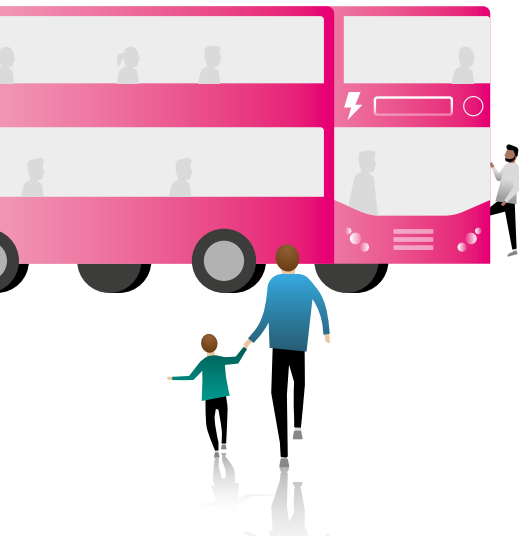


How our markets work

Bus and rail operators connect people and communities and play a critical role supporting the country's economic and sustainability goals.



The UK's regional bus market

In a typical year, around 2.6 billion passenger journeys are made on bus services outside London, generating approximately £4.4bn in revenue.

Local bus services in the UK (with the exception of London and Northern Ireland) have been deregulated since the 1980s, with most services provided by private operators, although a small number of local authority-owned operators still exist. The commercial deregulated UK bus market is largely competitive. Consequently, during a typical year, a number of operators will enter and leave the market.

For the majority of local bus services outside of franchises, operators set timetables and fares on a commercial basis. A small proportion of our local bus services are operated for local authorities on a contract basis, where commercial revenues are insufficient to support the operations.

Bus operators' revenues are principally derived from fare revenue (passenger ticket sales and concessionary fare schemes – reimbursements by local authorities for passengers entitled to free or reduced fares). Income is also generated through tendered local bus services and bespoke contracts for businesses or one-off events, as well as tendered services for local authorities such as Park & Ride schemes. In addition, bus operators receive funding including the Bus Services Operators Grant (BSOG) – a partial fuel duty reimbursement payment – in England, with similar schemes in Scotland and Wales.

The UK Government's National Bus Strategy announced in March 2021 included a multi-billion-pound funding package to deliver a step change in bus services across England. Bus Service Improvement Plans (BSIPs) were introduced as part of the strategy. These are a mechanism for local authorities to work closely with their local bus operators and communities to deliver simpler fares, improved services and thousands of new green buses via either local authority-led Enhanced Partnerships or franchising. Funding has also been allocated to schemes aimed at stimulating passenger demand, including free travel for Under 22s in Scotland and the £2 fare cap in England.

In support of the decarbonisation agenda, Westminster and the devolved governments have a number of co-funding grant schemes that are aiding the industry's investment in low and zero emission buses.

£4.4bn

of annual revenue generated by regional bus operators

2.6bn

passenger journeys are made outside of London a year



How our markets work continued

"

More young people and non-commuters are taking advantage of the benefits of bus travel as an affordable and sustainably conscious transport option. "



Partnerships and franchising

Partnerships between operators and local authorities are a core principle for the industry and government to support service delivery, minimise congestion and drive innovation and investment.

Partnerships can take the form of partnerships, such as Enhanced Partnerships, or franchising. Under an Enhanced Partnership the local authority commits to measures and facilities and all operators are then bound to meet certain standards of service. Facilities and measures include bus priority lanes, bus stop improvements, fare subsidies for particular groups (e.g. under 25s or the unemployed), new multi-operator or multi-modal ticketing, better or new information including all-operator apps, marketing campaigns and centralised customer service.

Under the franchising model, potential operators bid competitively for the right to operate a bus franchise in accordance with the local transport authority's requirements, including bus routes, services, timetables and frequencies and service quality standards. Contracts are typically issued for an operator to run a package of routes within a particular geographical area and will contain the terms on which the authority wants to procure the service. Once the contract comes into effect, no other operators can run bus services on the relevant routes unless the authority has given its approval.

Demographics

More people are using buses than ever before, albeit less frequently with the new post-Covid working patterns, as increased numbers of young people and non-commuters are taking advantage of the benefits of bus travel as an affordable and sustainably conscious transport option.

The ongoing digitisation of the industry is providing much greater insight and data on customer habits and allowing operators to introduce more simple and tailored ticketing solutions. Operators are also able to use real-time customer information to better understand their customers and their journeys, allowing them to make decisions to continuously improve their networks, timetables and pricing to provide a better customer experience.

