



Putting our customers first

FirstGroup plc
Annual Report and Accounts 2019

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

FirstGroup is a leading provider of transport services in the UK and North America. 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.

Easy and convenient mobility

Our businesses are constantly evolving, harnessing the latest technology and innovation from inside and outside the sector to ensure that customers have the most convenient travel experience possible. Running successful transport networks can be complex, but we aim to ensure that our customers have smooth journeys and easy interactions with our systems and our people.

Read more on page 3.





Improving quality of life

We give our customers greater choice and freedom in where to go and how to get there, so that they have more opportunities and time to spend on the things that matter. Through this, our transport services support economic growth and vibrancy, and, working in partnership with our stakeholders, we help to improve both congestion and air quality.

Read more on page 51.

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Connecting people and communities

We provide transport to get more and more people where they want to be – whether it's business, leisure, seeing friends and family, or travelling to new places or new experiences. Our services are vital links for our communities, forming part of the fabric of life for millions of commuters, schoolchildren and shoppers every day.

Read more on page 103.

Group overview

Our North American divisions

Each of our three North America-based divisions operate throughout the continent and together generated half of our revenues in 2019.



First Student

The largest provider of student transportation in North America – twice the size of the next largest competitor.

Student journeys per year

900m

Yellow school buses

42,500

➤ See page 14



First Transit

First Transit is one of the largest private sector providers of public transit management and contracting in North America.

Passenger journeys per year

324m

Vehicles owned or operated

12,900

➤ See page 16



Greyhound

Greyhound is the only national operator of scheduled intercity coaches in the US and Canada, with an iconic brand and a unique network of 2,400 destinations.

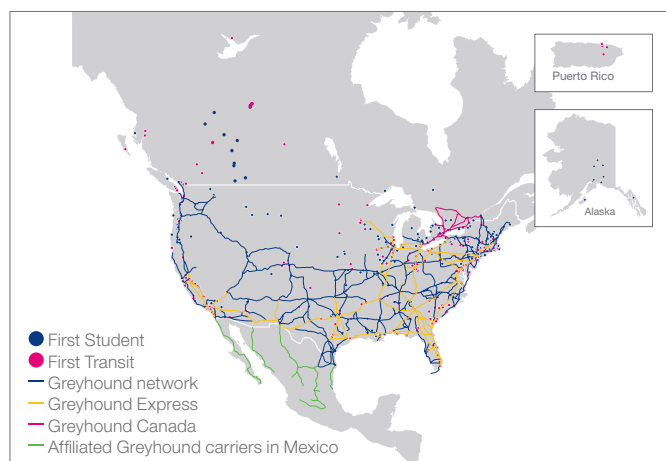
Passenger journeys per year

16m

Vehicles

1,500

➤ See page 18



Our UK divisions

We generated the other half of revenues in 2019 from our rail operations and First Bus services throughout the UK.



First Bus

One of the largest bus operators in the UK with a fifth of the market outside London, serving two thirds of the UK's 15 largest conurbations.

Passenger journeys per year

566m

Vehicles

5,700

➤ See page 20



First Rail

One of the UK's largest and most experienced rail operators, carrying 345m passengers almost nine billion miles last year across our three franchises and open access operation.

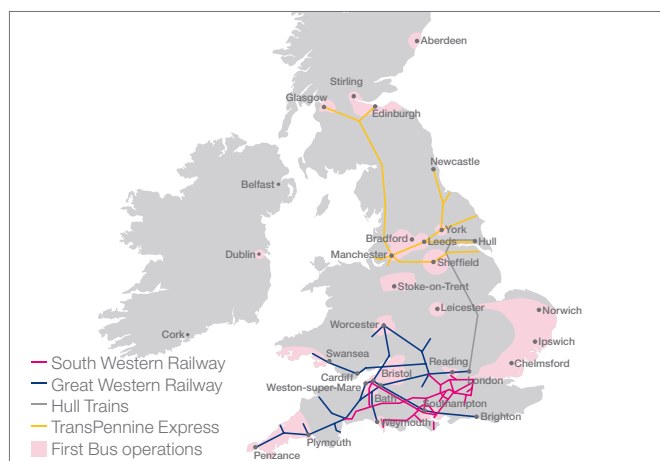
Passenger journeys per year

345m

New carriages introduced over current franchises

1,800

➤ See page 22



Innovation in autonomous vehicles

First Transit are leading the way in the design, safe operation, and management of shared autonomous vehicles (SAVs) to enhance the future of mobility for our customers and communities. June 2019 sees the launch of our eighth initiative to date with our long term strategic partner Houston Metro, part of a city mobility plan also incorporating other transport modes including First Transit fixed route and paratransit operations.

Easy and convenient mobility

Strategic report

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Show and go on Greyhound

Greyhound's customers have embraced the speed and convenience of its new e-tickets. Launched last year, the platform allows customers to buy tickets online up until boarding time – drivers scan tickets in a fast, seamless and simple boarding process. We have received strong customer feedback on e-tickets. In less than a year, take-up has soared to 55% of all fares bought online.



The actions we are taking will enable us to focus on providing easy and convenient mobility for our customers.



Wolfhart Hauser
Chairman

FirstGroup is a diverse portfolio of market leading transport businesses, with half of its revenues underpinned by multi-year contracts with national or local government bodies. We believe each of the Group's businesses has a significant platform to deliver long term sustainable value. Easy and convenient public transportation services are increasingly important, reflecting demographic changes, growing congestion and the rising importance of climate change mitigation. There is considerable long-term value in each of the Group's businesses, particularly as platforms to become future leaders in mobility services.

Our vision is centred on our customers and during the year we improved our overall trading performance, positioned the Group to make the next steps forward in our strategic development, and appointed the right executive team to take the Group forward.

Our vision

Our guiding principle must be customers, and during the year we have stepped up our focus on delivering modern customer convenience. We are embedding throughout the Group our new vision to **provide easy and convenient mobility, improving quality of life by connecting people and communities.**

Results

The overall trading performance for the Group was ahead of our expectations this year. Group revenue increased by 5.7% in constant currency and adjusting for the 53 weeks of trading in the Road divisions and the start of the South Western Railways (SWR) franchise. On the same basis adjusted operating profit increased by 10.5%. Adjusted EPS increased by 15.2% in constant currency. However the Group's statutory results were adversely impacted by a number of events, recorded as adjusting items in the accounts. These arose principally as a result of the decision to provide for future losses on SWR while negotiations continue with the Department for Transport (DfT) in relation to this franchise, the charge required to enlarge the Group's North

American self-insurance reserve, and costs associated with Greyhound's withdrawal from Western Canada. As a result of these adjusting items, the Group recorded a statutory operating profit of £9.8m this year (2018: loss of £196.2m), and statutory EPS was (5.5)p (2018: (24.6)p).

Strategy

The management has taken a number of actions to streamline and focus the business of the divisions in the year, with acquisitions and new business wins, property sales and business disposals as well as withdrawals from certain markets to refocus investment on more attractive opportunities elsewhere. We are also becoming more operationally efficient, driving the divisions to innovate for customers while maximising efficiencies in our North American and UK operations.

We have continued to strengthen the Group by using the cash generated after disciplined investment in our services to reduce leverage and for targeted growth. Although our balance sheet is now less of a constraint on our structural options than previously, our pension deficit and other long term liabilities remain important considerations for the risk profile of the Group, and we continue to actively manage them.

The progress that has been made in our businesses, and the changes seen in our markets, means the time is now right to rationalise the portfolio and initiate plans to develop our market-leading North American contract businesses. As explained in more detail in the Chief Executive's review (see page 8), our plans provide a clear strategy and place the Group's future emphasis on First Student and First Transit, our core North American contracting businesses, where we see the greatest potential to generate long-term sustainable value and growth, with further innovation in modern mobility services. The creation of a focused portfolio, based on our strong profitable platform in the North American mobility services market, is the most appropriate means for us to accelerate the creation of substantially increased value going forward.

The Board recognises that dividends are an important component of total shareholder return. As discussed above, the new strategy means that the shape of the Group will be markedly different in future and therefore the Board will not be recommending payment of a dividend in respect of the year to 31 March 2019 at the Group's Annual General Meeting. However, we believe that the more focused Group, as envisaged by our portfolio rationalisation plans, will be well placed to

sustain a dividend in future and this will be considered at the appropriate time.

The Board

Over the last two years we have appointed six new board directors reflecting a broad range of experiences to support management with the developments in our strategic direction. The composition of the Board has been regularly renewed with independent directors, carefully chosen to provide the Group with the right balance of skills and experiences as it looks to a future which will continue to be defined by the profound impact of technology on the development of mobility services. This requires people and experience from across multiple industries, including adjacent industries competing increasingly with public transportation, such as technology, airlines, consumer brands, urban mobility and big data management. Together with the existing US government contracting experience of the Directors, this skillset will be invaluable as the Group focuses on First Student and First Transit, our market leading North American contracting businesses, and builds on the platform we have established in North American mobility services. We have a strong, experienced and diverse Board with the right mix of skills, background and experience to take the Group forward in the future.

In November 2018 we formally appointed Matthew Gregory as Chief Executive. In Matthew we have the right person to drive forward our plans at pace, as he was already demonstrating when performing the role of Interim Chief Operating Officer in addition to Chief Financial Officer between May and November 2018. With his corporate development and transformation experience, and detailed understanding of our businesses and our stakeholders gained during his four years at the Group, Matthew is ideally placed to implement the Board's strategic plans.

More recently, we appointed Ryan Mangold as Chief Financial Officer with effect from the 31 May 2019. Ryan is a business transformation leader who brings a wealth of experience and a strong track record of executing complex corporate changes to enhance shareholder value, and I am confident that by working with Matthew to successfully deliver our plans, Ryan will make a significant contribution.

We have also welcomed two new Non-Executive Directors to the Board this year, with Steve Gunning and Julia Steyn joining in January and May 2019 respectively. Steve brings extensive financial and operational expertise from his senior roles at International Airlines Group and its subsidiary British Airways, while Julia has an investment

banking and corporate development background together with experience at the forefront of the emerging mobility services sector. Both are already making valuable contributions to the Group.

Finally, Drummond Hall will step down from the Board on 31 May 2019. He will be succeeded as Senior Independent Director by David Robbie, who continues to chair the Audit Committee. On behalf of the Board I would like to thank Drummond for the exemplary contribution he has made to the stewardship of the Group during his five-year tenure as Senior Independent Director. We wish him every success for the future. I am also pleased that David has accepted the role of Senior Independent Director and look forward to continuing to work closely with him in this role.

Following these changes, of our eleven member Board a majority have specific transportation and travel industry experience. A similar proportion have extensive corporate finance, M&A or legal experience, which will be key to overseeing the execution of our portfolio rationalisation plans and securing best value for shareholders. The average tenure of our Non-Executive Directors is three years, and with one exception, all of the Board have been appointed within the last five years.

Corporate governance and sustainability

I believe firmly that a vital facet of sound corporate governance is recognising our long term responsibilities to all our stakeholders, and with that a rigorous focus on sustainability.

Three years ago, the transport sector overtook the power sector as the largest contributor to greenhouse gas emissions both in the UK and North America. At the same time, there has been a growing focus on local air quality due to the increasing number of studies showing the links between local air pollutants and human health.

The overwhelming majority of our carbon dioxide and other emissions result from the fuels and electricity used to power our road and rail vehicles, and we take our responsibility to reduce these very seriously. Our progress in moving to cleaner fuels and investing in more efficient and cleaner fleet, together with a significant decarbonisation of the electricity grid in the UK, meant we reduced our carbon emissions to 371 tonnes of CO₂ equivalent per £1m revenue this year, representing a 13% decrease in our normalised emissions since 2016.

