

---

## FIRSTGROUP AND TRENITALIA WELCOME WEST COAST PARTNERSHIP AWARD

---

FirstGroup plc and Trenitalia UK Ltd welcome today's announcement by the Department for Transport ('DfT') of its intention to award the new West Coast Partnership ('the Partnership') to our 70:30 joint venture First Trenitalia West Coast Rail Limited ('First Trenitalia').

The new Partnership will operate from 8 December 2019 and comprises two distinct phases. In the first phase to March 2026, First Trenitalia will operate existing InterCity West Coast services while providing a range of design, development and mobilisation services as Shadow Operator to the High Speed 2 ('HS2') programme. First Trenitalia will then operate HS2 and the reshaped InterCity West Coast rail services together as an integrated operation in the second phase, from March 2026 until March 2031, under a management contract.

First Trenitalia is committed to delivering a range of passenger enhancements for InterCity West Coast services during the first phase of the Partnership. We have engaged extensively with customers and community groups and have set out our priorities based on their feedback in six key areas:

**Exceptional customer experience:** Our fleet of 56 Pendolino trains will be completely refurbished, incorporating 25,000 brand new comfortable seats and additional luggage space for passengers. Better and more reliable free Wi-Fi and at-seat power will be provided for all customers across the fleet, with wireless charging and onboard entertainment. Catering will be upgraded with at-seat service for all.

**Clearer fares:** We will introduce an easily understandable range of fares and fewer ticket types; easy and rapid refunds when things go wrong; and simpler fares with mobile tickets and smartcards for all fare types.

**More services:** By 2022 we will offer more than 260 extra services each week, increasing seat miles by more than 10% compared with 2017/18. We will provide new direct services to destinations including Liverpool South Parkway, Walsall and Gobowen (for Oswestry), and offer more stops at stations including Rugby, Llandudno Junction and Motherwell.

**Better stations:** We will invest in our stations with refreshed waiting rooms, better customer facilities, more car park spaces, and greater accessibility for those who need it. Alongside this we will work with partners and stakeholders along the route to deliver major upgrades, such as at Coventry and Birmingham International stations. We will cut the environmental impact of our buildings, improving energy efficiency and installing solar panels, alongside a commitment to achieving an 80% reduction in non-recyclable waste from products sold or supplied on-board trains.

**Investment in more efficient, lower emissions trains:** We will introduce environmentally-friendly, modern trains, entirely replacing the diesel-only Voyager fleet and reducing CO<sub>2</sub> emissions by 61%. We will introduce 13 lower emission bi-mode trains for services between North Wales and London. Ten new comfortable electric trains will enable us to run two trains per hour between Liverpool and London on weekdays and Saturdays.

**People and communities:** We will invest in apprenticeships and run more than 50,000 training days including accessibility awareness training for frontline employees. We will set up a community investment fund, independently chaired Economic Development and Integrated Transport Forums, as well as regional Customer Panels.

The Partnership will pave the way for a new era in high speed rail in the UK through HS2. Trenitalia brings direct experience of planning, launching and operating high speed rail services. FirstGroup's rail division has deep commercial understanding of the UK rail market as well as expertise in launching new fleets and upgraded timetables and managing services during major infrastructure work. Together, we look forward to acting as a key partner to the DfT, HS2 Limited, Network Rail and our other stakeholders as the project moves from the construction phase to being part of the operational railway network in a way that complements current services.

For more information please visit [www.westcoastrail.co.uk](http://www.westcoastrail.co.uk)

### Secretary of State for Transport Grant Shapps said:

"This award is positive news for passengers, with more services, more direct connections and ambitious plans for a cleaner, greener railway, and also represents a decisive shift towards a new model for rail."

“It is a Partnership supported by Keith Williams, built with the flexibility to respond to his recommendations. Meeting Keith last week confirmed our shared determination to deliver a future that puts passengers – and punctual trains – at the heart of the railways.

