

Chief Executive Officer's review

"

We have a huge wealth of experience and expertise within our divisions, and I believe FirstGroup has a very exciting future. "

Graham Sutherland
Chief Executive Officer



Four strategic pillars to drive growth

I am extremely proud of what has been achieved during my first two years as Chief Executive Officer, as we continue to transform our businesses and deliver for our stakeholders. We have maintained our strong balance sheet and have considerable scope to grow further in First Bus and First Rail open access. To achieve this, we have set out four key strategic pillars that will drive the Group forward. These are:



Deliver day in, day out



Drive modal shift



Lead in environmental and social sustainability



Grow and diversify our portfolio

Looking first at delivery, operational excellence is at the heart of our strategy. We must continue to strive to ensure the best possible customer experience, consistently deliver reliability and cost efficiency and implement price strategies to enhance customer value, drive demand and improve yield. This will enable us to continue to win key contracts in both First Bus and First Rail to maintain our positive earnings trajectory and encourage more people to use our services.

To drive a step change from car and air travel to bus and rail, we plan to add capacity in First Rail's open access operations and continue to position the First Bus customer proposition to drive demand, with a focus on encouraging people to make the switch from private cars.

Leading in environmental and social sustainability has long been a priority for the Group. We are committed to the safety of our customers, our employees and all third parties in contact with our businesses. We are delivering on our decarbonisation commitments and we will always seek to support prosperity, growth and green jobs in the communities that we serve. We see this as a key differentiator of FirstGroup's proposition and increasingly a driver of growth going forward.

Finally, the Group's considerable balance sheet capacity provides us with flexibility to take advantage of value accretive opportunities to further grow and diversify our portfolio. In First Bus, we will pursue franchising and partnership opportunities, expand our Adjacent Services businesses and continue to evaluate a pipeline of complementary inorganic growth opportunities. In First Rail, we are actively working to grow our open access businesses, scale our Additional Services businesses, bidding for non-DfT contracts and monitoring opportunities for new open access contracts.

We have a huge wealth of experience and expertise within our divisions and I believe FirstGroup has a very exciting future.

CEO's review continued

FY 2024 financial highlights

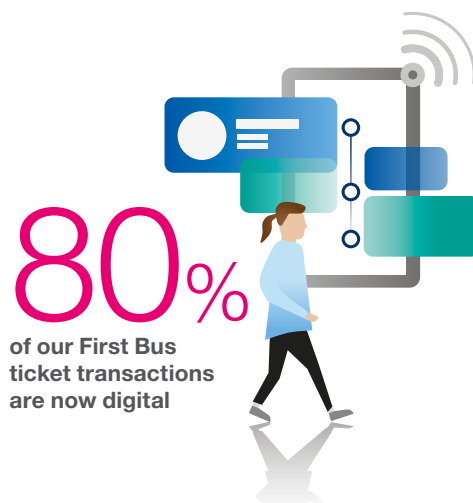
Looking now at our financial performance, I am pleased to report another excellent set of results for our 2024 financial year despite continued economic and industrial relations challenges.

Our divisions have performed well during the year which, together with the positive impact of the extra week of trading in FY 2024 and the receipt of higher than accrued final FY 2023 variable fee awards in the DFT TOCs, has resulted in a significant increase in our adjusted earnings per share, from 11.6p in FY 2023 to 16.7p in FY 2024.

We have also maintained our strong balance sheet, ending the year with adjusted net cash of £64.1m, having committed investment of over £100m to the electrification of our bus fleet and infrastructure, invested in our landmark strategic decarbonisation joint venture with Hitachi, acquired York Pullman and returned almost £118m to shareholders via our buyback programmes.

First Bus highlights

First Bus has continued to grow its revenues and profit in FY 2024 as a result of further growth in passenger volumes, improvements in our operational and cost performance, lower lost mileage and an increased contribution from our Adjacent Services businesses, leaving us firmly on track to reach our 10% adjusted operating profit margin target in H2 2025. Total revenue for the year was £1,012.2m (FY 2023: £902.5m), reflecting strong growth across the business.



In February 2024, we completed the acquisition of York Pullman, a high-performing operator of coaches and buses. The integration of the York Pullman into First Bus is progressing well and its addition to the First Bus portfolio will enhance our operational footprint in the North Yorkshire region and provide profitable growth opportunities in the contracted and commercial services markets. The adjacent bus services market in the UK is considerable, and we are actively reviewing a pipeline of opportunities to grow the business and win further contracts.