Market attractions



Supportive government policies

Significant government recognition that bus travel remains the most cost-effective and quickest mechanism to achieve modal shift from private car use, to lower emissions, to improve congestion in our towns and cities and to support governments' levelling-up agendas.

Digitisation

Digitisation is transforming the industry giving operators increased visibility of large numbers of customers, enabling development of new propositions to stimulate bus use.

Efficiency opportunities

Improved digital capabilities also provide significant opportunities to optimise pricing, improve service delivery and create more efficient operations.

Favourable demographics

Demand growth opportunities exist in the youth demographic where car ownership is falling and customers are increasingly environmentally aware.

Environmental benefits

Encouraging more people to use the bus and introducing more environmentally-friendly buses will create environmental benefits.

How our markets work continued

The UK's rail industry

Passenger rail services are primarily provided by private Train Operating Companies (TOCs) through contracts awarded by the DfT or other government bodies. There are currently 25 TOCs including four open access operations in the UK. There are currently four TOCs operated by the UK Government's Operator of Last Resort and seven contracted by devolved governments other than the DfT.

National Rail Contracts (NRCs) were introduced by the DfT during the pandemic to support the industry. Unlike the previous system under which operators undertook considerable revenue and cost risk, the majority of the revenue and cost risk resides with the DfT. Operators earn an annual management fee for service delivery, with the opportunity to earn additional variable, performance-based incentives.

Open access operators run services on a different model from other TOCs, with operators bearing all commercial risk and opportunity. Operators are awarded Track Access Agreements by the regulator the Office of Rail and Road (ORR), typically for ten years, with scope for renewal.

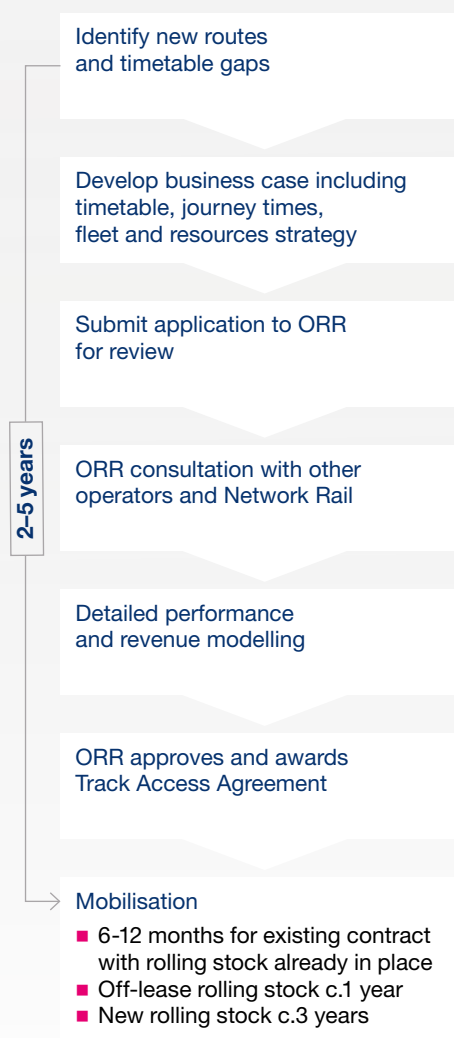
Open access routes are awarded where there is a clear business case that they will promote competition for the benefit of passengers, generate sufficient new revenue and not abstract revenue from current operators. Operators make all commercial decisions including ticket pricing, and set working terms and conditions, and they have financial protection for instances when infrastructure is not available to them.

Rail track and infrastructure (including signalling and major stations) are owned and managed by Network Rail with TOCs typically leasing rolling stock from leasing companies. Some fares and prices (mainly peak time and season tickets) are regulated and controlled by government. Open access operators have greater commercial flexibility in setting fares.

Rail markets are generally categorised into four 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. South Western Railway's (SWR's) customers are largely commuters, Avanti West Coast runs mainly long-distance inter-city operations, while Hull Trains and Lumo cater to long-distance travellers, underpinned by the leisure market.

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 contracts against other current UK rail operators and public transport operators from other countries.

Open access identification and mobilisation



Market attractions



£10bn+ industry revenue

More than £10bn of contract-backed passenger revenue in a typical year through around 20 major contract opportunities.

Consistent, resilient cash generation

The NRCs have no revenue risk and clear performance-based fee opportunities, with low capital intensity.