“That is why I have asked Keith to produce a White Paper in the Autumn, with fearless recommendations that will deliver a railway system fit for the 21st century.”

**FirstGroup Chief Executive Matthew Gregory said:**

“We are pleased to have won the West Coast Partnership contract to operate existing InterCity services on the West Coast Mainline and help deliver high speed rail. The West Coast Partnership includes operation of one of the most consistently successful intercity mainline franchises over the last twenty years. We are committed to delivering a range of improvements for InterCity West Coast passengers during the first phase of the partnership and our aim is to provide exceptional service as standard for our customers.

“In 2016, we and our partner Trenitalia committed to bidding for the West Coast Partnership as it is a unique opportunity to help shape and then run HS2. We look forward to playing our part in the success of the once-in-a-generation project to bring Britain’s largest cities closer together.

“The differences between this contract and more traditional rail franchises were reflected in the terms set out by the DfT, which has resulted in a more appropriate balance of risks and rewards for us as operators. The West Coast Partnership’s first phase allows us to earn returns on the significant investments in services and facilities for passengers but protected by a much improved revenue risk sharing mechanism. This will transition to a management contract in the second phase, ensuring we can really focus on using the respective skills and experience within our joint venture to deliver the desired benefits of the HS2 project for passengers and the country.

“We are pleased to have won the West Coast Partnership with Trenitalia, a strong partner who is committed to playing an increasing role in UK rail. The Partnership strengthens and adds a fourth franchise to our UK rail portfolio. Following this award we will not therefore be seeking new franchising opportunities for the foreseeable future over and above our current negotiations with the DfT to extend GWR. Our focus remains on delivering sustainable shareholder value and we will actively manage our rail portfolio and its risk and reward profile accordingly.”

**FS Italiane Chief Executive Gianfranco Battisti said:**

“After only three years in the UK, we are strengthening our presence through the management of one of the country’s most important railway operating companies, alongside our partners at FirstGroup. This award represents another significant step in our ambition to play a major part in the UK rail industry. With this partnership, our international business continues to go from strength to strength, particularly in a high-potential market such as the UK.

“We have more than 20 years of expertise in the high speed sector in Italy, which has significantly improved connectivity for Italians. Trenitalia is operating in the only competitive and open market for high speed services in the world.

“Starting with the acquisition of c2c in 2017, our development in the British market has seen progress through investments in technology and in client services. We are proud with the results achieved in terms of performance punctuality, and customer satisfaction, which has proved to be amongst the best in the UK.

“Trenitalia is now one of the main railway companies in Europe with operations in France, Germany and Greece as well as in Italy and in the UK. We also operate partnerships in Austria and Switzerland and we aim at growing further in the UK and elsewhere in the coming years.”

**Key contract terms**

The Partnership will start from 8 December 2019 and comprises two distinct phases.

During the first phase from December 2019 to March 2026, First Trenitalia will operate InterCity West Coast services as a franchise with revenue risk shared with the DfT through a GDP-based revenue protection mechanism and an additional Forecast Revenue Mechanism (‘FRM’) from April 2021. The former mitigates the financial impact of UK macroeconomic conditions outside the control of First Trenitalia, while the FRM can be triggered if revenue variances exceed a set threshold from the bid assumptions for any reason. Had these

revenue sharing mechanisms formed part of FirstGroup's TPE and SWR franchise agreements, the company believes that these contracts would have remained profitable overall.

First Trenitalia will deliver £1.6bn real NPV\* in premium payments to the Government over this first phase. First Trenitalia will directly fund £11m of residual value assets, and deductions from the premium will fund investment of £252m by First Trenitalia in the first phase. A further £453m will be funded by rolling stock leasing companies for new and refurbished trains. These investments, together with additional routes and other timetable changes, will drive a combined annual growth rate ('CAGR') for seat miles of approximately 1.2% per annum over the first phase. Passenger revenues, which were £1.2bn in 2018/19, are expected to increase at a mid-single digit CAGR over the first phase, lower than the historic growth rate of the franchise over the last ten years, from the additional capacity created and other initiatives.