First Bus decarbonisation

Aided by our strong balance sheet and ownership of our depots, we are committing significant investment in decarbonisation as we progress towards our target of a zero emission fleet by 2035. The electrification of our fleet and infrastructure will further transform our business and provide a number of value accretive adjacent revenue streams.

We now have around 600 electric buses, about 13% of our fleet, and three fully electric bus depots in England, with six further depots across the UK partially electrified.

We have over 600 charger outlets and are making use of smart charging software to optimise our energy use and increase battery efficiency and potentially extend battery life. We are also making our charging infrastructure available to third parties, with successful arrangements underway with DPD, Openreach and public services providers at four of our depots. We have also recently opened a purpose-built hub at our Summercourt depot in Cornwall, providing direct access for the public to eight rapid chargers.

Whilst electric vehicles result in operational improvements that lower the service delivery costs relative to diesel, the initial capital investment for electrification is still considerable. In addition to working with our local authority partners to secure government co-funding and committing Group capital, we are forming strategic partnerships and securing innovative financing. This is allowing us to purchase electric buses and batteries with increased efficiency and greater visibility of our financial commitment and our strategic joint venture with Hitachi will also allow us to retain much of the residual value in the batteries as they are replaced.

Looking ahead, in March 2024 we announced that we had worked successfully with our local authority partners to secure £16m through the UK Government's ZEBRA 2 co-funding scheme to support bus and fleet decarbonisation across four of our regions.

Following the completion of our latest ongoing electrification projects, we will operate more than 800 zero-emissions vehicles, c.18% of our fleet. We have also bought power connections to another 15 of our depots and construction works are underway. This is a remarkable achievement and is establishing us as leaders in bus fleet and infrastructure decarbonisation.

First Bus – partnerships and franchising

We have decades worth of expertise and knowledge in delivering transport solutions for our customers across the public transport sector. We work closely with local authorities across the UK in partnerships that are delivering change for customers quickly and effectively.

We have seen this to full effect in Leicester where, in partnership with Leicester City Council and the city's other bus operators, in under a year we have achieved multi-operator ticketing, streamlined timetabling of services for all operators, improved real-time information for passengers, increased reliability, and introduced electric bus fleets and infrastructure.

A number of cities outside London have expressed an interest in franchising, including some where we don't currently have operations. In areas where authorities choose to progress with franchising, we are confident that we will be able to use our extensive experience to support them. Despite not winning any large contracts, we are pleased to be working with Transport for Greater Manchester (TfGM) as the selected operator of their new Bee Network in Rochdale, maintaining our overall position in Manchester. We have also supported TfGM with the electrification of their Oldham depot due to our expertise in this field.

Our landscape is always evolving and getting more people to use the bus is a key part of the modal shift pillar of our strategy. We will continue to adapt our business to deliver great value, and shape networks to suit where and when people want to travel, to serve communities and grow local economies in a sustainable way.

Regardless of the model, close partnerships with local government stakeholders are essential for the thriving local bus networks we all want to see, and we are committed to working with our partners locally and nationally to achieve this.

CEO's review continued

First Rail highlights

In First Rail, we continue to demonstrate our capabilities and deep sector knowledge to bring value to our passengers and to the taxpayer, as we strive to improve customer experience and to reduce the level of rail subsidies.

Despite continued industrial relations challenges during the year, our DfT TOCs have reported an increase in adjusted operating profit, to £105.6m (FY 2023: £93.3m), which included an uplift of c.£13m as a result of the variable fee payments agreed with the DfT for FY 2023 being ahead of the amounts accrued in the Group's FY 2023 financial statements. This achievement demonstrates how hard our teams are working to deliver day in, day out, in a challenging environment.

In May 2023 the DfT announced its decision not to exercise its option to extend TPE's National Rail Contract ('NRC'). The loss of the contract was a huge disappointment for our team who have all worked extremely hard to improve services and to successfully recruit and train more drivers than ever before. We supported the DfT's Operator of Last Resort in ensuring a smooth transition for passengers, partners and employees. We anticipate that we will receive all remaining amounts due to be paid to the Group in FY 2025, and our First Rail affiliate services also continue to support TPE.

We were very pleased to have been awarded a nine-year National Rail Contract for the West Coast Partnership ('WCP') in September 2023. The NRC has a minimum three-year core term to October 2026.

