses, with half of its revenues underpinned by multi-year contracts with national or local government bodies. We believe each of the Group's businesses has a significant platform to deliver long term sustainable value. Easy and convenient public transportation services are increasingly important, reflecting demographic changes, growing congestion and the rising importance of climate change mitigation. There is considerable long-term value in each of the Group's businesses, particularly as platforms to become future leaders in mobility services.

Our vision is centred on our customers and during the year we improved our overall trading performance, positioned the Group to make the next steps forward in our strategic development, and appointed the right executive team to take the Group forward.

#### Our vision

Our guiding principle must be customers, and during the year we have stepped up our focus on delivering modern customer convenience. We are embedding throughout the Group our new vision to **provide easy and convenient mobility, improving quality of life by connecting people and communities.**

#### Results

The overall trading performance for the Group was ahead of our expectations this year. Group revenue increased by 5.7% in constant currency and adjusting for the 53 weeks of trading in the Road divisions and the start of the South Western Railways (SWR) franchise. On the same basis adjusted operating profit increased by 10.5%. Adjusted EPS increased by 15.2% in constant currency. However the Group's statutory results were adversely impacted by a number of events, recorded as adjusting items in the accounts. These arose principally as a result of the decision to provide for future losses on SWR while negotiations continue with the Department for Transport (DfT) in relation to this franchise, the charge required to enlarge the Group's North

American self-insurance reserve, and costs associated with Greyhound's withdrawal from Western Canada. As a result of these adjusting items, the Group recorded a statutory operating profit of £9.8m this year (2018: loss of £196.2m), and statutory EPS was (5.5)p (2018: (24.6)p).

#### Strategy

The management has taken a number of actions to streamline and focus the business of the divisions in the year, with acquisitions and new business wins, property sales and business disposals as well as withdrawals from certain markets to refocus investment on more attractive opportunities elsewhere. We are also becoming more operationally efficient, driving the divisions to innovate for customers while maximising efficiencies in our North American and UK operations.

We have continued to strengthen the Group by using the cash generated after disciplined investment in our services to reduce leverage and for targeted growth. Although our balance sheet is now less of a constraint on our structural options than previously, our pension deficit and other long term liabilities remain important considerations for the risk profile of the Group, and we continue to actively manage them.

The progress that has been made in our businesses, and the changes seen in our markets, means the time is now right to rationalise the portfolio and initiate plans to develop our market-leading North American contract businesses. As explained in more detail in the Chief Executive's review (see page 8), our plans provide a clear strategy and place the Group's future emphasis on First Student and First Transit, our core North American contracting businesses, where we see the greatest potential to generate long-term sustainable value and growth, with further innovation in modern mobility services. The creation of a focused portfolio, based on our strong profitable platform in the North American mobility services market, is the most appropriate means for us to accelerate the creation of substantially increased value going forward.

The Board recognises that dividends are an important component of total shareholder return. As discussed above, the new strategy means that the shape of the Group will be markedly different in future and therefore the Board will not be recommending payment of a dividend in respect of the year to 31 March 2019 at the Group's Annual General Meeting. However, we believe that the more focused Group, as envisaged by our portfolio rationalisation plans, will be well placed to

sustain a dividend in future and this will be considered at the appropriate time.

## The Board

Over the last two years we have appointed six new board directors reflecting a broad range of experiences to support management with the developments in our strategic direction. The composition of the Board has been regularly renewed with independent directors, carefully chosen to provide the Group with the right balance of skills and experiences as it looks to a future which will continue to be defined by the profound impact of technology on the development of mobility services. This requires people and experience from across multiple industries, including adjacent industries competing increasingly with public transportation, such as technology, airlines, consumer brands, urban mobility and big data management. Together with the existing US government contracting experience of the Directors, this skillset will be invaluable as the Group focuses on First Student and First Transit, our market leading North American contracting businesses, and builds on the platform we have established in North American mobility services. We have a strong, experienced and diverse Board with the right mix of skills, background and experience to take the Group forward in the future.