At the same time as reducing our own environmental footprint, the focus of our entire business model and vision is to encourage

travellers to make the modal shift from private vehicles to more efficient public transport modes, which is fundamental to the response of our communities and governments to the impact of climate change.

As discussed in more detail in the Governance section (from page 52 onwards), our review of the updated Corporate Responsibility strategy has been part of the Board's focus this year. The Group has also focused on Group strategy, Board and management succession including the appointments of the new Executive Directors, and risk appetite.

Our people

As I travel around the Group, I continue to be impressed by our frontline employees, whose commitment to the ease and convenience of our customers is often extraordinary. Much hard work and thought goes in to delivering for our customers, allowing us to continue running vital mobility services while keeping our passengers and each other safe and well looked after.

Through our focused vision we want all of our employees to see our services through the eyes of the customer. We will use this input and the many ideas of our employees to continue to drive forward the quality of our services in future, taking into account the needs of our communities, our other stakeholders and the environment.

On behalf of the Board I would like to extend my thanks to our more than 100,000 colleagues for the hard work and dedication they bring to the task of providing the vital services on which millions of our customers rely.

The future

The Board is focused on delivering shareholder value. The Board is confident that the Group has the right team with the right strategy and plans in place to do so. The Group is in a strong position to move forward, and the Board's focus is firmly on taking the further actions necessary to accelerate that progress, so as to create substantially increased value for our shareholders in future.

Wolfhart Hauser

Chairman
30 May 2019

Financial summary of the year

- Underlying¹ Group revenue +5.7%, underlying¹ adjusted² operating profit +10.5%; adjusted EPS +15.2%³
- Adjusted² operating profit ahead of our expectations at £332.9m, led by growth and margin expansion in First Student and First Bus
- Net cash inflow⁷ of £197.3m, above expectations due to the phasing of certain First Rail cash inflows
- Due to a number of uncertainties, FirstGroup's share of future losses on SWR franchise of £102.1m recognised while negotiations continue with the Department for Transport; statutory operating profit of £9.8m also adversely impacted by a North America self-insurance charge of £94.8m
- Adjusted² profit before tax +13.1%³ and adjusted² EPS +15.2%³, reflecting refinancing and minority interests
- Reported net debt: EBITDA reduced to 1.3 times (2018: 1.5 times); Rail ring-fenced cash adjusted net debt: EBITDA 2.1 times (2018: 2.1 times)
- Statutory loss before tax of £(97.9)m (2018: loss before tax of £(326.9)m), reflects North American self-insurance reserve charge of £94.8m, the SWR onerous contract provision of £145.9m in total of which FirstGroup's 70% share is therefore £102.1m, £21.5m in respect of equalisation of guaranteed minimum pensions in the UK defined benefit schemes, £24.1m for restructuring and reorganisation costs principally from withdrawal of Greyhound services in Western Canada and £16.2m for loss on disposal and asset impairments of First Bus assets in Manchester, partially offset by a £9.3m gain on disposal of a major Greyhound depot
- Statutory EPS was (5.5)p (2018: (24.6)p)

	Change	Change in constant currency ³		Change
Revenue				
£7,126.9m	+11.4%	+11.0%		
2018: £6,398.4m				
Adjusted² operating profit			Statutory operating profit/(loss)	
£332.9m	+5.0%	+4.0%	£9.8m	n/m ⁶
2018: £317.0m			2018: £(196.2)m	
Adjusted² operating profit margin			Statutory operating profit/(loss) margin	
4.7%	(30)bps	(30)bps	0.1%	n/m ⁶
2018: 5.0%			2018: (3.1)%	
Adjusted² profit before tax			Statutory loss before tax	
£226.3m	+14.9%	+13.1%	£(97.9)m	n/m ⁶
2018: £197.0m			2018: £(326.9)m	
Adjusted² EPS			Statutory EPS	
14.4p	+17.1%	+15.2%	(5.5)p	n/m ⁶
2018: 12.3p			2018: (24.6)p	
Net debt⁴				
£903.4m	(15.6)%	(17.2)%		
2018: £1,070.3m				

- 1 Growth excluding SWR franchise (which became part of First Rail in August 2017) and the 53rd week in the Road divisions in constant currency, as set out in note 4 to the financial statements.
- 2 'Adjusted' figures throughout this document are before self-insurance reserve charge, the SWR onerous contract provision, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.
- 3 Changes 'in constant currency' throughout this document are based on retranslating 2018 foreign currency amounts at 2019 rates.
- 4 Net debt is stated excluding accrued bond interest, as explained on page 28.
- 5 Central costs allocated by adjusted profit contribution.
- 6 Not meaningful.
- 7 'Net cash inflow' is described in the table shown on page 27 of the financial review.

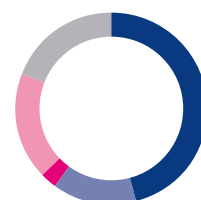
Revenue

(as % of Group)



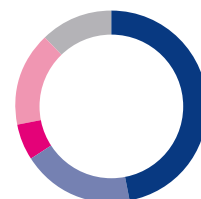
Adjusted operating profit²

(as % of Group)



Number of employees

(as % of Group)



Chief Executive's report

Our trading performance was ahead of our expectations in the year. Looking forward, we have a stable business platform that is well positioned for growth, and I believe our portfolio rationalisation plans provide a clear path to deliver enhanced sustainable value for all our stakeholders.



Matthew Gregory
Chief Executive

Introduction

I am pleased to report that the Group has taken action to move forward this year in several areas. Our Road divisions have made progress, principally reflecting the growth and adjusted margin expansion in First Student and First Bus we have delivered over recent years. While Greyhound's overall performance this year was disappointing, the plan we put in place last autumn is beginning to have a positive impact. The landscape of UK rail is challenging, and we have concerns with the current balance of risk and reward being offered. We await the outcome of the Williams review as it seeks to address these and other industry issues.

As I reflect on the seven months since being appointed Chief Executive, I am confident that each of our five businesses has a clear strategy in place, and is working hard to deliver it. Overall the Group is making progress, but what is equally clear is that different parts of our portfolio face increasingly divergent opportunities and challenges as they work to deliver for our customers – each requires an increasingly tailored approach and focus to

move forward and innovate to generate value for both customers and shareholders alike.

Accordingly, we have announced plans to rationalise our portfolio with the Group's future emphasis on First Student and First Transit, our market leading contract-based businesses, which share increasingly similar attributes and opportunities to generate sustainable value and growth from the strong platforms they provide in the North American mobility services market.

Trading performance in the year

Our largest business **First Student** delivered a strong bid season last summer with excellent retention rates and significant new business wins, resulting in growth in revenue, bus count and market share for the first time in several years. We were also pleased to maintain our high customer satisfaction scores of 8.75 out of ten, reflecting our continued emphasis on serving our customers. With a solid school start-up, continued focus on managing our driver shortage challenges and more typical winter weather patterns, First Student was able to expand margins by 50bps to 9.5%. With continued bidding discipline, further

operational, safety and efficiency improvement actions underway, a growing focus on selective acquisitions in the fragmented home-to-school market and opportunities to enter adjacent markets and develop complementary mobility and transportation services, First Student is increasingly well placed to build on its market leadership position in the years ahead.

First Transit also delivered a good contract retention performance, and together with the roster of new business wins we were able to offset the completion of certain high margin contracts in the Canadian oil sands region at the end of the prior year. The result was First Transit's revenue was essentially flat year-on-year, and the current inflationary cost environment reduced margins. However, First Transit is at the front end of the Group in capturing opportunities in Mobility as a Service (MaaS) and Shared Autonomous Vehicles (SAV), and we are confident this puts our First Transit business in a strong position to generate value in North American mobility services in future.

Greyhound has faced a particularly challenging market environment, but we have taken decisive action to chart a course to improved profitability with the withdrawal from Western Canada in October, and the changes we made to our pricing and yield strategies, commercial team, and the broader cost base following the business review we conducted last summer. We are pleased with the incremental signs of progress in yields since our plans were implemented.

Conditions in each of our local markets across the UK remain variable for **First Bus**, but we are encouraged that the division as a whole continues to achieve like-for-like growth and delivered 180bps of adjusted margin improvement, responding to the investments in customer convenience and the structural changes we have implemented in recent years.

The environment for our **First Rail** operations remains difficult with timetabling, infrastructure issues and strike action all having an effect on our services for passengers. Since January our operational delivery for passengers has begun to improve. With regard to SWR, we have prepared updated financial forecasts until the initial franchise end date of 17 August 2024, which are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue protection mechanisms, as well as the impact of changes in timetables,

Chief Executive's report continued

capacity, aging infrastructure and rolling stock. There is considerable uncertainty about the level of passenger revenue growth and future impact of the industrial action in addition to uncertainty as to the level of strike amelioration recoverable from the DfT, and we remain in negotiations with them. Progress has been made and we continue to be engaged in discussions with the DfT to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Based on these forecasts the Group has concluded that it has an onerous contract, the value of which is estimated to be £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement. Accordingly, this amount has been charged to the income statement. FirstGroup's 70% share is therefore £102.1m.

Overall, the **Group** delivered revenue growth of 5.7% and an increase in adjusted operating profit of 10.5% in constant currency (adjusting for the impact of a part-year of SWR and the 53rd week in the prior year), with lower finance and tax charges resulting in an increase in adjusted EPS of 15.2% in constant currency, to 14.4p (2018: 12.3p). However the Group's statutory results were adversely impacted by a number of events, recorded as adjusting items in the accounts. These arose principally as a result of the SWR onerous contract provision noted above, the charge required to enlarge the Group self-insurance reserve, costs associated with Greyhound's withdrawal from Western Canada, and the past service charge for the guaranteed minimum pensions. As a result, the Group reported a statutory operating profit of £9.8m in the year (2018: loss of £196.2m) and statutory EPS of (5.5)p (2018: (24.6)p).

Investing in easy and convenient mobility

During the year we have aligned our commercial plans and investments to the areas where they will make the most difference for our customers. For example, our delivery of contactless ticketing machines across all of our First Bus operations is offering our passengers an easy and convenient method of payment. Greyhound have further enhanced their website and customer service offering with strong take-up of online e-tickets which drivers can scan in a fast, seamless and simple boarding process. First Student and First Transit continue to roll out maintenance management and GPS-based driver systems to enhance efficiency and service for our clients. Each of our First Rail train operating companies is introducing new trains and refurbishing existing rolling stock, the designs of all of which have been developed through

extensive consultation with passengers and other regional and national stakeholders. While we focus on putting our customers first when we develop these plans, we also aim to balance the needs of other stakeholders including our people, local communities, and environmental groups.

Unlocking value in the year

In addition to our commercial and investment activities, we have taken other significant actions to unlock value in the year. As well as the changes we have made to Greyhound's operational footprint in Canada, we have continued to optimise its property portfolio. Amongst other changes, we sold a large maintenance facility in Chicago in January. In First Bus we reviewed our Manchester operations, and announced the sale of Queens Road depot during the year.

Liability management

We continue to look for opportunities to optimise our funding costs. In the year we amended and extended our core £800m revolving bank facility to November 2023 and refinanced a £250m 6.125% coupon bond from cash on hand and revolving bank facilities as planned. The Group's next major refinancing is a £350m 8.75% bond due April 2021. At the start of the year the Group and Bus defined benefit schemes in the UK were closed to future accrual. In the year, we continue to work with trustees to facilitate members' engagement with and utilisation of their pensions freedoms, which assists in improving funding levels, and we are working with the various UK schemes to progressively derisk their investment strategies. Engagement with the First Bus trustees on funding objectives was already well underway in advance of the 5 April 2019 triennial valuation date.