Our open access operations have outperformed expectations again in FY 2024 and have consistently recorded some of the lowest levels of operator-related cancellations in the industry. Lumo continues to offer competitive fares and value to customers and has now carried more than two and a half million customers since its launch, many of whom would otherwise have flown between London and Newcastle or Edinburgh at a far greater environmental cost. Its revenues increased by 42% in FY 2024, driven by effective yield and demand management, and seat capacity utilisation has grown from 71% to 74%.

Hull Trains also had a very strong year, with revenues up 40%, thanks to increased leisure demand and significantly improving business customer volumes. In response to increasing demand, the team has added 14% more capacity since December 2022, running ten-car trains (typically a five-car service) at peak demand times. Seat capacity utilisation improved from 59% in FY 2023 to 69% in FY 2024.

First Rail portfolio diversification and growth

The huge success of our open access operations has provided further evidence that we have the experience and entrepreneurial spirit to resolve challenges and innovate in the rail sector for the future, adding capacity and encouraging passengers back to the railway.

We are actively pursuing opportunities to build on the success of Lumo and Hull Trains through rolling stock efficiency improvements, adding capacity to existing services and identifying new routes and markets where there is capacity and demand. We recently submitted an application to the ORR for a new Hull Trains London-Sheffield service, a new Lumo Rochdale-London service, for the extension of a number of Lumo's daily services to and from Glasgow, for an additional eighth return service on Hull Trains between London and Hull and for an additional, sixth return Lumo service between London and Newcastle. These applications, if successful, will more than double our open access capacity.

We also continue to make use of our in-house expertise to grow our First Rail Additional Services businesses and GWR are conducting an industry-first trial of a fast-charge battery-only train, which included setting a UK distance record for a battery train without recharging earlier this year.

Our Additional Services businesses include First Rail Consultancy, our bespoke contact centre First Customer Contact, Mistral Data and evo-rail. They delivered an 11% increase in gross revenue to £133.5m in FY 2024, compared to £120.0m in FY 2023.

We are also identifying and participating in other UK opportunities. In March 2024, we announced that we have been awarded the contract to operate the London Cable Car by TfL and we have been shortlisted with our bid partner Keolis SA to bid for the Elizabeth Line contract. We look forward to submitting a compelling bid that demonstrates our collective experience and breadth of capabilities.

Corporate activity and dividends

We have now received final First Transit earnout proceeds of £65.3m and have continued to opportunistically repurchase the Group's September 2024 6.875% bonds, of which £96.2m remains outstanding as at 10 June 2024. We have also significantly reduced or insured the Group's gross pension liabilities (excluding contract rail which reverts to government at contract end), from £2.3bn at the start of the year, to £1.4bn.

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. Subject to shareholder approval at the Company's 2024 AGM, a final dividend payment of c.£24.3m, will be paid on 23 August 2024 to shareholders on the register at 19 July 2024. The total dividend for the year paid and proposed is 5.5p per share (FY 2023: 3.8p per share), an increase of 45%.

£37.7m

First Rail open access and additional services Adjusted Operating Profit



CEO's review continued

Leading in environmental and social sustainability

I am pleased to report that we have seen further recognition of the Group's sustainability credentials in FY 2024. In addition to joining the UN Global Compact, we were once again included in the S&P Global Sustainability Yearbook, were one of only eight UK companies to be included in the 2024 Clean200 list of top publicly listed companies worldwide by clean revenue and were included in Sustainalytics' 2024 ESG Top-Rated Companies List.

Our employees and customers remain at the heart of everything we do. In FY 2024 we successfully launched First Connections, a personal development programme aimed at female and ethnically diverse employees and First Bus became the UK's largest national bus operator to become an accredited Real Living Wage employer. In FY 2024, the Group raised c.£200,000 for its charity partners, Samaritans, Railway Children, and Macmillan, while our DfT TOCs supported almost 100 community funding projects, worth over £2m.

Looking ahead

Current trading and the Group's outlook for FY 2025 is in line with our expectations.

Positive free cash generation after c.£120m of net cash capital expenditure in First Bus is expected to result in a year end adjusted net cash position in the range of £40-50m. This includes the anticipated capex saving resulting from the Hitachi joint venture, the completion of the current share buyback programme and is before investing in any potential inorganic growth opportunities.

In First Bus, we expect to achieve progressive growth in FY 2025 against FY 2024 as we continue to benefit from the actions we have taken to transform the business and drive further growth in Adjacent Services. As a result, we anticipate that we will achieve our 10% adjusted operating profit margin in H2 2025.

