

Chairman's *statement*

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David Martin
Chairman

Introduction

The last year has been a period in which FirstGroup has continued to take strong and positive steps along the evolutionary journey since I became Chairman in August 2019. The Group has continued to demonstrate progress and has become a resilient, focused and profitable business which is well positioned to deliver further long-term growth and value for all of our stakeholders.

The Group has leading positions in the bus and rail sectors, a strong balance sheet, and we are increasing the diversity of our revenue streams. Our breadth of capabilities gives us a robust platform to invest in growth opportunities and enables us to lead the way as we play a critical role in supporting economic and environmental goals for the communities where we operate across the UK and Ireland.

During the year the Group continued its focus on operational delivery and driving a shift from other modes of transport to bus and rail. I am pleased that First Bus is on track to achieve our previously stated ambition of a 10% operating margin and is continuing to work towards our decarbonisation targets, with around 300 new electric buses delivered and more than 300 charger outlets installed in the year. The team signed a landmark joint venture with Hitachi focusing on the supply of 1,000 bus batteries and executed a £150m Green Hire Purchase Finance Facility for a similar number of bus vehicle bodies. The team successfully applied for government co-funding which will help support the purchase of further such vehicles. First Bus signed new Adjacent Services contracts and also completed the acquisition of York Pullman, opening up new opportunities in North Yorkshire.

In First Rail, we were pleased to be awarded a National Rail Contract (NRC) for West Coast Partnership to October 2032 with a core three-year term, and we are leading the way with new customer and sustainability initiatives, including a battery train trial for GWR and new trains entering service for SWR.

The Group's two open access rail operators go from strength to strength in this exciting market with Lumo having carried around 2.5m passengers to date and Hull Trains adding 14% more capacity since December 2022 to meet demand. The Group has submitted applications for two new open access services from London to both Sheffield and Rochdale, and also to extend Lumo's services to Glasgow. First Rail has also continued to diversify and grow its earnings, including the award of the London Cable Car contract. The division is also shortlisted in the Elizabeth Line contract bidding competition.

In last year's Annual Report, I wrote about the industrial relations challenges in the rail sector, which have remained a feature during the year. While I am pleased that there has been progress with both the TSSA and RMT unions accepting offers that have been put to them, the Aslef trade union for train drivers continues to call industrial action, to the detriment of everyone involved in the sector. We continue to work closely with government and other partners to mitigate the effects on customers.

In recent months we have also heard competing visions for the future of the rail sector from both main political parties. Companies such as ours bring private investment and focus on cost control to the sector as well as driving passenger demand. We know growth is key for the future of the railway, which is why alongside other rail companies we have long called for reform and will continue dialogue with the parties. In the bus sector, we work closely with local authorities in partnerships that are delivering effective change for customers. I am equally confident that in areas where authorities choose to franchise, the Group can use its decades of experience to support them as a partner of choice. The landscape of public transport has always evolved and continues to do so. We will work closely with whichever political party is elected in the upcoming general election, with the goal of providing competitive, sustainable and improved services for passengers and communities.

Chairman's statement continued

Our purpose and strategy

FirstGroup has a clear purpose to provide efficient, reliable, safe and increasingly sustainable transport links that connect communities, and our services are critical to ensuring local economies are vibrant and robust. Public transport networks are the lifeblood of successful towns and cities, and they are essential to achieving global net-zero carbon ambitions. The sector has a key part to play to help resolve some of society's most important challenges, including climate change, congestion and air quality.

The Group's Executive team led by Graham Sutherland has developed a new strategy during the year, underpinned by four strategic pillars which will drive the Group forward over the next period. These are to deliver for our customers day in, day out; encourage people to switch from car and plane travel to bus and rail; lead in environmental and social sustainability and to grow and diversify our portfolio. The strategy was developed with and agreed by the Board during summer 2023, and all divisional strategies across the Group are aligned with this. You can read more about the strategy on page 17.