The Group has recognised a charge of £94.8m in the year to increase the level of the North American self-insurance reserves, following a deterioration in the claims environment and therefore an increase in the estimated level of settlements. A review of the claims portfolio has been carried out as well as an additional independent actuarial review, resulting in a decision to increase the estimated value of the provision. The majority of these claims are expected to be settled over the next five years. The Group has a very strong focus on safety and it is one of our five values. During the year the Group's continuous focus on behavioural change, safety assurance and technology implementation has resulted in a reduction in the number of injuries to passengers, employees and third parties, as well as vehicle collisions – though we view every such incident as one too many,

and it strengthens our resolve to achieve zero harm.

Portfolio rationalisation plans

The Board regularly reviews all appropriate means to mobilise the considerable value inherent in the Group, recognising that there are certain constraints and friction costs to overcome in the case of some potential options, and will continue to do so. In light of the performance improvements we have achieved through our divisional strategies, and the changes in the wider environment, we believe that the most appropriate means to deliver enhanced sustainable value is through a rationalisation of the portfolio.

Our North American contract businesses

In future our core market will be North America, and centred on First Student and First Transit, our market leading contract-based businesses, which together generated 60% of the Group's operating profits in 2019. They share increasingly similar attributes and opportunities to grow and create value, and between them we have established a strong and profitable platform in North American mobility services.

We have improved **First Student's** margins substantially to 9.5% in 2019 through a combination of our rigorous returns-based contract bidding strategy and sustained cost and process efficiencies. We are confident that our largest business is now restored to a position of generating sustainable growth, cash and returns from its multi-year contract portfolio, which remains by far the largest in the North American home-to-school bus market. Looking ahead, First Student is targeting development of complementary transportation and mobility technologies and services, entry into adjacent markets as well as organic and M&A-led growth in the home-to-school market.

First Transit has delivered long term growth as North American transit markets continue to outsource, and has built a diversified transit management contract portfolio that generates attractive returns and cash flow given the relatively modest capital requirements. We are targeting further long term growth from First Transit's core markets, particularly in shuttle and in vehicle services, and have already established our credentials in a number of attractive adjacent markets – such as commuter rail and bus rapid transit (BRT). First Transit is at the front end of the Group in capturing opportunities in Mobility as a Service (MaaS) and Shared Autonomous Vehicles (SAV). Our business is in a strong position to

Chief Executive's report continued

generate value as transit management markets continue to evolve, as we leverage our partnerships with ridesharing and other Transportation Network Companies to remain at the forefront of innovation.

First Student and First Transit are increasingly overlapping in terms of the technologies and management skillsets required to thrive in response to the market opportunities in front of them. As we drive our core contracting businesses forward we will ensure that our management and functional structures are positioned to capitalise further on the platform we have built in the emerging North American mobility services market.

Separation of Greyhound and First Bus

First Bus is one of the largest operators in the UK with a fifth of the market outside of London. We have improved our offering by investing in our fleet and transforming our networks, payments systems and passenger information services to improve simplicity and convenience for customers. We have significantly improved cost efficiency in the division, through investment in operations and maintenance systems and by rationalising our footprint via network changes, depot sales and closures. As a result, First Bus margins have improved to 7.5% in 2019 and it is now on a much stronger footing as a business. First Bus has limited synergies with our other operations and, having set the business on the path to increased profitability, we believe now is the right time to pursue structural alternatives to continue this progression and deliver value to shareholders while managing the division's longer term liabilities.

Greyhound is the only operator of scheduled intercity coaches in North America, with a unique nationwide network and an iconic brand. We have invested in Greyhound to implement airline-style yield management and real-time pricing, up-to-date booking and ticketing options and improved customer communications channels. We have also reduced Greyhound's footprint in Western Canada and continue to release value by optimising its property portfolio. Greyhound has limited synergies with our other, predominantly contract-based, North American businesses and we believe that value for shareholders can best be delivered by seeking new owners that will further support the continued development of this business. As such a formal sale process for Greyhound is underway.

As part of our portfolio rationalisation plans to separate Greyhound and First Bus from the Group, we will evaluate our capital structure and capital allocation policy as we move forwards, to ensure it is optimal for supporting future growth and shareholder returns while still maintaining an appropriate balance sheet.

First Rail

We have a portfolio of separately managed rail franchise businesses in the UK which we will operate in accordance with their contractual terms. **First Rail**'s goal remains to add value through our operational expertise and strong industry relationships. Our UK rail franchise portfolio has generated £330.9m in adjusted profit with net cash and dividends to the Group over the last five years. However, given our reduced expectations for our two most recently awarded franchises, we have concerns with the current balance of risk and reward being offered. We await the outcome of the UK government's review into the structure of the whole rail industry chaired by Keith Williams as it seeks to address these and other industry issues. Any future commitments to UK rail will need to have an appropriate balance of potential risks and rewards for our shareholders.

Group trading outlook for the year ahead

In 2019/20, we expect to deliver revenue growth and financial progress in the Road divisions, offset by Rail's particularly strong adjusted profit contribution in 2018/19 moderating to more normal levels in the year ahead. Overall, we expect adjusted earnings to be broadly in line with our expectations. Our margin expectations are underpinned by structural change and efficiency programmes launched this year.

Conclusion

Since becoming Chief Executive in November 2018, I have been focused on setting the Group on a clear path to enhance value. By executing the portfolio rationalisation plans we have announced, our future emphasis will be on First Student and First Transit, our core contracting businesses in North America. We see significant potential to generate long-term, sustainable value and growth from the solid platform these businesses provide in the North American mobility services sector. We are intent on executing this strategy at pace, having full regard to the regulatory and stakeholder procedures and approvals that will be required.

In parallel with our portfolio rationalisation plans we will continue to drive forward the clear strategies now established in each of our divisions to ensure they deliver further progress and growth in existing and adjacent markets, underpinned by plans to enhance our cost base further.

Our plans will create a more focused portfolio, with leading positions in our core North American contracting markets, and is the most appropriate means for us to deliver enhanced sustainable value for all our stakeholders.

Matthew Gregory

Chief Executive

30 May 2019

Our markets

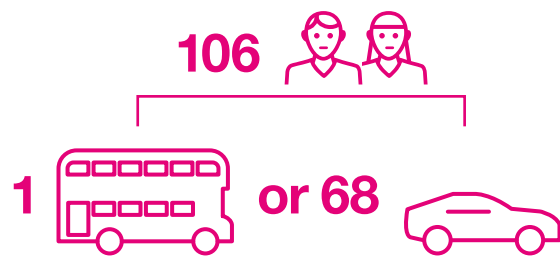
Transport links are essential for economic growth and for communities to flourish.

All of our services are critical enablers of economic growth and improving quality of life for people and communities. People need to travel for a wide range of reasons – business, education, healthcare, social and recreation – and across our five divisions, FirstGroup responds to these needs for our customers. While each of our markets has some unique characteristics, several key themes are important to each of them.

Congestion

In our UK and North America markets, more than 80% of the population live in urban areas. Despite ever more sophisticated forms of long distance communication, the rapid rise of cities globally is expected to continue and in 2018, congestion was estimated to have cost the UK and US economies £7.9 billion and £66 billion respectively. Maintaining mobility within cities as populations rise is a key priority and increasing use of public transport that is part of the solution.

Number of vehicles transporting 106 passengers

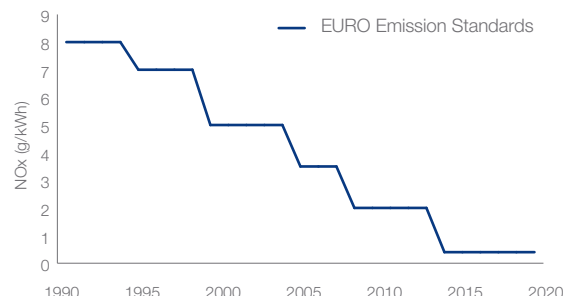


🔍 For more information on the market environment for each of our divisions please go to the business review section starting on page 14.

Air quality

Rising concerns over the link between poor air quality and health is driving towns and cities to restrict the most polluting vehicles. A shift to lower emission and higher occupancy vehicles in our urban areas is needed to help address this. We support this by continuing to innovate and invest in our fleets to reduce our impact on air quality and offering practical and convenient services to our customers.

Maximum NOx emission for new buses



Demographic change

Transport solutions also need to take account of demographic changes. Many segments of our communities – such as those in education, retired or unable to drive themselves – have always been more reliant on mass transportation. With a rapidly aging population in many parts of the world, this proportion is set to increase. Increasing numbers of (particularly young) urban dwellers are also choosing not to drive at all, given the costs of buying and maintaining a car and the issues of parking and sustainability. There is a growing demographic which is open to using our services provided we meet its needs.

Climate change

Atmospheric levels of carbon dioxide are at historically high levels and continue to increase. The warming effect of these emissions on our planet is devastating, and global legislation, expectations from customers, investors and stakeholders are changing as society looks to speed up the transition to a low carbon economy. Our mass transit services already offer low carbon travel solutions to our customers and we continue to invest in trialling and testing new technologies to minimise our climate change impacts and prepare for a progressive move to zero emission operations in our urban markets. See page 41 for more information on our carbon performance.

Carbon emissions per passenger kilometre (gCO₂e)

Greyhound



33



First Rail



43



First Bus



84



UK car



114



Domestic flight



298



Local and national authorities

Our core markets in the UK and North America have long histories of deregulating and outsourcing transport solutions, with mature business models and regulatory frameworks that encourage partnering with the private sector for transport infrastructure and services. As these services deliver such a wide range of social and economic benefits, many services are mandated or financially supported by the communities they serve. Across the Group a variety of funding and specification models exist and FirstGroup has the opportunity to operate services commercially in order to increase competition (improving value for money and efficiency). FirstGroup and its peers also bring innovation and agility in an increasingly fast-moving and complex environment, as mobility services business models evolve. See page 32 for more details on how we work with partners and wider stakeholders.

Our business model

We are a market leader in five segments of the passenger transport industry. Our divisions have clear commercial and performance improvement strategies in place to ensure they reach their full potential while achieving our vision for the customers and communities we serve.

Our business model

Our Vision

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

We are influenced by...

The world we live in and the need for sustainable transport solutions

Key inputs

Our people

Vehicle fleets, depots, stations and terminals

Relationships with key local authority and national government stakeholders

Reputation for safe and reliable services

A stable financial platform

We provide market leading transport solutions

Across our five market leading divisions



First Student



First Bus



First Rail



First Transit



Greyhound

Underpinned by our Values

Committed to our customers

Dedicated to safety

Supportive of each other

Accountable for performance

Setting the highest standards

How we manage the business

Leadership and governance

Each of our five divisions is run in a decentralised way with clear strategies so as to be responsive to the needs of our local customers. All, however, are managed in compliance with the Group's overall Vision and Values, and with regard to the strategic direction set by the Group. Our lean corporate centre focuses on fostering a high performance culture, sets the strategic direction, raises and allocates capital, develops and manages our talent, establishes key targets and standards, monitors performance and provides challenge. All of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary.

② For more information on the overall governance of the Group see pages 51-102.

Key performance indicators (KPIs)

The Group focuses on financial and non-financial KPIs which align to our strategic objectives. Financial KPIs are Group revenue*, adjusted operating profit*, adjusted EPS*, and ROCE*, which together drive our cash flow and value creation. Non-financial KPIs include contract retention, like-for-like revenue growth, punctuality, safety*, employee engagement, average fleet age, customer and passenger satisfaction*, community investment and greenhouse gas emissions.

② See pages 38-41 for more information on our KPIs.

* Metrics which form part of the performance measures used to assess executive compensation.

Principal risks

We take a holistic approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view. All of our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions as necessary. During the year work has continued in the development of a revised risk management system, designed to capture risks and opportunities to the Group, including those associated with new vehicle technologies.

② See pages 42-50 for more information on our principal risks and uncertainties.