The transformation of the First Bus business is delivering stronger foundations with a simplified, more efficient operating model. We are set to benefit from electrification efficiencies and adjacent revenue streams, and from potential franchising, partnership and inorganic growth opportunities. This provides scope for sustained earnings growth. Underpinning this, we believe that despite short-term economic challenges, government policy, favourable demographics and environmental and societal trends will support growth in the regional bus sector.

In First Rail, we expect the division's financial performance to be broadly in line with our expectations in FY 2025, including growth in open access and a normal level of variable fee awards in the DfT TOCs (c.two thirds of the maximum available).

Looking beyond FY 2025, despite political uncertainty surrounding National Rail contracts, we will maintain our focus on delivery and will capitalise on opportunities to make use of our extensive experience and expertise to grow our UK open access business, scale our Additional Services businesses and participate in other UK opportunities.

If approved, the applications we have recently submitted for new and extended open access services could more than double our open access capacity over the next three to five years.

If our application for the new Hull Trains service between London King's Cross and Sheffield is successful, we anticipate that services could commence in calendar year 2026, subject to stakeholder agreement, and for the Lumo Rochdale-London service, we currently anticipate a start date in calendar year 2027.

Both Conservative and Labour parties have put forward proposals for the future of the UK rail industry. Although there are significant differences, both parties are promoting the development of a 'guiding mind' industry body, named as Great British Railways in the Government's Plan for Rail. Labour have said that if elected they will "fold existing private passenger rail contracts into the new body as they expire". Looking at the industry as a whole, the huge growth in passengers and significant improvements to stations and rolling stocks that private train companies delivered under franchise agreements before the pandemic, including those under our stewardship, demonstrates that the UK rail industry works best as a public-private partnership.

Furthermore, companies such as ours bring private investment and focus on cost control to an industry that needs it; our businesses have saved more than £230m for the DfT in the last two years alone.

We have been one of the largest UK rail operators for more than 25 years, during which we have worked successfully with a wide range of partners under various forms of contract types, and delivered a number of significant rail infrastructure and fleet infrastructure projects. We know that growth and innovation are key for the future of the railway and are committed to working with our government partners to provide competitive, sustainable and improved services for all passengers and communities.

We will also continue to monitor developments in the European rail market where, as the market opens up for competition, there are opportunities for new open access entrants with similar regulatory models to the UK.

When assessing any opportunity for the Group, we have a disciplined capital allocation policy and a strict set of criteria. We will always seek to ensure that any opportunities we explore are complementary to our existing portfolio and the Group's strategy, thoroughly assessed for risks and opportunities and operated with a familiar contractual, political and regulatory environment with an appropriate balance of risk and reward.

Conclusion

FY 2024 has been another very successful year for the Group, reinforcing our leading positions and deep expertise in bus and rail. Our strong results for the year are also great testament to the dedication, expertise and resilience of our employees at all levels across the Group, and I am extremely proud and grateful to all of our colleagues for their continued hard work in support of our customers and communities.

Looking ahead, we have much more to do. We will continue to transform our businesses, build out adjacent electrification efficiencies and revenue streams in First Bus and grow and diversify our portfolio to deliver further sustainable growth and support the UK's social, economic and environmental ambitions.

The Group's strong balance sheet and cash generative businesses provide considerable flexibility and optionality for growth and potential further capital returns to shareholders, which will continue to be kept under review by the Board.

CEO's review continued

Case study

Using our experience and capabilities to innovate and create growth in the rail sector

FirstGroup operates two successful open access rail services, Lumo and Hull Trains. Launched in October 2021, Lumo is a service between London and Edinburgh, stopping at Stevenage, Newcastle and Morpeth, with five services each way per day. Our Hull Trains service has been connecting Hull and the Humber with London for more than 20 years, with the number of services increased from three a day at launch to seven currently.

Open access operators take full commercial risk and are solely responsible for generating revenue and profit. Open access routes are awarded where there is a clear business case that the route will promote competition for the benefit of rail users and will generate sufficient new revenue without abstracting it from current operators.

Our open access operations have outperformed expectations over the last two years, thanks to high demand and effective yield management, with revenues increasing by c.40% in the Group's 2024 financial year, versus the same period in 2023.

Our open access services have stimulated passenger demand, and importantly driven modal shift, getting people out of their cars and off planes and on to rail transport. Lumo was launched in 2021 to compete with air travel on the East Coast Mainline, and by November 2023 the service had carried more than two and a half million passengers.