In addition to InterCity West Coast services, First Trenitalia will also provide a range of services as Shadow Operator to the HS2 programme. Overall FirstGroup expects to earn a robust margin towards the high end of the recent industry range during the first phase. The first phase may be extended beyond March 2026 for up to five years if required by the DfT, subject to an agreed revenue and selected cost reset mechanism, and this phase will come to an end at least six months prior to launch of HS2 services.

The second phase is expected to commence in March 2026 and run to March 2031, with a possible extension period of up to three years at the DfT's option. During the second phase First Trenitalia will operate HS2 services and the reshaped InterCity West Coast services together as an integrated operation under a management contract structure, where revenue and cost risk passes to the DfT. During the second phase First Trenitalia will earn a management fee equivalent to a low single digit margin per annum, with additional incentive payments for good performance.

The JV partners, through their parent companies, have committed to certain funding obligations under the contract, which reduce materially between the first and second phases. In the first phase, the JV partners' parent companies together will provide a loan of up to £30m, subordinated contingent loan facilities of £102m, and a performance bond of £20m to First Trenitalia. FirstGroup will be responsible for 70% or £106m of this total contingent capital commitment of £152m. In the second phase, the total contingent commitment reduces to £65m, of which FirstGroup will be responsible for £46m. In addition, the JV partners provide a season ticket bond of c.£10m. A wide range of scenarios were considered as part of the modelling to assess the pension aspects of this bid, including the risk sharing mechanisms provided by DfT, and extensive advice from external specialists informed this assessment. In common with other rail franchises, no ongoing pension liabilities remain at the end of the franchise term and in any case, are transferred to the DfT during the second phase of the contract.

The award is subject to the customary 'standstill period' of at least ten days, after which formal contracts will be signed by the DfT. As with other UK rail franchise awards, the Competition and Markets Authority will also carry out a 'phase one review'.

FirstGroup and Trenitalia believe that this unique contract has an appropriate balance of potential risks and rewards for shareholders, befitting the distinctive nature of the work required to make a success for taxpayers and passengers both of operating InterCity West Coast services and supporting the HS2 project in the coming years.

*\* Net present value of forecast premium payments over the expected first phase period, expressed in franchise discounted to September 2019, using the DfT's 'real' discount rate of 3.5%.*

## **JV partnership**

FirstGroup and Trenitalia signed a joint venture agreement (the 'JV agreement') to form First Trenitalia in November 2016, with the purpose of engaging in the West Coast Partnership bidding process. FirstGroup has a 70% share while Trenitalia has a 30% share of the entity. First Trenitalia has benefitted from FirstGroup and Trenitalia's complementary skill sets and experience in this award. It was a condition of entry to the West Coast Partnership process that bidders could demonstrate experience in operating high speed rail networks.

Initial bids were submitted in July 2018 after external validation and extensive review by both FirstGroup and Trenitalia. In the context of FirstGroup's recent experience, the assumptions have been kept under rigorous review, including back-testing against the actual performance of the current franchise ahead of making final commitments. During this period the JV partners were particularly focused on the potential financial performance of the Partnership under a broad range of potential scenarios and uncertainties, given the challenges experienced by some franchise operators elsewhere in the UK national rail network.

The FirstGroup Board has undertaken extensive reviews on the West Coast Partnership proposal. It has tested and revalidated the bid assumptions in accordance with our commitment of 30 May to seek an appropriate balance of potential risks and rewards for shareholders, and, taken into consideration our obligations under the JV agreement with Trenitalia, who are fully committed to the franchise. The FirstGroup Board remains very aware of concerns expressed by shareholders regarding rail however it has unanimously concluded that signing the Partnership agreement is in the best interests of all shareholders.