Remuneration policy

The key principles underpinning our approach to executive remuneration are: alignment with strategy and business objectives, rewarding performance, performance-biased framework, competitive remuneration, and simplicity and transparency.

② See pages 76-101 for our remuneration report.

Delivering our strategic objectives

We aim to deliver our vision and execute our strategy in our markets by focusing our experience and energy at key points in the transport service value chain, which we recognise in our five strategic objectives:

- 1 **Focused and disciplined bidding in our contract businesses**
- 2 **Driving growth through attractive commercial propositions in our passenger revenue businesses**
- 3 **Continuous improvement in operating and financial performance**
- 4 **Prudent investment in our fleets, systems and people**
- 5 **Maintain responsible partnerships with our customers and communities**

Creating value for our stakeholders...

Customers

Safe, convenient and reliable travel for 2.2bn passengers each year

Investors

Sustainable financial performance, cash generation and value creation

Government

Efficient and innovative transportation services offering value for money for taxpayers

Our people

Rewarding long term professional careers with opportunities to develop and grow

Communities

Stronger economies and more vibrant local communities while providing a deliverable response to congestion and air quality concerns

Strategic partners and suppliers

Vibrant industry ecosystem with opportunities for productive long-term relationships

➤ **See pages 30-36 for more information on our key stakeholders.**

Delivering our strategic objectives

1

Almost half of our revenue is derived from around 1,400 contracts competitively procured on behalf of passengers by local government bodies and other parties such as school boards. Formulating innovative and attractive bids, with appropriate levels of risk and reward, and managing the delivery of our commitments in a range of changing circumstances is a core strength of the Group. Both bidding and managing contractual commitments is also key in our rail franchise business, where revenues mainly derive from passenger ticket sales within a contractual framework agreed with Government.

2

Our other main source of revenue is derived from direct ticket sales to passengers, who represent a broad demographic mix and use our services for a variety of business, commuting, social and recreational reasons. Understanding and responding to the changing needs of our local customers is therefore critical to our success. A key part of our strategy is to innovate through technology for our passengers in the areas of ticketing, real-time information and to enhance our ability to offer value for money.

3

Our goal is to operate reliable, convenient and safe transport services on comfortable vehicles staffed by helpful and qualified employees, every day, in all weathers, and despite sharing increasingly congested road and rail infrastructure with other users. To do so, we must constantly reinforce the highest standards and seek out best practice from across the Group and beyond. We aim to bring the same focus on discipline and continuous improvement to our financial performance, managing employee productivity, asset and fuel efficiency, procurement, overheads, insurance and other costs.

4

To continue to deliver over the longer term, it is vital that we use the considerable cash generated from operating activities to reinvest appropriately in our key assets. Our most important assets are our people – we invest substantial sums in recruiting, retaining and developing our employees. The almost 50,000 vehicles we own across the Group are our most significant capital assets, which we must invest in to offer the reliability and comfort our passengers want.

5

By its nature, the transport industry involves the risk of injury to passengers, employees and third parties, which is why it is central to our culture to keep safety front of mind. We have reinforced this in recent years with our Be Safe behaviour change programme. We aim to build long term, responsible partnerships with our customers and communities. This includes managing our impact on the environment. Ultimately the sustainability of our business is tightly intertwined with the aspirations, opportunities and success of our customers and communities.



Business review First Student



Dennis Maple
President, First Student

- Leverage our market leading platform
- Targeting organic and M&A-led growth, entry into adjacent markets and complementary transportation services
- Enhance efficiency of our cost base

5m

student journeys
per day

460

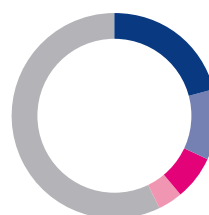
operating
locations

1,100

multi-year
contracts

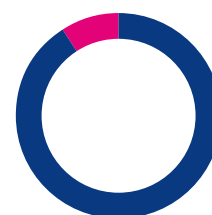
Year to 31 March	2019	2018
Revenue	\$2,424.9m	\$2,350.6m
Adjusted operating profit	\$230.0m	\$210.4m
Adjusted operating margin	9.5%	9.0%
Number of employees	48,000	48,000

First Student share of outsourced market (around 38% of total market)



● First Student	21%
● National Express	11%
● STA	7%
● Illinois Central, Krapf, Cook Illinois	4%
● Others	57%

2019 approximate revenue by type



● Home-to-school contracts	91%
● School and third party charter	9%

First Student Market review and trends

North America's 14,000 school districts deploy around 530,000 yellow school buses to provide home-to-school transportation for millions of students, with the total market estimated to be worth around \$25bn per annum. Approximately 38% of the total bus fleet is outsourced by the school districts to private operators, with the remainder operated in-house. Buses are also used for charter services, either for school customers in addition to scheduled school runs or for other customers such as church and community groups or businesses.

Demand for home-to-school services is principally driven by the size of the school age population. School districts are funded from state and local sources, including property tax receipts, and their budgets for all expenditure, including transportation, tend to be linked to the macroeconomic climate. The likelihood of school districts to outsource and changes in local criteria for service provision also play a part in the size of the addressable market.

Market conditions continue to support positive but limited organic growth and modest conversions to outsourced providers, having been through a period when the economic downturn put significant pressure on school board budgets, which led to organic contraction, price pressure and typical levels of contract churn. School districts focus on value for money and quality of execution, including safety. High-quality, efficient outsourced providers have been able to achieve above-inflation price increases in recent years, in part reflecting increasing shortages of drivers in certain regions as the US employment market has strengthened.

Customers

School districts' obligations to provide student transportation are determined by criteria set at state level. Contracts are typically three to five years in duration after which they are often competitively re-tendered, and specify fixed or annually indexed pricing, meaning that private operators bear cost risk. In addition to customers outsourcing for the first time ('conversion'), and the price indexation, growth is also driven by additional routes

due to population growth or other factors ('organic growth').

Competitors

The private outsourced market is highly fragmented, with only three companies operating fleets of more than 10,000 buses; together they account for around 40% of the outsourced market. 15 other operators have 1,000+ bus fleets, and the remaining half of the outsourced market is operated by several thousand small local operators. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, provide further growth potential.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Customer service, security and safety track record often as important as price
- Established relationships with local communities a barrier to entry
- Fragmented marketplace – multiple M&A opportunities.

First Student's revenue increased to \$2,424.9m (2018: \$2,350.6m), representing growth in constant currency of 3.4%. Following a number of years when our 'up or out' returns-based bidding strategy resulted in net business losses, this is the first year in more than a decade that First Student has grown each of revenue, bus fleet, and market share. Growth was driven by strong retention, net new business, pricing in excess of driver wage cost inflation and a net positive weather effect, partially offset by fewer operating days compared with the prior year due to the previous year's 53rd week and the overlay of the academic calendar with our financial year. Reported revenue was £1,845.9m (2018: £1,771.1m).

Adjusted operating profit increased faster than revenue to \$230.0m (2018: \$210.4m), resulting in an adjusted operating margin of 9.5% (2018: 9.0%, with contract portfolio pricing improvements, cost efficiency savings and new business wins exceeding the costs of driver shortages that persist as a result of the strong US employment market. The net weather impact was positive in the year, with both higher weather make up days (reflecting the severity of the winter in 2018) and a less severe 2019 winter. In reported currency, adjusted operating profit increased 10.9% to £173.5m (2018: £156.5m) and the division reported a statutory profit of £115.3m (2018: £88.4m), principally adjusting for amortisation of intangibles and First Student's portion of the North American self-insurance charge.

Focused and disciplined bidding

As previously noted, First Student had a strong summer 2018 bid season resulting in growth in bus fleet count for the first time in a number of years. We continued to focus our bidding strategy on only retaining or bidding for contracts at prices that reflect an appropriate return on the capital we invest. We secured average price increases in excess of the employee cost inflation we face from the strong employment market in parts of the US, while achieving a retention rate on 'at risk' business of 92%, the highest level for more than five years. Across the entire portfolio of multi-year contracts, retention was 97%. This strong performance on existing business was supplemented by new business won mainly from competitors and conversions from in-house to private provision representing approximately 1,580 additional buses, which was also ahead of our budget. Combined with a modest level of organic growth, we will be operating a bus fleet of approximately 42,500 vehicles for the balance of this school year.

Continuous improvement in operating and financial performance

First Student delivered further cost efficiencies, mainly from improvements to our engineering and maintenance practices and additional shop management strategies, in part using the expertise and technology solutions of First Transit's vehicle maintenance services segment. These and other management actions have delivered recurring cost savings of approximately \$17m in the year.

We continue to invest in our driver recruitment, onboarding and retention programmes in response to the driver shortage pressures the industry faces, and this year have launched a driver app to help connect and engage with our geographically diverse workforce. We are also piloting additional driver connectivity systems which will further improve the driver experience while allowing us to manage and respond to route and other changes in real time. We were very encouraged to see a significant improvement in employee satisfaction scores in this year's survey, given the importance of driver commitment to the service we deliver for our customers.

We aim to grow our services to markets adjacent to the traditional home-to-school market. This includes our charter business (now 9% of divisional revenues) which benefits our asset utilisation rates, though growth has been held back by the driver shortages experienced in our home-to-school business. In the year we began to market First Transportation Services to school boards who currently manage home-to-school bus services in-house, which will grow to encompass a suite of managed technologies and mobility services previously only available to our outsourcing customers.

Prudent investment in our key assets

We have sustained our investment in systems and processes that differentiate our offering and enhance our customer service levels and safety performance. Our FirstView smartphone app, which provides real-time bus location tracking for parents and school boards, is now available in 203 school districts covering 350,000 students with 50,000 registered users to date. With the increase in retention rates and new business wins our investment in our fleet has increased and we continue to improve our approach to cascading buses around our operations, a significant competitive advantage of scale in the industry. Our average fleet age reduced to 6.9 years (2018: 7.1 years). In August 2018 we acquired a 70-bus business in Ontario which is performing in line with our plans. During the year we continued to build our pipeline of other potential acquisition opportunities as we look to benefit from the returns available from local consolidation in the highly fragmented home-to-school market.

Responsible partnerships with our customers and communities

We are entrusted with the safety and security of millions of children every day, and the seriousness of that responsibility is central to our culture as an organisation. We maintained our firm commitment to safety during the year and continue to focus on improving our performance further.

We were very pleased to maintain our high customer satisfaction score of 8.75 out of ten and our likelihood to recommend scores in the year, reflecting our continued emphasis on serving our customers through deep relationships at a local level and not just meeting our contractual obligations. We believe this approach differentiates us from the competition, and is reflected in the award of some contracts in the year where we were not the lowest priced bid, or where we were able to deliver a flawless start-up for 6,000 students on six weeks' notice when a competitor was unable to proceed.

Our services also support our customers and communities in other ways. The American School Bus Council estimates that each school bus takes 36 cars off the road during the morning and evening peaks, reducing congestion and fossil fuel use. Without school buses more than 17m more cars could be transporting students to school each day in the US. First Student's own emissions of particulates and nitrogen oxides (NOx) have fallen by 29% and 15% respectively year-on-year, largely from our replacement of older fleet with lower-emission alternatives. We also continue to add to our alternative fuel fleet which now numbers more than 2,100 vehicles; principally Compressed Natural Gas (CNG) buses. First Student's carbon emissions have remained largely unchanged at 741,854 tonnes CO₂(e), comprising 28% of the entire Group footprint.

First Student priorities and outlook

We are pleased with First Student's improved performance in the year, and confident that as the largest business in the home-to-school market, it is now restored to a position of generating sustainable growth, cash and returns from its multi-year contract portfolio. We are focused on delivering further profitable growth through a combination of continued disciplined bidding, new business wins based on our market-leading credentials in safety and customer service, some organic growth, development of complementary mobility services and M&A. In the 2019 bid season we will be striving to repeat the extremely strong retention and growth performance of last summer. We are also targeting further incremental margin improvements underpinned by our pricing strategy and efficiencies including several procurement, maintenance and driver labour initiatives.