Capital allocation and dividend

Following the completion of the sale of the North American divisions, the Board concluded that a well-capitalised, de-risked balance sheet provides FirstGroup with the flexibility to pursue its strategy to diversify and grow and support returns to shareholders. As a result, the Group adopted a balanced capital allocation policy, including commitments to decarbonise the First Bus fleet, maintain the progressive dividend and to review targeted investment in strategically and financially accretive growth opportunities.

The £75m on-market share buyback programme was completed during the year and we launched a subsequent £115m programme in August 2023. The Group continues to re-purchase bonds and has also reduced pension exposure by removing or fully insuring c.£1bn of gross pension liabilities without requiring any cash.

In light of the Group's financial performance in FY 2024 and in line with our progressive dividend policy, the Board has proposed a final dividend of 4.0p per share which is subject to shareholder approval at the Company's 2024 AGM.

The Board and corporate activity

During FY 2024 an independent board effectiveness review was undertaken, which you can read more about on page 113. I am pleased to report that this review concluded that all Directors standing for re-election had performed well and that the Board has an appropriate skillset and composition following the changes made over the preceding two years.

This year's financial results have been strong, and we have made good strategic progress. The Executive team have performed very well, and Board members have provided strong oversight. We held two Board meetings during the year in cities where the Group operates in order to allow Board members to meet front-line employees and visit our operations in those areas.

Sustainability

FirstGroup is committed to being the partner of choice for sustainable and innovative transportation solutions. Leading in environmental and social sustainability is one of the four pillars of the Group's strategy and our commitment to a zero emission trajectory for our vehicle fleets is of the utmost importance. A second pillar of the

Group's strategy places an emphasis on driving a modal shift from cars and planes to cleaner bus and train travel and with transport accounting for more than a quarter of the UK's total domestic greenhouse gas emissions, it is vital that the sector makes every effort to get people out of cars and planes and onto buses and trains.

I am pleased to report that during the year FirstGroup joined the United Nations Global Compact and the Group was the top performing bus and rail operator in FTSE4Good Index, further enhancing our sustainability credentials. We are making good progress towards the First Bus 2035 zero-emission target and both Avanti and SWR developed verified science-based targets this year, following the Group's lead last year. This has also been the Group's first year reporting to the Transition Plan Taskforce and I look forward to the publication of the Group's own transition plan later in 2024.

FirstGroup is a major employer across the UK and also in Ireland and is committed to creating a more diverse and inclusive business. The First Connections programme was launched this year offering further opportunities to those female and ethnically diverse colleagues who have taken part in the Step and Reach career development programmes, and this year we set new Group-wide diversity and inclusion targets. I am also pleased to report that First Bus has become the largest bus operator to gain Real Living Wage accreditation.

The Board's Responsible Business Committee oversees the Group's practices and performance with respect to health, safety, diversity and inclusion and sustainability, including our transition to net zero. The Committee has completed its second year and you can read more about its activity on page 123.

Our people

Our people are at the heart of our business and we have continued to support them through the challenging environment brought about by inflationary pressures and industrial action. I have been extraordinarily impressed by the commitment and dedication that our 30,000 colleagues bring to the task of providing the vital transport services on which millions of our customers rely. On behalf of the Board I would like to extend my sincere gratitude to all of our employees for their hard work during the year and for continuing to support our customers and communities.

Conclusion

Transport is a vital and environmentally-friendly sector which is essential to the economy and plays a significant role in people's lives, given that people travel for a huge variety of business and leisure reasons. FirstGroup is a cash generative, well-capitalised business with a strong balance sheet thanks to actions we have taken in recent years. With leading positions in the bus and rail markets, the Group has a strong platform from which to develop and take advantage of the opportunities that exist for growth, including the development of additional and adjacent services in both divisions and open access in First Rail. The Board is confident the transformation of the Group undertaken since the sale of the North American businesses is continuing to deliver significant value for FirstGroup shareholders. Changes in the political landscape will lead to reform of the sector, no matter the result of the general election, and this, coupled with the diversification of the Group's revenue streams, will lead to a great number of opportunities ahead of us. As a result I, and all the members of the Board, remain very confident about the Group's future.