#### **Investor information**

A conference call for investors and analysts will be held at 9:00am today. Please call +44 (0) 20 7725 3354 in advance of the call to register and receive joining details. A presentation pack together with a pdf copy of this announcement and a playback facility will be available at [www.firstgroupplc.com/investors](http://www.firstgroupplc.com/investors) in due course.

#### **Contacts at FirstGroup:**

Stuart Butchers, Group Head of Communications  
Faisal Tabbah, Head of Investor Relations  
Tel: +44 (0) 20 7725 3354

#### **Contacts at Brunswick PR:**

Andy Porter / Alison Lea, Tel: +44 (0) 20 7404 5959

#### **Contacts at Trenitalia UK:**

Chris Atkinson 07770 947332  
Giovanni Sanfelice di Monteforte, Tancredi, 07775 858152  
Catrina Daly, Tancredi, 07727 153868

#### **About FirstGroup**

FirstGroup plc (LSE: FGP.L) is a leading provider of transport services in the UK and North America. With £7.1 billion in revenue and around 100,000 employees, we transported 2.2 billion passengers last year. Whether for business, education, health, social or recreation – we get our customers where they want to be, when they want to be there. We create solutions that reduce complexity, making travel smoother and life easier.

#### **We provide easy and convenient mobility, improving quality of life by connecting people and communities.**

Each of our five divisions is a leader in its field: In North America, First Student is the largest provider of home-to-school student transportation with a fleet of 42,500 yellow school buses, First Transit is one of the largest providers of outsourced transit management and contracting services, while Greyhound is the only nationwide operator of scheduled intercity coaches. In the UK, First Bus is one of Britain's largest bus companies with 1.6 million passengers a day, and First Rail is one of the country's largest and most experienced rail operators, carrying 345 million passengers last year.

Visit our website at [www.firstgroupplc.com](http://www.firstgroupplc.com) and follow us @firstgroupplc on Twitter.

Legal Entity Identifier (LEI): 549300DEJZCPWA4HKM93. Classification as per DTR 6 Annex 1R: 3.1.

#### **About Trenitalia**

Trenitalia is Italy's primary rail operator and one of the leading railway operators in Europe. Trenitalia is the only high-speed operator in the world that faces domestic rail competition while giving exceptional service to its customers and producing revenues of over €5.37bn.

Trenitalia offers two major services: high-speed rail and regional transport. The company is best known for its iconic Frecciarossa high-speed services. With the recent introduction of the state-of-the-art, Italian-made Frecciarossa 1000 trains, Trenitalia operates one of the most advanced rail services in Europe.

High-speed rail in Italy revolutionised people's lifestyle and transport in the country. Over the last 10 years, with the rise of the high-speed rail in Italy, over 260 million tickets for high-speed journeys have been sold, and the high-speed train fleet has doubled from 74 in 2008 to 142 in 2018. Passengers who travelled with Trenitalia high speed trains went from 6.5 million in 2008 to 40 million in 2018, a 517% increase.

Ferrovie dello Stato Italiane, the ultimate shareholder of Trenitalia, is the main Italian transport company with €58bn of investments in its business plan for 2019-2023. The Group is contributing to the overall investment volume in the country and supporting the development and the improvement of the transport, infrastructure, logistics and tourism sectors. FS Italiane's operating revenue grew to €12bn in 2018, producing an EBITDA of €2.5bn with a net result of €560m.

The FS Italiane Group employs about 83,000 people that operate, in Italy and abroad, about 10,000 trains and 200 million bus/kilometers a day. In 2018, the FS Italiane Group transported one billion people and 50 million tonnes of freight. Trenitalia provides mobility solutions to people with over 8,000 trains a day and is revolutionizing regional railway transport in Italy with an ongoing €6bn investment program to purchase 600 new commuter trains. The rail network, managed by Rete Ferroviaria Italiana, is over 24,500 kilometers long, of which more than 1,400 of high-speed rail. Anas is the company of FS Italiane that manages the national road network with over 30,000 km of state roads, highways and motorway junctions.