Hull Trains has seen a faster post-pandemic passenger volume recovery than any other operator and has added 14% more capacity to its services since December 2022 to meet demand.

There are environmental benefits to our open access services. Our Lumo service, which uses an all-electric fleet of trains, results in 95% fewer carbon emissions than when people fly between the two capital cities, and Hull Trains' new bi-mode fleet has lowered CO₂ emissions by 65% compared to its previous fleet.

Open access operators are commercially autonomous, and both Lumo and Hull Trains have developed a culture of innovation and customer focus.

c.40%

Revenues increasing by c.40% in the first half of the Group's 2024 financial year

For example, Lumo launched the UK's first semi-flex ticket in August 2023, which parallels the freedom and flexibility often given by airline tickets including a fee-free change of journey and a pre-departure refund if plans change, which is another step towards encouraging a greener alternative to flying.

Furthermore, Hull Trains and Lumo are extremely reliable operators, with some of the lowest levels of self-cancellations in the industry.

Both our services generate economic benefits, not only by improving connectivity nationally, but also to local communities. Lumo employs c.100 people, with 90% recruited through apprenticeships, while Hull Trains has c.100 employees, mainly from the local area, with a culture of career development from within the organisation.

There is significant opportunity for our open access businesses in the future, both through expanding our existing routes and through submitting new applications.

We have recently submitted applications to the Office of Rail and Road ('ORR') for a new Hull Trains service between London King's Cross and Sheffield, a new Lumo Rochdale-London service, and for the extension of some of Lumo's services to Glasgow, for an additional London-Hull service on Hull Trains and an additional London-Newcastle Lumo return service. If all of these applications are successful we could potentially more than double our open access capacity over the next three to five years.

Lumo and Hull Trains were two of the best performing operators in the UK in FY 2024

Chief Executive Officer's Q&A

"

We will leverage our key strategic drivers to create value-accretive sustainable growth, underpinned by our strong balance sheet and disciplined capital allocation policy. "

Graham Sutherland
Chief Executive Officer

Leading the way with our new strategy

Q What led you to identify the four strategic pillars?

A During the last two years, I have seen our businesses continue to make excellent progress and to deliver day in, day out, despite a challenging external environment. This is thanks to the extremely experienced, capable, hard-working and ambitious people we have across FirstGroup at all levels, and I am very excited for our future as I know we have considerable opportunities to continue to develop our platform and to grow further, underpinned by our strong balance sheet.

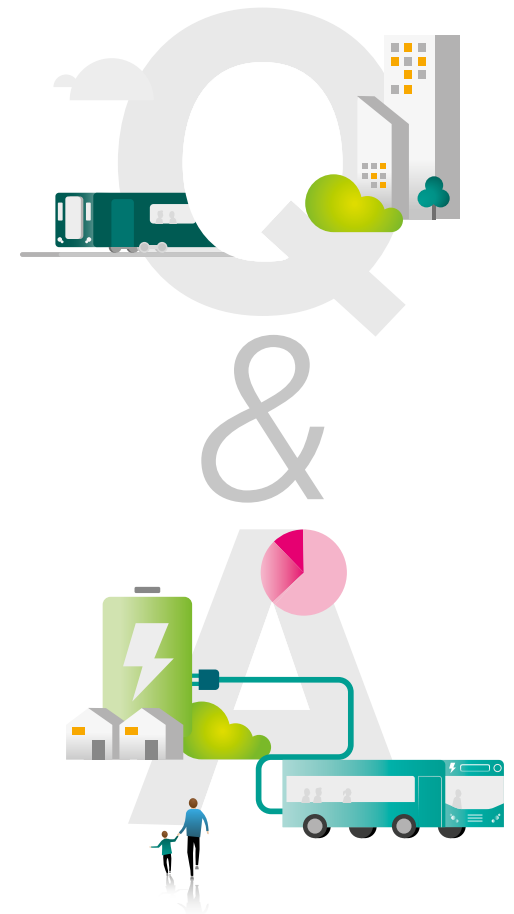
To achieve this, we have identified four key strategic pillars to drive us forward. Delivering for our customers must be at the heart of everything we do; we must encourage more people to make the switch from car and plane travel to bus and rail; we must maintain our leading position in environmental and social sustainability; and we must grow and diversify our portfolio to create more value and ensure that our business remains resilient. I am confident that if we consistently deliver on all four of these strategic pillars, we will create even more value and sustainable growth for the benefit of the Group, our people, the communities we serve, and all of our stakeholders.

