Chief Executive's report

Matthew Gregory
Chief Executive

We took immediate action as soon as we began to see the pandemic's effects and will continue to do all that is necessary to ensure the Group emerges from this exceptional situation in the most robust position possible to deliver on our strategic plans.

This year will come to be remembered mainly for the rapid escalation of the coronavirus outbreak in our key markets in North America and the UK which took place in the final weeks of the financial year.

I would like to echo the Chairman's remarks in expressing my deepest condolences to the families and loved ones of our employees who have tragically lost their lives as a result of the coronavirus outbreak. We keep all those affected by the global health crisis in our thoughts.

The spread of the virus itself and government decisions to mandate lockdowns or 'shelter in place' orders resulted in a very rapid reduction in service volumes for all our businesses. The Group acted quickly and decisively to ensure we could continue to deliver essential services in the midst of the lockdowns and to restore capacity as restrictions on travel start to ease. Our ability to respond was enhanced by the actions we had been taking throughout the year to strengthen our businesses and execute their clear commercial strategies to deliver future progress and growth. While the pandemic has inevitably delayed our plans to rationalise the portfolio as potential buyers and providers of finance assess recent events, we remain committed to delivering this at the earliest appropriate opportunity. We face the future with strong market positions in each of our businesses to build on commercially, substantial liquidity and a clear strategy to reshape the Group's structure going forward.

Coronavirus response

Our priority since the start of the outbreak has been the health and safety of the Group's passengers, employees and communities. As the pandemic has progressed, we have worked closely with our suppliers to ensure we have the appropriate equipment in place, and we are following all relevant public health authority guidance for our businesses. The situation continues to evolve but we are following and also developing best practice in areas such as enhanced cleaning and decontamination of vehicles, depots and terminals and operating under social distancing rules.

We noted at our regular trading update in the middle of March that we had seen no significant impact from the coronavirus outbreak at that point and affirmed that the Group's overall outlook was in line with our expectations. Within days of that update we began to see rapid and unprecedented changes in the market environments for all our businesses. All of our passenger revenue businesses in North America and the UK experienced volume reductions, with Greyhound, First Bus and First Rail patronage reduced by between 80 and 90% compared with pre-pandemic levels. All of the schools served by First Student were closed by the end of March, and First Transit also experienced reduced service requirements. Government advice and policy in our markets has changed rapidly throughout the pandemic, and at an early stage we began very active discussions with many of our customers about future service levels and full or partial payments in lieu of reduced service.

Our customers and government partners recognised the need to rapidly adjust services to fit demand from key workers, whilst preserving our ability to restore service when required. We had productive engagement with our major customers on revenue recovery, including school boards throughout North America, and local, state and national governments in all our markets. In particular, the UK Government quickly put in place comprehensive emergency measures, initially for six months, to maintain continuity of critical rail services and also introduced a package of funding to maintain bus industry capacity for key workers, which has subsequently been extended to support increased capacities with social distancing. Meanwhile, the US federal stimulus package (CARES Act) signed into law on 27 March 2020 provided substantial funding to the states, municipal and local authorities, including school boards, to sustain critical transportation and educational services and support businesses and their employees.

In light of the very substantially reduced passenger volumes across all our divisions, we took immediate and significant management actions to reduce costs and preserve cash. In doing so, our aim has been to protect the Group for the long term, ensuring critical services continued while travel limitations were at their most restrictive in our markets, while retaining the ability to increase capacity rapidly when appropriate. Actions implemented across the Group included reducing operating expenditure, halting discretionary spend and placing future capital expenditure orders on hold whilst managing existing commitments accordingly.

A substantial proportion of our total workforce in North America and the UK were placed on temporary furlough under the emergency job retention schemes put in place by governments in response to the pandemic. In several divisions we have now begun to bring employees back out of the schemes as activity levels have started to increase again. We also introduced hiring freezes and halted consultant and contract labour where possible across the Group. In certain areas it was regrettably necessary to reduce headcount permanently, particularly where customers chose not to support employee retention by maintaining

Chief Executive's report continued

some level of contractual payments during this time. We are also utilising the tax payment holidays and other emergency measures announced by governments to assist companies in managing their costs during this time. Both Ryan Mangold, Chief Financial Officer, and I volunteered to take a 20% reduction in salaries, and the Chairman and non-executive Board directors volunteered a corresponding reduction in their fees. In addition, a wider group of senior employees across the Group have also made voluntary salary reductions and deferrals.

Through our actions we have worked hard to deliver the key services our customers and communities rely on while ensuring that we remain in a position to support an increase in service levels as our economies begin to emerge from the crisis.