Regulated environment

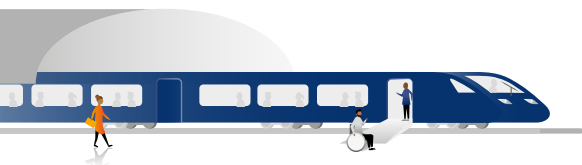
Regulated environment, with limited cost risk protected by annual budgeting.

High passenger numbers

Historically high levels of passenger numbers across the UK pre-pandemic.

£10bn

of contract-backed passenger revenue in a typical year



Our business model

FirstGroup is a focused and resilient business. Our business model delivers value to a wide range of stakeholders by providing vital transport services that connect people and communities and that are key to achieving society's social, economic and environmental goals.

Our four strategic pillars will support us to drive value-accretive sustainable growth and lead the way in our sector.



Deliver day in, day out



Drive modal shift



Lead in environmental and social sustainability



Diversify our portfolio

Strengths and resources

Our people

Our c.30,000 employees are at the heart of our business and have the skills, expertise and knowledge to drive our future success.

➔ [Read more about our people on page 65](#)

Our network and fleets

We operate c.4,500 buses and more than 3,700 locomotives and rail carriages across the UK.

Our innovation

We embrace new technologies and ways of working to deliver easier, more convenient, efficient and sustainable mobility solutions for our customers and partners.

➔ [Read more about innovation on page 60](#)

Our expertise

We have depth of experience and proven expertise in bus and rail transport and an unwavering focus on safety and reliability.

Our relationships

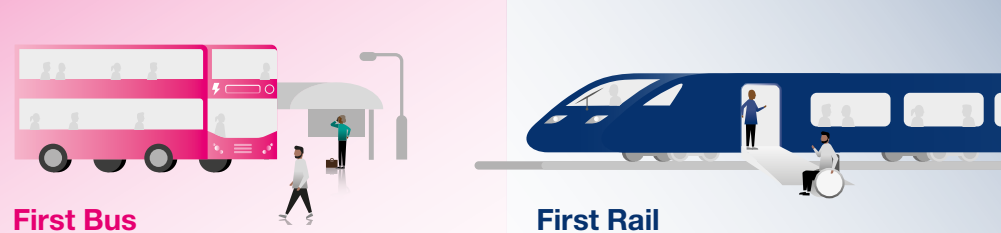
Our long-established relationships and deep engagement with local and national government decision makers at all levels are essential to our success as a partner of choice.

Our stable financial platform

Our business is cash generative, and we maintain an investment grade credit rating to enable long-term service continuity and allow us to grow and diversify our portfolio.

➔ [Read more about our financial platform on page 40](#)

Our operations



First Bus

Agile operations, on trajectory to deliver 10% margin. Revenues are principally derived from fare revenue comprising passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares);

Income is also generated through tendered local bus services and bespoke contracts for businesses or one-off events, as well as tendered services for local authorities such as Park & Ride schemes. In addition, bus operators also receive funding, including the Bus Services Operators Grant in England, with similar schemes in Scotland and Wales.

➔ [Read more about the bus market and First Bus on pages 6 and 34](#)

First Rail

Lower risk, cash generative operations with increasing contribution from open access and additional services.

Under the terms of the DfT concession-based NRCs, operators bear no revenue risk and very limited cost risk under an annual budget agreed with the DfT. Operators earn an annual management fee for service delivery, with the opportunity to earn additional revenue based on performance.

Open access operators make all commercial decisions and retain all revenue and cost opportunity and risk.

➔ [Read more about the rail market and First Rail on pages 8 and 37](#)

➔ [Read more about open access on page 14](#)

Delivering for our stakeholders



Customers

Safe, reliable, value-for-money and easy-to-use travel services for millions of passengers each year.



Investors

Sustainable financial performance and long-term value creation, with a disciplined capital allocation policy balanced between investment, growth and shareholder returns.



Government

Efficient and reliable transport services that meet wider policy objectives such as levelling up, decarbonisation and air quality.



Employees

A workforce representative of our communities. Quality jobs with opportunities to grow and learn in a safe, supportive and inclusive working environment.



Communities

Stronger economies and local communities through good local services and community engagement activities.



Strategic partners and suppliers

Long-term relationships that optimise value, mitigate risk and increase sustainability and ethical standards in our value chain.

➔ [Read more about engaging with our stakeholders on page 98](#)

United by our Values



Committed to our customers



Supportive of each other



Dedicated to safety



Setting the highest standards



Accountable for performance