Business review First Transit



Brad Thomas
President, First Transit

- **Maintain value leadership in core business**
- **Growth from attractive adjacent markets**
- **Leverage partnerships to stay at the forefront of innovation in the mobility services sector**

12,900 **330** **324m**

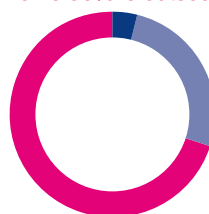
**vehicles owned
or operated**

**contracts with
an average
value of less
than \$5m**

**passengers
a year**

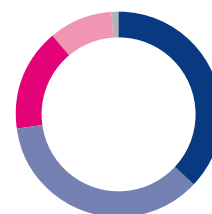
Year to 31 March	2019	2018
Revenue	\$1,411.4m	\$1,420.4m
Adjusted operating profit	\$67.7m	\$77.8m
Adjusted operating margin	4.8%	5.5%
Number of employees	19,500	19,000

**Approximate First Transit
share of c.\$32bn North
American transit market**
(of which c.30% is outsourced)



● First Transit	4%
● Other outsourced providers	26%
● In-house	70%

**2019 approximate
revenue by type**



● Fixed route	37%
● Paratransit	36%
● Shuttle	16%
● Vehicle services	10%
● Rail	1%

First Transit Market review and trends

The transit market is worth around \$32bn per annum in North America, of which around 30% is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts that typically last for three to five years. The market includes fixed route bus services (c. \$20bn segment, of which around 10% is outsourced), paratransit bus and related services (c.\$7bn segment, around two thirds outsourced), shuttle services (c.\$3bn segment, around 90% outsourced) and vehicle maintenance services (c.\$2bn segment, more than 30% outsourced). Internationally, the outsourced market for such services is at an earlier stage of development, though opportunities are increasing.

With aging populations and increasing urban congestion, the range and sophistication of transportation services that municipal authorities seek (or in some cases are mandated) to provide is rising. Private sector contractors are well placed to enhance fleet productivity, deliver innovation to improve passenger experience

and provide an efficient alternative to in-house provision, which results in the continued growth of the outsourced market. Meanwhile the shuttle segment continues to grow, with private companies, universities, airports and others seeking to offer improved services to their own customers and employees.

Customers

A wide range of customers contract out fixed route and paratransit services, including municipal transit authorities, federal, state and local agencies. These contracts typically are to operate and manage vehicle fleets owned by the client. Institutions such as universities, hospitals, airports and private companies are the main clients for the shuttle segment, and usually require provision of the vehicle fleet. Vehicle maintenance services include contracts for private and public sector clients, including municipalities, and fire and police departments. Customer demand for a broader range of mobility services solutions is increasing.

Competitors

First Transit has c.15% of the outsourced market in North America, which accounts for c.30% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America. First Vehicle Services business is estimated to be one of the largest providers in the outsourced fleet maintenance market, with Penske and Ryder being the main competitors. A number of small- and medium-sized companies represent a significant proportion of the outsourced market. The market continues to attract aggressive new entrants, though reputation and track record remain important differentiators.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Modest levels of capital required (apart from in shuttle)
- Aging populations and congestion trends provide support for continued international growth through further outsourcing.

First Transit's revenue was \$1,411.4m (2018: \$1,420.4m), a reduction of 0.4% in constant currency (and increased by 1.4% adjusting for the 53rd week in the prior year). As expected, contract awards and organic growth in the rest of the division were sufficient to offset the loss of revenue from a number of contracts in the Canadian oil sands region and elsewhere which completed at the end of the prior year. Reported revenue increased modestly to £1,075.8m (2018: £1,072.7m).

Adjusted operating profit was \$67.7m (2018: \$77.8m), representing an adjusted operating margin of 4.8% (2018: 5.5%). New business wins and non-recurrence of prior year effects such as the Puerto Rico hurricane did not fully offset the impact of the completion of the high margin contracts in the Canadian oil sands region noted above, and above-inflation cost increases reflecting increased self-insurance costs and the acute driver shortages in certain areas. In reported currency, adjusted operating profit decreased to £51.5m (2018: £58.2m) and the division reported a statutory profit of £23.1m (2018: £34.3m), principally adjusting for amortisation of intangibles and First Transit's portion of the North American self-insurance charge.

Focused and disciplined bidding

We were pleased that we significantly increased our retention of 'at risk' contracts to 89% (2018: 82%) in the year, though we converted fewer new business opportunities this year compared with last. Notable renewals included a major fixed route contract for the Denver Regional Transportation District, a paratransit contract in Washington DC and one in Maryland that also included a major extension. We also renewed shuttle contracts with United Airlines in Houston, Texas and Georgia Southern University, Georgia, as well as a large maintenance contract with New York City Parks and Recreation, New York. New business wins included shuttle contracts for Stanford University, California, the City of Lawrence/University of Kansas and an energy sector customer in Western Canada, integrated fixed route and paratransit services for the city of Visalia, California, Tulsa, Oklahoma and Sussex County, Delaware and a fleet maintenance contract for the City of Roswell, New Mexico.

Continuous improvement in operating and financial performance

We continue to adapt and develop our technology infrastructure, management expertise and national service platform to underpin First Transit's performance in highly competitive markets. We are focused on further improvements to our recruitment, retention and

training processes to offset the challenges of the tight US employment market. We continue to invest in systems to optimise our procurement, driver operations and maintenance functions in order to remain competitive in a dynamic market place where labour cost inflation remains a focus.

Prudent investment in our key assets

In the majority of our contracts we operate or manage services on behalf of our clients rather than providing vehicles. We continue to invest in driver management, predictive analytics and routing technology. First Transit has more than 70 ASE Blue Seal-certified maintenance shops in North America, more than all of our competitors combined, which demonstrates our commitment to stewardship of our customers' assets. We continue to take a disciplined approach to applying our expertise to new services and geographies to secure additional sources of growth. We are actively developing our expertise in Mobility as a Service (MaaS) systems, and we were recently selected as a MaaS preferred partner by Denton County Transportation Authority. We are actively participating in several SAV pilot programmes, and secured four new operations in Texas, California and Florida in the year. We continue to examine opportunities to extend our presence in adjacent markets where we believe we have a competitive advantage.

Responsible partnerships with our customers and communities

Our focus is on offering the best value package to our customers and the communities we serve, which means our service standards, expertise and safety credentials are as important as our cost efficiency in winning or retaining business. We continue to develop our safety behavioural change programme, focusing on our key risks, and we were pleased to have maintained our strong customer satisfaction scores during the year. First Transit is also a leader in operating mass transit technologies with low or no tailpipe emissions, such as the electric vehicles we operate in Minnesota as well as for our various SAV projects. We recently also added more than 40 electric vehicles to our shuttle fleet for one of our university campus clients, with further vehicles being added to the fleet in the year ahead.

First Transit priorities and outlook

Although revenue growth in any one year will as ever depend on the mix of contract wins and losses, we have significant sector expertise and exceptional management strength in North American transportation markets, where outsourcing trends continue

to produce opportunities to achieve attractive returns and cash generation with relatively modest capital requirements. In the near term we expect our margins to be flat, reflecting the current cost inflationary environment in certain areas. We are confident in the long term prospects for further growth in our core markets, particularly in shuttle and in vehicle services, and we continue to pursue opportunities in certain adjacent markets where we have now established our credentials – such as commuter rail, bus rapid transit (BRT), and autonomous vehicle management. As our markets continue to evolve, we will look to enhance existing and new partnerships with ridesharing and other Transportation Network Companies (TNCs).

Our services are a compelling option for both local authorities and private customers to outsource their transportation management needs. We will therefore keep bidding for contracts where we can provide good value to clients while achieving appropriate margins with modest capital investment, as we continue to build our platform in mobility services.



Business review Greyhound



Dave Leach
President, Greyhound

- Capture maximum value from our brand and nationwide network
- Deliver improved performance potential from revenue, cost reduction and fleet investment
- Continue property rationalisation

2,400

destinations
across North
America

1,000

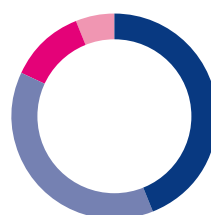
Point-to-Point
Greyhound
Express city pair
combinations

1,500

approximate
vehicle fleet

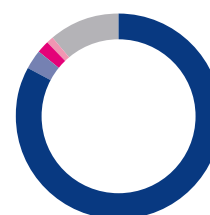
Year to 31 March	2019	2018
Revenue	\$846.7m	\$912.7m
Adjusted operating profit	\$14.2m	\$32.8m
Adjusted operating margin	1.7%	3.6%
Number of employees	5,500	6,000

**Distribution of Greyhound
passengers by mileage band**



● 1-200 miles	44%
● 201-450 miles	38%
● 451-1,000 miles	12%
● 1,000+ miles	6%

**2019 approximate
revenue by type**



● Passenger	83%
● Package Express	3%
● Food	2%
● Charter	1%
● Other	11%

Greyhound

Market review and trends

In the past ten years the US intercity coach industry has enhanced its relevance to potential passengers through improvements in the onboard experience and new or improved offerings such as point-to-point 'express' services on high density routes. The potential market size remains a significant opportunity, with an estimated 42m people considering coach travel every year, of whom a quarter currently use Greyhound. Even regular coach users choose competing modes 75% of the time, but a combination of convenient city centre destinations, tailored services and price has the potential to grow ridership and frequency of use, particularly for relatively short haul journeys.

Coach passenger demand typically improves when at-pump fuel prices are high, and reduces when fuel prices fall, as the cost of other forms of transport became more attractive. More recently, competition from ultra low cost airlines, that have continued to add significant capacity to their fleets over recent years, has had a significant impact on coach demand.

As well as passenger revenues, income is generated from charter and tour organisation, terminal catering outlets and package express services. Partnerships between Greyhound and independent bus lines ('interlining'), extend the reach of our national network.

Customers

North American intercity coach firms serve a wide range of customers, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services such as Greyhound Express attract a younger, urban demographic with less interest in maintaining a private car. Historically customers typically bought tickets at terminals on their day of travel, but today more than half buy online via computer or smartphone.

Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including budget airlines and the private car. The intercity coach market is highly competitive in dense travel corridors such as the US north east and north west, where coach also competes with air and rail.

Market attractions

- Private car use becoming less attractive to younger customers, due to increasing urbanisation, congestion and costs of motoring
- Target demographic segments responsive to innovation through technology and value-for-money offering
- Opportunities to expand penetration and footprint in US and Mexico
- Under-utilised services may be part-funded by transport authorities.

In the year, Greyhound's revenue was \$846.7m (2018: \$912.7m), a reduction of (7.0)% in constant currency, driven by the withdrawal from Western Canada in October 2018, and the 53rd week in the prior year. Like-for-like revenue was +0.2%. In the year short haul growth including like-for-like growth of 0.2% by Greyhound Express was exceeded by growth in the 1,000+ mile long haul segment. Mid-range trips were slightly down year-on-year, experiencing competition from airline capacity increases in certain markets. Reported revenue reduced by £45.1m to £645.1m (2018: £690.2m).

Adjusted operating profit was \$14.2m (2018: \$32.8m), representing an adjusted operating margin of 1.7% (2018: 3.6%). The margin was heavily affected by higher maintenance, driver training and fleet costs, partially offset by management actions and gains on sales of property of \$10.8m or £8.4m. Adjusted operating profit in reported currency decreased by 55.3% to £11.4m (2018: £25.5m) and the division reported a statutory loss of £33.8m (2018: loss of £266.3m) reflecting restructuring and reorganisation costs associated with the withdrawal from Western Canada and Greyhound's share of the North America insurance charge, partially offset by property disposals. The Group estimates that disposal proceeds from surplus properties in Western Canada will largely offset the cash costs of restructuring and reorganisation, over time.