Our people

I am proud of our immensely diverse workforce across the UK and North America, which is a strength of our business as we reflect the communities of which we are a part. We are committed to maintaining that diversity, with all the benefits it brings to our communities and the Group. Our businesses are part of the critical infrastructure providing essential transportation services to our communities, which have enabled key workers to travel to their destinations and perform their vitally important roles, and our people have played an important part in delivering these much-needed services. In addition, many of our colleagues and teams across the Group are providing direct assistance right at the heart of their local areas, offering support to those who are most in need. These examples include our drivers delivering food and medical supplies to vulnerable people in the community as well as curriculum support materials to school children; offering free transport to first responders and frontline medical professional volunteers or creating space in our bus terminals and train stations for community initiatives including key worker food collection points. I want to express my gratitude and thanks to all our employees who are working so hard to keep vital services running at this difficult time.

Year in review

As noted, the pandemic inevitably affected our financial results because March is typically a significant trading period for the Group, with all divisions usually operating at near-full capacity throughout the month. The sudden and substantial reductions in service volumes and revenue due to the coronavirus outbreak contributed significantly to a decline of (20.1)% in Group adjusted operating profit to £256.8m (2019: £314.8m), which the Group was successful in partially offsetting through a cost and cash savings programme undertaken as we reacted to the start of the crisis as well as the initial phases of fiscal and contractual support from governments and customers in the period. The coronavirus outbreak reduced revenue significantly and its effect on adjusted operating profit in the final weeks of the year was material. The Group reported a statutory operating loss of £(152.7)m (2019: profit of £9.8m), reflecting the Greyhound impairment charge of £186.9m (of which £124.4m was in the first half), North American self-insurance provision of £141.3m, restructuring and reorganisation costs of £58.2m, and coronavirus-related charges of £21.5m.

Progress was being made in executing our clear commercial strategies for our five divisions during the rest of the year, up to the point when the coronavirus outbreak rapidly affected our business.

North American divisions

In particular, we were pleased to have delivered another strong bid season and three complementary acquisitions in our largest business **First Student**, based in no small part on the strong reputation for customer service and safety we have built up and sustained over many years. First Student's average customer satisfaction score reached an all-time high this year of 8.93 out of 10, underpinning our success in both retaining business and winning customers over from our competitors. **First Transit** was also successful in several contract bids which are likely to be of significance in future, including our paratransit partnership with Lyft and a major shuttle contract at Los Angeles airport, albeit the division experienced a number of cost headwinds throughout the year. We were disappointed with the deterioration in the US motor claims environment which, together with lower discount rates, have required an increase in the insurance reserves provided for all of our North American businesses. **Greyhound** also faced further challenges throughout the year as a result of the substantial reduction in long-distance passenger numbers from the south western US, fuel prices and increasing competition particularly in shorter haul routes.

UK divisions

In the UK, **First Bus** has sought to move to the forefront of the industry in terms of technology and customer experience, bringing to passengers a number of upgrades to our highly regarded passenger app, including becoming the first large operator to add the capability for customers to check in real time how full each bus is, and the availability of wheelchair spaces, helping them to make more informed travel decisions. This innovation was fast-tracked given its particular significance while bus capacity is limited due to social distancing requirements. We were the first major operator to bring contactless payment to the entire fleet; this, together with our mobile app, have become the preferred payment mechanisms for our customers, overtaking cash transactions during the year. Currently only 10% of our customers are paying by cash. A significant change in the political climate for local bus service and innovation funding has also been very welcome. We are focused on First Bus becoming a leader in the transition to a low-carbon future for public transportation. We are committing to operate a zero-emission bus fleet in the UK by 2035, and do not plan to purchase any new diesel buses after December 2022. We look forward to working closely with our supply chain, industry partners and the UK Government to ensure that our shared ambitions can be taken forward following the current crisis. This builds on our investments in buses to help deliver local authorities' air quality commitments over recent years.

We also continued to actively address the cost base of First Bus through a comprehensive efficiency programme, although the pace of progress has been slower than planned, in part due to the pandemic. This incorporates reviews of our networks using more granular passenger data than ever before thanks to our new digital ticketing systems, as well as changes to our procurement, back office and other functions. All of these actions have been incorporated into our plans for reintroducing services as the coronavirus-related restrictions on travel begin to ease. The announcement last May of our intention to rationalise our portfolio of businesses also enabled us to

Coronavirus pandemic

Please find further information relating to its effects on the Group's markets, our response, and its potential consequences in the following parts of the 2020 Annual Report:

Business review	p.18
Financial review	p.28
Safety	p.42
Our stakeholders	p.44
Principal risks and uncertainties	p.59
Going concern and viability statements	p.69
Governance	p.76
Basis of preparation	p.141

undertake more detailed engagement in the development of a framework for funding the First Bus pension scheme towards low dependency. Importantly, it is anticipated that this framework should be deliverable in a range of transaction scenarios.