In November 2018 we formally appointed Matthew Gregory as Chief Executive. In Matthew we have the right person to drive forward our plans at pace, as he was already demonstrating when performing the role of Interim Chief Operating Officer in addition to Chief Financial Officer between May and November 2018. With his corporate development and transformation experience, and detailed understanding of our businesses and our stakeholders gained during his four years at the Group, Matthew is ideally placed to implement the Board's strategic plans.

More recently, we appointed Ryan Mangold as Chief Financial Officer with effect from the 31 May 2019. Ryan is a business transformation leader who brings a wealth of experience and a strong track record of executing complex corporate changes to enhance shareholder value, and I am confident that by working with Matthew to successfully deliver our plans, Ryan will make a significant contribution.

We have also welcomed two new Non-Executive Directors to the Board this year, with Steve Gunning and Julia Steyn joining in January and May 2019 respectively. Steve brings extensive financial and operational expertise from his senior roles at International Airlines Group and its subsidiary British Airways, while Julia has an investment

banking and corporate development background together with experience at the forefront of the emerging mobility services sector. Both are already making valuable contributions to the Group.

Finally, Drummond Hall will step down from the Board on 31 May 2019. He will be succeeded as Senior Independent Director by David Robbie, who continues to chair the Audit Committee. On behalf of the Board I would like to thank Drummond for the exemplary contribution he has made to the stewardship of the Group during his five-year tenure as Senior Independent Director. We wish him every success for the future. I am also pleased that David has accepted the role of Senior Independent Director and look forward to continuing to work closely with him in this role.

Following these changes, of our eleven member Board a majority have specific transportation and travel industry experience. A similar proportion have extensive corporate finance, M&A or legal experience, which will be key to overseeing the execution of our portfolio rationalisation plans and securing best value for shareholders. The average tenure of our Non-Executive Directors is three years, and with one exception, all of the Board have been appointed within the last five years.

## Corporate governance and sustainability

I believe firmly that a vital facet of sound corporate governance is recognising our long term responsibilities to all our stakeholders, and with that a rigorous focus on sustainability.

Three years ago, the transport sector overtook the power sector as the largest contributor to greenhouse gas emissions both in the UK and North America. At the same time, there has been a growing focus on local air quality due to the increasing number of studies showing the links between local air pollutants and human health.

The overwhelming majority of our carbon dioxide and other emissions result from the fuels and electricity used to power our road and rail vehicles, and we take our responsibility to reduce these very seriously. Our progress in moving to cleaner fuels and investing in more efficient and cleaner fleet, together with a significant decarbonisation of the electricity grid in the UK, meant we reduced our carbon emissions to 371 tonnes of CO<sub>2</sub> equivalent per £1m revenue this year, representing a 13% decrease in our normalised emissions since 2016.

At the same time as reducing our own environmental footprint, the focus of our entire business model and vision is to encourage

travellers to make the modal shift from private vehicles to more efficient public transport modes, which is fundamental to the response of our communities and governments to the impact of climate change.

As discussed in more detail in the Governance section (from page 52 onwards), our review of the updated Corporate Responsibility strategy has been part of the Board's focus this year. The Group has also focused on Group strategy, Board and management succession including the appointments of the new Executive Directors, and risk appetite.

## Our people

As I travel around the Group, I continue to be impressed by our frontline employees, whose commitment to the ease and convenience of our customers is often extraordinary. Much hard work and thought goes in to delivering for our customers, allowing us to continue running vital mobility services while keeping our passengers and each other safe and well looked after.

Through our focused vision we want all of our employees to see our services through the eyes of the customer. We will use this input and the many ideas of our employees to continue to drive forward the quality of our services in future, taking into account the needs of our communities, our other stakeholders and the environment.

On behalf of the Board I would like to extend my thanks to our more than 100,000 colleagues for the hard work and dedication they bring to the task of providing the vital services on which millions of our customers rely.

## The future

The Board is focused on delivering shareholder value. The Board is confident that the Group has the right team with the right strategy and plans in place to do so. The Group is in a strong position to move forward, and the Board's focus is firmly on taking the further actions necessary to accelerate that progress, so as to create substantially increased value for our shareholders in future.

## Wolfhart Hauser

Chairman  
30 May 2019