Greyhound's performance has been disappointing, but it has begun to benefit from the changes we made following a review of its business and prospects during the first half of the financial year. We have brought new capabilities into the commercial team including the appointment of a new commercial director with a background at a leading US airline, delivered overhead reductions, and implemented a series of revenue improvement, cost reduction and investment initiatives in the middle of the year to turn around Greyhound's financial performance and enhance our services for customers. In the year we also completed the withdrawal of service in Western Canada from October, following the earlier closures of routes in British Columbia. In the second half revenue per mile and yield trends were stronger than the first half, benefitting from the pricing and other actions we have taken together with an increase in demand in the US south west.

Driving growth through attractive commercial propositions

Greyhound is a unique business with an iconic brand and, by linking large 'point-to-point'

short haul markets together to serve more than 245,000 smaller 'network' markets, we have the only true intercity coach network in North America. The business has taken several steps to transform all areas of the customer experience over recent years through investment in technology. During the current year the business has delivered further enhancements to its website, mobile app, customer call handling, onboard infotainment systems, as well as bus-side ticket scanning, which streamlines boarding times. Greyhound also continues to refine and enhance our pricing and yield management system by implementing forecasting and network optimisation functionality to leverage our network, similar to large airlines. Strategic marketing expenditure, highly targeted on our core customer demographic, is increasingly integrated with the commercial team's tactics across all market types.

Continuous improvement in operating and financial performance

We continue to strengthen our processes and maintenance systems to improve reliability, and this, assisted by our fleet renewal programme, resulted in an improvement in punctuality statistics from the middle of the year. In addition to the changes made to the Canadian network footprint, we continue to optimise overhead, procurement, driver training and other expenditures to improve efficiency and reduce cost. In the year we have also largely completed the integration of our Bolt point-to-point operations back into Greyhound.

Prudent investment in our key assets

Our maintenance and fleet availability performance is also beginning to improve with the investments we are making in fleet renewal and refurbishment. As noted elsewhere, following a number of years where the business required few additional vehicles, we have stepped up our fleet renewal plan, resulting in the addition of 108 new vehicles to the fleet this year. All have high-quality amenities as standard, including free onboard entertainment, Wi-Fi, leather seats and generous legroom.

We continue to review our terminal footprint, looking for opportunities to move to intermodal transport hubs or new facilities better tailored to our needs. In addition to a number of smaller terminal changes, this year we completed the sale of a major Greyhound maintenance facility in Chicago. The resulting gain on sale of £9.3m was treated as an adjusting item.

We were the first international operator to provide both international links and domestic operations in Mexico, and in the year we launched a major new route in this market.

Responsible partnerships with our customers and communities

We continue to invest in customer service training and apprenticeships to improve our customer relationships further at the front line.

We also continue to work to improve our environmental impact, principally through our investments in more efficient and aerodynamic buses. At 32.5g per passenger km, intercity travel by Greyhound already offers the lowest per-passenger carbon emissions of any modal alternative – around 89% lower emissions than an equivalent domestic passenger plane journey and 85% lower than the average US passenger car, largely unchanged from last year. Our 2018/19 investments in new, lower emission vehicles helped us drive down emissions, energy use and improve local air quality, reducing our emissions of particulates by 16%, and we expect to make further progress as our fleet modernisation programme continues.

Greyhound priorities and outlook

Since the changes we made following our review took effect during the year, we have begun seeing an encouraging improvement in key indicators such as revenue and yield per mile, which underpin our confidence that the mid-single digit margin target will be achieved in the medium term. We believe that at this stage in Greyhound's development, value for shareholders can best be delivered by seeking new owners for the business that will further support the delivery of the improved performance potential. As such a formal sale process for Greyhound is underway. During this time we will continue to execute our plans to enhance Greyhound's performance and our services for our customers with pace and commitment.



Business review First Bus



Giles Fearnley
Managing Director, First Bus

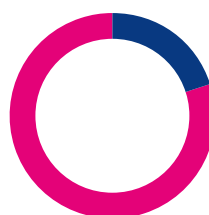
- **Prioritise investment where we can work in partnership with local authorities**
- **Frictionless customer offering to drive growth**
- **Drive further efficiencies in cost base**

1.6m
passengers
per day

5,700
approximate
fleet of buses

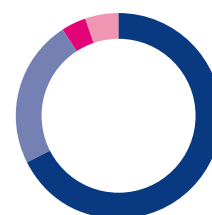
Year to 31 March	2019	2018
Revenue	£876.1m	£879.4m
Adjusted operating profit	£65.8m	£50.2m
Adjusted operating margin	7.5%	5.7%
Number of employees	16,500	16,500

Approximate First Bus market share of UK market outside London



● First Bus 20%
● Others 80%

2019 approximate revenue by type



● Passenger revenue 67%
● Concessions 23%
● Tenders 4%
● Other 5%

First Bus

Market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services provided by private operators, though a small number of local authority-owned operators still exist. In local bus markets, operators set fares, frequencies and routes commercially while operating some 'socially necessary' services under local authority contracts. Around 2.7bn passenger journeys are made on bus services outside London, generating revenues of approximately £4.2bn a year.

Partnerships between operators and local authorities are a core principle for the industry and central government, to support service delivery, minimise congestion and drive innovation and investment. The DfT promotes this through initiatives such as Better Bus Area grants and the Green Bus Fund. In recent years, operators have improved their offering to passengers through smart and multi-operator ticketing, more flexible fare options, real-time passenger information and increasingly tailored local services.

Since deregulation, local authorities have had the ability to regulate services in their area if they demonstrate the existing model is failing to deliver for passengers, though such powers have not been exercised anywhere to date. The Bus Services Act 2017 simplified the process of exercising franchising powers for qualifying local authorities, though it also enhances the range of partnership models available to local authorities, which First Bus already supports in areas such as Doncaster, Leeds, Sheffield, York, Cornwall, Norfolk, Hampshire and the West of England.

Customers

Bus market revenues principally comprise passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares). A significant proportion of customers use bus services to commute (to work or education), to shop and for leisure. Income is also generated through tendered local bus services and bespoke contracts such as Park & Ride schemes.

Competitors

The UK bus market (outside London) is deregulated and highly competitive with hundreds of operators; we face competition in all markets in which we operate. Through the year operators have both entered and left the market. The main competitor is the private car.

Market attractions

- Growth potential from strategies tailored to specific customer segments or to enhance convenience
- Opportunity in youth demographic, where car ownership is falling
- Local bus trips account for 59% of all journeys by public transport in England and form an important component of local authorities' ability to fulfil their air quality obligations
- Bus travel diversified by journey purpose.

First Bus like-for-like passenger revenue growth was 1.6%, though reported revenue of £876.1m (2018: £879.4m) was (0.4)% lower in constant currency terms, largely reflecting the 53rd week in the prior year. Like-for-like commercial passenger revenue increased by 2.0% and revenue per mile by 4.0%, although conditions for the industry remain uncertain and demand patterns continue to vary significantly amongst our local markets. As previously reported, retail footfall trends continue to affect demand in many markets, particularly in the North and Scotland, whilst traffic congestion in a number of cities magnifies these challenges. The overall like-for-like passenger volume decline of (0.7)% mainly reflected further reductions in concessionary passengers due to changes in bus pass entitlement and funding in the year. Our contract and tendered revenue decreased slightly in the year, primarily reflecting reduced funding from local authorities.

Adjusted operating profit was £65.8m (2018: £50.2m), or an adjusted margin of 7.5% (2018: 5.7%). Adjusted margin increased by 180bps, reflecting stabilised passenger volumes, the cumulative effect of our past and present cost efficiency and network actions and a fuel tailwind. Principally reflecting restructuring and reorganisation costs and the loss on disposal and impairments in Manchester, the division reported a statutory profit of £27.4m (2018: £29.3m).

Driving growth through attractive commercial propositions

Our customer offering continues to develop with a particular focus on easy and convenient ticketing. In September we became the first major UK bus operator to offer contactless payment on all our buses. Combined with increased mobile ticketing uptake we met our goal to reduce cash transactions to less than 45% of on-bus revenue by year end. Digital and other non-cash payments will accelerate boarding times while reducing our back office costs. We upgraded our passenger app to incorporate both multi-modal journey planning and mobile ticketing, and also introduced a customer feedback tool to the app in the year.

Drawing on our extensive Park & Ride experience, in the year we have rationalised and relaunched the Taunton, Somerset operations having taken commercial responsibility for routes that would otherwise have been withdrawn following reductions in local authority funding. We delivered contracted services for events such as the European Championships in Glasgow in August and numerous rail replacement services.

Continuous improvement in operating and financial performance

We continued to take action during the year to improve our cost efficiency, including through consolidation of our depot footprint. We closed our Clacton, Essex depot in July, and in Manchester we have made a number of changes, including announcing in February the sale of the Queens Road depot and operations to the Go-Ahead Group which will complete after year end. We continuously review networks to ensure we maximise demand for our services and enhance route performance for passengers using travel pattern data we are able to track for the first time. With every bus now equipped with GPS systems we can optimise our routes in real time in response to traffic incidents. During the year we have developed a shared service centre in Leeds which is allowing us to centralise a variety of customer facing and back office functions.

Prudent investment in our key assets

We remain focused on targeting our investment in areas where local authority stakeholders recognise the importance of the bus sector's role to meet air quality targets, reduce congestion and strengthen local economies. As many of our markets are introducing more stringent air quality plans, our investment in low emission vehicles continues. We took delivery of 328 new EURO VI emissions standard vehicles in the year, a more than twofold increase over the prior year. We upgraded 215 vehicles to cleaner EURO VI standards in the year, and anticipate retrofitting 1,200 more principally funded by grants, including from the Government's Clean Air Fund. At 84g of CO₂(e) per passenger km (2018: 81g), First Bus offers 26% lower per-passenger carbon emissions than the average UK passenger car. Each of our double decker buses could take up to 68 cars off the road on average. We also continue to gain experience of alternative fuel types such as hydrogen in Aberdeen and biogas in Bristol. In York, First Bus will become one of the largest operators of electric buses outside London with delivery of 21 double deck vehicles, partly funded by OLEV grants, later this year for the Park & Ride network, joining the 12 single deck electric buses which have been operating since 2014. We continue to work with our partners toward the introduction in 2020 of autonomous vehicles at the Milton Park Business Science Hub, providing services both on site and to connect to nearby Didcot Parkway Station.

Responsible partnerships with our customers and communities

Buses have a huge role to play in delivering the UK's clean air ambitions, but for them to maximise their potential and make a real impact on mitigating the effects of congestion,

it is essential that operators and local authorities work together in partnership. We are proud of our track record in doing so, working for example over many years with Bristol City Council and the West of England Combined Authority to deliver a 42% increase in bus use over the past five years, the best performance in the UK. In May 2018 we started operating the new Metrobus route network in the area which is underpinned by dedicated bus lanes, bus priority at junctions and EURO VI-compliant diesel and compressed natural gas buses which are designed specifically for quicker and fewer stops, meaning faster journeys.

We have entered into a four-year partnership with Leeds City Council and the West Yorkshire Combined Authority with the shared objective of doubling passenger numbers by 2030 and securing compliance with air quality limits. We have committed to invest in 284 ultra-low emission buses while the local authorities are investing £174m to deliver five bus corridors, city centre improvements and four new or extended Park & Ride sites. Another 105 new vehicles joined this fleet during the year.