In **First Rail** we were pleased with the award and subsequent start-up of the West Coast Partnership by our 70:30 rail venture with Trenitalia, which was re-branded Avanti West Coast in December. In addition to Avanti we announced on 30 March 2020 an extension to our GWR contract for an additional three years, extendable by up to a year at the DfT's discretion. This follows a year when GWR successfully delivered substantial new fleets and the biggest timetable change in a generation, which contributed to a very strong improvement in its passenger satisfaction scores this year. By contrast, TPE experienced difficult operating conditions during the year, with the delayed delivery of new trains and network issues affecting our performance, while SWR's performance continued to be challenged principally by deep-rooted Network Rail infrastructure problems outside of our control, as well as protracted and unnecessary industrial action by the RMT. We remain resolved to finding a solution that will be of benefit to everyone involved with SWR. There is considerable uncertainty about the level of future rail passenger demand and hence the risk and reward balance for operators under existing contracts when the present emergency measures in place across the rail industry end in September or later. Notwithstanding these issues, we continue to work with our industry partners to deliver better customer experiences at all our train operating companies.

The future

Continuity of transport has been essential to governments, local communities and many of our customers throughout the coronavirus crisis, and it will also be critical to the restoration of economic growth when the present uncertain and difficult situation is overcome. The funding and support advanced by governments and customers to sustain these critical transport services is testament to their importance now and in the future.

Our businesses have always been proud of the role they play as part of the critical infrastructure of society, crucial to our local economies and their environmental impact, and today our teams are playing a vital role in helping communities to reopen safely and in accordance with local regulations and advice. At the same time, the world has had no experience of a similar pandemic in recent times, so there is no way of predicting with any certainty how the crisis will continue to evolve, nor the long-term effect coronavirus will have on demand for our services, with the possibility that working and hence commuting patterns may change or more shopping may move online, for example. Travel restrictions and social distancing are likely to remain in place for some time to come and there is uncertainty as to what the medium-term funding models from governments may be in that context, as well as their impact on consumer behaviour.

However, we are market leaders in all of our businesses, and are well positioned to assist customers if smaller operators are unable or less willing to do so, and we are already seeing an increase in potential acquisition or new business opportunities in some of our markets as a consequence. Whilst the coronavirus pandemic has been a huge challenge to our societies and economies, it has also shown what life with far fewer cars on the road is like. This has not only meant benefits in terms of reduced emissions and improved air quality, it has also led to less congested roads, and hence faster, more reliable and safer journeys by other means as well. It has long been clear that public transport is a vital part of the solution in achieving radical decarbonisation, and the present emergency ought to hasten the transition to a vibrant zero-carbon public transportation system, fully playing its part in creating a better connected and healthier world. Our Group-wide sustainability framework, which focuses on innovating for our customers, being a partner of choice for low- and zero-emission transport and supporting our people, sets out how we aim to help make this transition a reality. Ultimately, there are significant gains for governments, society and our businesses if long-term modal shift to public transport from the car is one of the consequences of the present emergency. Our zero-emission commitment in First Bus, together with the innovative work we are doing to support autonomous vehicle programmes and developing Mobility as a Service (MaaS) business models will ensure we remain at the forefront of developments as transportation continues to change.

Our strategy

Despite the near-term uncertainty, the long-term fundamentals of our businesses are sound and we remain committed to our strategy to rationalise our portfolio, with the sale of our North American businesses remaining the best means to realise value. This is most likely to be delivered when there is sufficient clarity on the pace and profile of service resumption (including on schools reopening in North America), to allow potential buyers to make an informed assessment of the divisions' value, supported by fully functioning leveraged finance markets. Meanwhile, we will continue to progress a range of value-creating business opportunities for these divisions, in accordance with their commercial strategies.

We took immediate action as soon as we began to see the pandemic's effects, and will continue to do all that is necessary to ensure the Group emerges from this exceptional situation in the most robust position possible to deliver on our strategic plans.

Current trading and outlook

The coronavirus pandemic and actions taken by governments and society in response to it have had a significant impact on all of our markets, and will continue to do so for some time to come. Travel volumes on all of our services have reduced very substantially and while guidance to limit travel and socially distance from other travellers remains in place, this will have a significant impact on our service capacity and hence financial performance. At the same time, governments and customers have recognised the critical necessity that we maintain a level of capacity for our transport services and are enabling us to do that through fiscal, contractual and other support. Given the material uncertainties as to how rapidly demand will increase, the rate at which current fiscal support measures are tapered and the duration of social distancing measures, as well as the timing of schools reopening in North America, it is currently not possible to provide guidance on the outturn for the financial year to 31 March 2021. While the Group currently has material fiscal and contractual support for running essential services across the divisions during the pandemic and committed undrawn liquidity of c.£850m as at the end of June, there are material uncertainties as to the future consequences of the coronavirus pandemic. The potential impact of certain scenarios have been highlighted in the going concern statement on page 72. However, based on current government and customer measures, and the cost reductions made in response to lower demand, the Group delivered adjusted operating profit and positive cash from operations before capital expenditure since the start of the current financial year. Recognising the usual seasonality of our First Student business over the school summer holiday period, we would expect this relatively resilient financial performance to persist while these arrangements remain in place.

Matthew Gregory
Chief Executive
8 July 2020