[➔ Read more on page 17](#)

Q How did you develop the strategy and how are you implementing your new strategy across the Group?

A The strategy was agreed at our Board meetings in the summer of 2023. We followed a structured process to develop our strategies at both Group and divisional level and to ensure they are aligned. We first assessed our external environment and its implications on the Group, looked at our capital position and constraints, filtered and prioritised opportunities, and confirmed our financial and non-financial ambitions. We then developed our main Group strategic priorities and established our key divisional strategic priorities aligned to those of the Group.

I now use the four pillars as the basis of my reports to the Board ahead of every meeting. The four pillars of our strategy have also been fundamental in our internal management conferences during the year, and we have continued to communicate about the pillars in our internal and external messages since the autumn.



CEO's Q&A continued

Leading the way with our new strategy continued

Q What role does innovation play in supporting the Group's strategy?

A I firmly believe that innovation is key to further improving our performance, delivering the best possible services for our customers and ensuring we remain market leaders in bus and rail. We are already doing a great deal in this area and have plenty of scope to do more.

In First Bus, we have more granular customer data than we have ever had, and coupled with this, we are using new and innovative software tools. These are helping us to improve our service delivery, increase efficiencies and implement pricing strategies to enhance customer value, drive demand and improve yield.

We are also rapidly establishing ourselves as leaders and true innovators in bus fleet and infrastructure decarbonisation. We have formed a landmark joint venture with Hitachi and signed a pioneering Green Hire Purchase Finance Facility for buses during the year. This will provide greater financial visibility and capital efficiency and by making use of smart technologies we will be able to extend the life of our batteries, ensure we use power as efficiently as possible and unlock adjacent electrification revenue streams such as the use of our charging infrastructure by third parties.

In First Rail, the huge success of our two open access operations has demonstrated that we have the expertise to innovate and create growth in the rail sector. We are managing yield effectively, implementing successful targeted marketing campaigns and delivering good value, reliable services. All of our train operating companies are also benefiting from our affiliate businesses, including Mistral Data, and we are now successfully marketing these products to other operators and manufacturers. Finally, earlier this year we began a successful trial of a battery-only train, part of which included setting a UK battery train distance record without recharging.

Q What does 'deliver day in, day out' mean for your businesses?

A Not only do millions of people rely on us to keep them moving safely and on time, every day, but delivering a consistently reliable service is also crucial to protecting and growing our core UK business.

In First Bus, by delivering reliable services, data-driven operational and cost efficiencies and customer-centric marketing and pricing strategies we will drive profit growth, retain and win key contracts. In First Rail, by focusing on operational excellence, we will maximise the variable fees and revenue incentivisation in our National Rail Contracts, build on the success of our open access businesses and establish ourselves as a credible operator to bid for non-DfT contracts.

Q Why is modal shift a separate pillar?

A We believe that favourable demographics and changing attitudes to public transport will support growth in bus and rail travel. Modal shift also offers a huge opportunity for us to increase volumes and drive asset utilisation which will positively affect our bottom line.

Q How does the new strategy reinforce the Group's commitment to sustainability and responsible business?

A As one of the largest rail and regional bus operators in the UK, we have a huge responsibility to deliver vital services that connect people and communities, to support economic growth and help lower emissions.

We have ambitious net zero targets and must continue to work hard to deliver them. This is key to our strategy and will realise environmental, social and economic benefits not only for the Group, but for all of our stakeholders and the country as a whole.

We will lead in environmental and social sustainability through the electrification of our bus fleet and infrastructure to close the cost and funding gap that still currently exists between electric and diesel buses, and unlock what we believe is significant adjacent value. In First Rail, we will continue to deliver environmentally-friendly train travel, stimulate demand and identify underserved markets to drive modal shift and to support prosperity, growth and green jobs in the communities we serve.

[→ Read more on page 48](#)

Q Why is diversification important?

A Diversifying our portfolio is critical, both in our core and affiliate markets. We must invest to ensure our business is resilient and to create sustainable growth and value for all of our stakeholders.

To do this, we will pursue partnership and franchising opportunities in First Bus and in First Rail we will grow our open access businesses and bid for non-DfT contracts. We are also making use of our deep expertise and capabilities in both First Bus and First Rail to scale and grow their affiliate businesses.