In Glasgow, we are collaborating with the City Council and other local partners to relaunch the bus partnership. We have invested in 150 new buses in support of Glasgow's new Low Emission Zone; the City Council is in turn developing a programme of bus priority measures. We also engage extensively with the DfT and the Welsh and Scottish devolved governments, seeking to ensure that buses deliver their full potential.

First Bus priorities and outlook

Over the past two years, First Bus has improved its adjusted margin by more than three percentage points while growing revenues despite a relatively challenging market backdrop. We have reinvested in our fleet and our systems, and are benefitting from the growing digitisation of our revenue collection, commercial decision making, and operations and maintenance processes. First Bus is now on a much stronger footing as a business, with margins on a path towards the double digit levels enjoyed by peers. There are however limited synergies between First Bus and our North American businesses, and we therefore believe now is the right time to pursue structural alternatives to deliver value to shareholders, while managing the longer term liabilities of the division. While we do this, our focus will remain on improving our returns by making journeys simpler for our customers, enhancing our efficiency and optimising investment in our core markets.



Business review First Rail



Steve Montgomery
Managing Director, First Rail

- Deliver growth from capacity additions and service enhancements in accordance with our franchise agreements
- Leverage our scale to deliver efficiencies

1,800

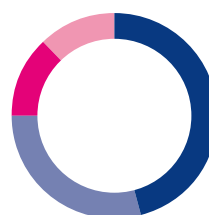
New carriages introduced over current franchises

9.0bn

passenger miles travelled

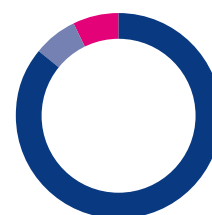
Year to 31 March	2019	2018
Revenue	£2,666.7m	£1,968.8m
Adjusted operating profit	£72.3m	£57.8m
Adjusted operating margin	2.7%	2.9%
Number of employees	12,500	10,500

Passenger revenue base of First Rail operations



● Leisure	46%
● Business	29%
● Commuter	13%
● Travelcard (incl Oyster)	12%

2019 approximate revenue by type



● Passenger revenue	86%
● Franchise subsidy receipts (£193.8m) ¹	7%
● Other income	7%

¹ In the year the Group also made total franchise payments to Government of £293.3m, which are included in costs

First Rail

Market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through franchises awarded by the relevant authority, but may also be provided on an open access basis. Many elements of the service provided to customers are mandated as part of the franchise contract and others are left to commercial judgment. Total franchised passenger revenues in the UK are more than £10bn per annum. Rail tracks and infrastructure (signalling and stations) are owned and managed by Network Rail, and TOCs typically lease most stations from Network Rail and rolling stock from leasing companies.

Passenger numbers have more than doubled since privatisation, recently reaching a post-war high of 1.7bn, though the rate of growth has recently slowed due to a variety of factors including changing working patterns and recent service reliability issues. The Government continues to invest in upgrades to the rail infrastructure across the UK, with Network Rail delivering a number of large national projects such as route electrification on the Great Western mainline.

Network Rail's digital railway strategy aims to create more capacity and more frequent services and enable vastly improved mobile and Wi-Fi connectivity. The industry collectively launched a campaign highlighting partnership working to deliver more capacity and enhanced services and a consultation on reforms to make the fare system more accessible to customers.

In September 2018 the UK Government established the Williams Rail Review to look at the structure of the whole rail industry and the way passenger rail services are delivered. The independent review will make recommendations for reform that prioritise passengers' and taxpayers' interests. The review's findings and recommendations will be published in a government white paper in autumn 2019. Reform will begin in 2020.

Customers

Rail markets are generally categorised into three 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. SWR customers are largely commuters.

TransPennine Express (TPE) is mainly a long distance intercity operation, and Hull Trains caters principally to long distance and leisure travellers.

Competitors

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

Market attractions

- More than £10bn of long term contract-backed passenger revenue available through 19 major franchise opportunities
- New franchises typically have significant revenue opportunity and risk with some revenue protection, clear contingent capital requirements but low overall capital intensity
- Regulated environment, including government-capped regulated fares
- Historically high levels of passenger numbers across the UK.

First Rail division revenue increased to £2,666.7m (2018: £1,968.8m), principally reflecting the inclusion of the SWR franchise for the full financial year (FirstGroup operated SWR for seven months of the prior financial year) and the transition of GWR from premium to subsidy in the year due to the cost of new rolling stock. Like-for-like passenger revenue growth was 5.8% and passenger volume growth improved to 2.0%. Growth rates across the industry continue to be affected by UK macroeconomic uncertainty, modal shift due to lower fuel prices and changing working practices, while our networks have experienced challenges from strike action in SWR's case and the effect of rail infrastructure upgrade works. The latter is particularly relevant to GWR, although like-for-like passenger revenue growth of 5.1% in the franchise accelerated during the year, benefiting in part from the additional capacity generated by the introduction into service of the Intercity Express Trains (IETs). TPE delivered like-for-like passenger revenue growth of 8.0%, with greater growth expected as we complete the introduction into service of new fleets in the coming period. At 6.0%, SWR's like-for-like passenger revenue growth and operational performance has been affected by a number of factors including infrastructure disruption.

Adjusted operating profit of £72.3m (2018: £57.8m) represents a margin of 2.7% (2018: 2.9%), and in part reflects payments associated with network unavailability due to delays on infrastructure improvements and repairs at GWR, as well as the resolution of certain historic claims in relation to Network Rail. All of our train operating companies were to some extent affected by the national rail industry decision to defer the December 2018 timetable changes, a significant and unforeseen change in circumstances which meant we could not deliver some additional services and other passenger benefits as originally scheduled under the franchises. Certain commercial and contractual changes have been discussed with DfT and recognised in part during the period, but we remain engaged in discussions with the DfT in relation to their effects over the longer term. TPE did not utilise the provision for forecast losses during the year, though we continue to expect the provision to be used in full over the franchise life, due to the reprofiling of the timetable changes. As noted elsewhere, management have prepared updated financial forecasts for the SWR franchise. Due to the range of uncertainties facing the franchise, the Group has made provision for £145.9m in total, which is the maximum unavoidable loss

under the Franchise Agreement, and this has been charged to the income statement. FirstGroup's 70% share of the losses is therefore £102.1m. The Rail division reported a statutory loss of £77.1m (2018: loss of £50.6m) for the year.

Focused and disciplined bidding

GWR currently operates under a direct award which runs to the end of March 2020 following the DfT's decision to exercise an extension option. Discussions are ongoing regarding the DfT's stated intention to award a subsequent short-term contract to at least 2022. We are a shortlisted bidder for the upcoming West Coast Partnership franchise with Trenitalia. Away from franchising, we continue to develop our plans for a new single-class open access service between London, the North and Edinburgh from 2021 and in March this year we finalised an order with Hitachi for new trains for this operation.

Continuous improvement in operating and financial performance

We work closely with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects while minimising disruption for passengers. Completion of these projects allows additional train capacity or services to be introduced, generating patronage growth that in turn drives franchise business plans and premia to the government. Each of our three franchises are undergoing periods of significant change, which require careful planning, management and negotiation with Network Rail and our other partners, in particular where delays can affect the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the Group.

Network Rail's upgrade work on the Great Western mainline, including electrification, continues albeit to a different timescale than originally envisaged. GWR have worked closely with our industry partners to ensure our franchise plans reflect the impact of this extended delivery time. Suburban electrification has now been completed on GWR's Newbury line, which allowed for further new electric trains and a new timetable to be introduced in January 2019. In turn, our transfer of suburban diesel trains to enhance capacity in Bristol and the West Country is ongoing. We have now taken delivery of 93 IETs from Hitachi, enabling a 40% increase in seat numbers on long-distance services compared to 2015, with quicker journey times and more frequent services.

SWR performance levels were challenging during the 2018 calendar year, reflecting historic infrastructure issues dating from before we took over the franchise in August 2017. We are working with Network Rail on plans to return service to levels that our customers expect, as set out in the independent review by Sir Michael Holden. The improvements made as part of these plans have helped lead to more stable performance since January. Our SWR customers have also faced considerable disruption to their journeys due to unnecessary and as yet unresolved industrial action by the National Union of Rail, Maritime and Transport Workers (RMT). We have guaranteed that a guard with safety critical competencies will be rostered on every train, no guards will lose their job because of these changes, and reminded our stakeholders that SWR will want more guards in future since our plans call for more services to be introduced. SWR remains focused on delivering a resolution of the industrial dispute in the interests of our passengers.

Later this year SWR will begin introducing a fleet of 90 suburban trains manufactured by Bombardier, providing a 46% increase in peak capacity on London routes. Existing fleets are being completely refitted and refreshed, and an additional set of 18 fully refurbished trains will be re-introduced to the London-Portsmouth route by the summer. The May 2019 timetable change resulted in more than 300 additional train services a week for customers across the network, many of which have been introduced following extensive consultations and feedback sessions with local stakeholders and customers.

Our TPE franchise is being transformed into a true intercity network for the North, with capacity due to be increased by more than 80%. We have begun taking delivery of the first of 220 new carriages, comprising Hitachi IET-type trains and a further intercity fleet from CAF. TPE and others in the region were able to make changes in the December 2018 timetable which have helped to stabilise the poor performance resulting from the timetable changes earlier in the year.

Business review

First Rail continued

Our open access operator Hull Trains continues to score well in the independent National Rail Passenger Survey. The company saw some challenges due to performance issues with the fleet during the year. New trains are due to be brought into the fleet later in 2019, and in the meantime two former GWR trains have been redeployed to give greater resilience to the service.

Management of rail franchise commitments

All our plans envisage new trains to be delivered for all of our rail operations and by next year, 90% of our customers are due to be travelling on a train less than five years old. Passenger benefits from these new trains include more seats and space, Wi-Fi and onboard entertainment options. Several other fleets are being completely refurbished to provide customers with similar amenities. Our franchises have also introduced more convenient ticketing options including smartcards, barcodes and auto-renewing season tickets. Easier, more generous and more flexible delay compensation has also been introduced to each franchise.

Responsible partnerships with our customers and communities

Customer and Communities Improvement Funds are in place at all three of our franchises, which work with community organisations across the network to give grants for projects. More information on our work with communities can be found on page 35. First Rail has an industry leading position in partnering to reduce carbon emissions. This includes the introduction of bi-mode diesel and overhead electric powered trains, enabling us to make use of electrification when it is available, without compromising our ability to continue servicing non-electrified parts of the network. Tri-mode trains, which draw power from a third rail, are also due to be introduced during this year. Electrification of our routes has contributed to a 15% reduction in greenhouse gas emissions per passenger km in the past three years. This progress is likely to continue as the UK power grid further decarbonises and our rail network is progressively electrified.

First Rail priorities and outlook

We remain focused on working with our industry partners to deliver our plans for more capacity and better customer experiences at all our train operating companies, which will in turn drive patronage growth over time. Our rail portfolio has continued to generate good returns overall, although, because of ongoing industry conditions and the difficult operational environment our portfolio is experiencing, we expect a smaller year-on-year adjusted operating profit contribution from the rail division in 2019/20. The payments associated with network unavailability due to infrastructure improvements and repairs will continue to cause swings in period-to-period profits.

Looking ahead, we have a portfolio of separately managed rail franchise businesses in the UK which we will operate in accordance with their contractual terms. The UK government's rail franchising system is the subject of a major review of the most appropriate organisational and commercial frameworks to deliver services in future, which is currently ongoing. Any future commitments we make to UK rail will need to have an appropriate balance of potential risks and rewards for our shareholders.

Financial review

Underlying Group revenue increased by 5.7%, and underlying adjusted operating profit increased by 10.5%.



Nick Chevis
Interim Chief Financial Officer

Summary of the year

Reported Group revenue in the year increased by 11.4% including a full year of the SWR franchise and the translation of our US dollar-based businesses into pounds Sterling at stronger rates than the prior year, partly offset by the 53rd week in the Road divisions last year. Adjusting for these factors, Group revenue increased by 5.7% with growth in all our divisions apart from Greyhound, where revenues reflected the ongoing challenges in its long haul markets and withdrawal of services in Western Canada.

Group adjusted operating profit in constant currency increased by 4.0% or by 10.5% adjusting for SWR and the 53rd week in the Road divisions last year, reflecting progress in First Rail, First Bus and First Student partly offset by Greyhound and First Transit. Group adjusted operating profit margin in constant currency decreased by 30bps to 4.7%, with the Road divisions reduced by 10bps and the expected rebasing of the Rail margin. In reported currency, adjusted operating profit increased by 5.0% to £332.9m (2018: £317.0m).

Net finance costs decreased to £106.6m (2018: £120.0m before bond 'make whole' costs), resulting in adjusted profit before tax of £226.3m (2018: £197.0m), an increase of 14.9%. Adjusted profit attributable to ordinary shareholders was £173.6m (2018: £147.7m), reflecting the higher adjusted profit and lower net finance costs. Adjusted EPS increased by 17.1% to 14.4p (2018: 12.3p). In constant currency, adjusted EPS increased by 15.2%. EBITDA decreased by 2.9% to £670.3m (2018: £690.6m).

Statutory operating profit of £9.8m (2018: loss of £196.2m) and statutory loss before tax of £97.9m (2018: loss of £326.9m), principally reflected the non-recurrence of Greyhound goodwill and other asset impairments, onerous contract provision for the TPE rail franchise and the bond 'make whole' costs relating to redemption of the September 2018 bond from prior year, together with the current year gain on disposal of a Greyhound facility and lower intangible asset amortisation. These were partly offset by the North America self-insurance reserve charge of £94.8m, the SWR onerous contract provision of £145.9m in total of which

FirstGroup's 70% share is therefore £102.1m, past service charge for the guaranteed minimum pensions and the loss on disposal and impairments in First Bus. Statutory EPS was (5.5)p (2018: (24.6)p) in the year.

The net cash inflow for the year was £197.3m (2018: £199.0m including £88.5m in First Rail start of franchise cash flows), which combined with movements in debt due to foreign exchange, resulted in a decrease in net debt of £166.9m (2018: £219.6m). The cash inflow from First Rail was particularly significant this year, though this reflects the phasing of approximately £90m in working capital, grant and other funding inflows, which we expect to reverse in the 2019/20 financial year. As at 31 March 2019, the net debt: EBITDA ratio was 1.3 times (2018: 1.5 times). Adjusting for cash ring-fenced in the First Rail division, net debt: EBITDA was 2.1 times (2018: 2.1 times).

Liquidity within the Group has remained strong; as at the year end there was £520.6m (2018: £766.4m) of headroom on committed facilities and free cash, being £353.3m (2018: £603.0m) of committed headroom and £167.3m (2018: £163.4m) of free cash. Our average debt maturity increased to 4.3 years (2018: 4.1 years), reflecting the Group's agreement in November 2018 to amend and extend our main revolving bank facilities to November 2023, and the repayment of the £250m bond using free cash and drawings from our revolving bank facilities in January 2019.

During the year, gross capital investment of £459.1m (2018: £309.9m) was invested in our Road divisions, including operating leases with a capital value of £127.1m (2018: £6.0m). The increase in the Road divisions' gross capital expenditure was driven principally by the higher retention rates and new business wins achieved in First Student's summer 2018 bid season.

ROCE increased to 10.5% (2018: 8.9% at constant exchange rates and 9.5% as reported).

Finance costs and investment income

Net finance costs before adjustments were £106.6m (2018: £120.0m) with the decrease principally reflecting lower bond interest due to the early bond redemption in March 2018 partly offset by the interest on the new senior unsecured loan notes.

Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £226.3m (2018: £197.0m), with the increase due principally to higher adjusted operating profit and lower net finance costs. An overall charge

Financial review continued

of £324.2m (2018: £523.9m) for adjustments including other intangible asset amortisation charges of £29.9m (2018: £70.9m) resulted in statutory loss before tax of £97.9m (2018: loss of £326.9m).

Tax

The tax charge, on adjusted profit before tax, for the year was £50.9m (2018: £44.2m) representing an effective tax rate of 22.5% (2018: 22.4%). There was also a tax credit of £40.8m (2018: £55.6m) relating to intangible asset amortisation charges and other adjustments of £324.2m (2018: £523.9m). In 2018 the US corporate income tax rate reduced from 35% to 21% under the US Tax Cuts and Jobs Act and this change also resulted in the re-measurement of brought forward deferred tax balances giving rise to a one-off tax credit in the income statement last year of £24.6m. The total tax charge was £10.1m (2018: credit £36.0m) representing an effective tax rate on the statutory loss before tax of (10.3)% (2018: 11.0%). This rate is different from the effective tax rate on adjusted profits primarily because the potential tax credit on the losses carried forward in SWR is not recognised. The Group's effective tax rate is sensitive to the geographic mix of profits including tax rates in the US and Canada (including state taxes) that are higher than in the UK and to changes in tax law and rates in the jurisdictions in which it operates.

The actual tax paid during the year was £7.5m (2018: £12.2m) and differs from the tax charge of £10.1m primarily because of capital allowances in excess of depreciation and the utilisation of carried forward tax assets.

EPS

Adjusted EPS increased 17.1% to 14.4p (2018: 12.3p) and basic EPS was (5.5)p (2018: (24.6)p).

Shares in issue

As at 31 March 2019 there were 1,208.6m shares in issue (2018: 1,203.1m), excluding treasury shares and own shares held in trust for employees, which decreased in the year to 5.3m (2018: 7.7m). The weighted average number of shares in issue for the purpose of basic EPS calculations (excluding treasury shares and own shares held in trust for employees) was 1,205.9m (2018: 1,205.1m).

Reconciliation to non-GAAP measures and performance

Note 4 to the financial statements sets out the reconciliations of operating profit/(loss) and loss before tax to their adjusted equivalents. The adjusting items are as follows:

Other intangible asset amortisation charges

The amortisation charge for the year was £29.9m (2018: £70.9m) with the reduction due to a number of customer contract intangibles which have now been fully amortised.

SWR onerous contract provision

Management have prepared updated financial forecasts for the SWR franchise until the initial franchise end date of 17 August 2024, which are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue protection mechanisms, as well as the impact of changes in timetables, capacity, aging infrastructure and rolling stock. There is considerable uncertainty about the level of passenger revenue growth and future impact of the industrial action in addition to uncertainty as to the level of strike amelioration recoverable from the DfT, and we remain in negotiations with them. Progress has been made and we continue to be engaged in discussions with the DfT to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Based on these forecasts the Group has concluded that it has an onerous contract, the value of which is estimated to be £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement. Accordingly, this amount has been charged to the income statement. FirstGroup's 70% share is therefore £102.1m.

Revenue and adjusted operating profit

Revenue and adjusted operating profit by division is set out below. For more information on divisional operating performance see the business review on pages 14 to 24.

	Year to 31 March 2019			Year to 31 March 2018		
	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %	Revenue £m	Operating profit ¹ £m	Operating margin ¹ %
First Student	1,845.9	173.5	9.4	1,771.1	156.5	8.8
First Transit	1,075.8	51.5	4.8	1,072.7	58.2	5.4
Greyhound	645.1	11.4	1.8	690.2	25.5	3.7
First Bus	876.1	65.8	7.5	879.4	50.2	5.7
Group items ²	17.3	(41.6)		16.2	(31.2)	
Road divisions	4,460.2	260.6	5.8	4,429.6	259.2	5.9
First Rail	2,666.7	72.3	2.7	1,968.8	57.8	2.9
Total Group	7,126.9	332.9	4.7	6,398.4	317.0	5.0
North America in US Dollars	\$m	\$m	%	\$m	\$m	%
First Student	2,424.9	230.0	9.5	2,350.6	210.4	9.0
First Transit	1,411.4	67.7	4.8	1,420.4	77.8	5.5
Greyhound	846.7	14.2	1.7	912.7	32.8	3.6
Total North America	4,683.0	311.9	6.7	4,683.7	321.0	6.9

¹ Adjusted. The statutory operating profit for the year was £9.8m (2018: loss of £196.2m) as set out in note 5 to the accounts.

² Tramlink operations, central management and other items.

North America insurance provisions

The legal climate in North America, particularly in the US, continues to deliver judgements which are unpredictable, increasingly in favour of plaintiffs and punitive in certain regions. This is a complex and judgemental area, and we continue to base our reserve on the levels recommended by our actuarial advisors.

Following adverse settlements and developments on a number of aged insurance claims, and against a backdrop of a hardening of the wider motor claims environment and market, this has led to increasing our estimate of specific case reserves and adverse development factors.

Once this trend was identified, we initiated an additional independent actuarial review of the estimated risk position, including the claims handler's reserve position. This also confirmed a deterioration in the claims environment and market and therefore an increase in the estimated value of expected settlements. This has resulted in a decision to increase the provision to reflect the costs of meeting existing claims in the current environment.

This change in accounting estimate has resulted in the Group recording a charge of £94.8m (\$125.0m), to increase the self-insurance reserve to a position towards the mid-point of the actuarial assessments undertaken. The charge relates to First Student £47.3m (\$62.3m), First Transit £26.2m (\$34.5m) and Greyhound £21.3m (\$28.2m). This charge has been highlighted as an adjusted item. It is expected that the majority

of these claims will be settled over the next five years.

The charge to the operating profit for the current financial year reflects this revised environment. For the 2019/20 financial year, the self-insurance charge is expected to increase in line with the level of revenue growth in the business, plus inflation.

The Group has a strong focus on safety, and risk mitigation in this area will continue to be an area of focus for the Group.

Restructuring and reorganisation costs

During the year there was a charge of £24.1m for restructuring and reorganisation costs principally relating to Greyhound's accelerated withdrawal of services in Western Canada. The £26.0m charge in 2018 was for the impairment of assets and reorganisation costs relating to the business turnarounds in First Bus (£20.6m) and costs related to contract losses and impairment of assets in First Transit (£5.4m).

Gain on disposal of property

During the year the sale of a Greyhound facility in Chicago was completed which resulted in a gain on sale of £9.3m (2018: £nil).

Guaranteed minimum pensions charge

A high court judgement in 2018 ruled that guaranteed minimum pensions should be equalised between male and female scheme members. As a result of this there is an increase in liabilities of £21.5m for the First Bus and Group pension schemes.

Loss on disposal/impairment charges

During the year the First Bus Queens Road depot and operations were agreed to be sold to the Go-Ahead Group. This disposal, along with asset impairments on the remaining Manchester depots to bring these to their likely recoverable amounts, resulted in an overall charge of £16.2m.

Notional interest on TPE onerous contract provision

There was a charge of £1.1m (2018: £nil) in the year for notional interest on the unwinding of the TPE onerous contract provision.

Capital expenditure

Cash capital expenditure in the Road divisions was £322.3m (2018: £299.4m). It comprised First Student £232.3m (2018: £186.0m), First Transit £32.2m (2018: £19.0m), Greyhound £31.7m (2018: £46.6m), First Bus £25.1m (2018: £42.8m) and Group items £1.0m (2018: £5.0m). In addition, during the year we entered into operating leases for passenger carrying vehicles with capital values in First Bus of £61.9m, First Student of £27.0m, Greyhound of £34.8m and First Transit £3.4m (2018: First Bus £6.0m) and we expect our use of operating leases to increase going forward. First Rail cash capital expenditure is typically matched by franchise receipts, capital grants or other funding from third parties.

Gross capital investment was £571.1m (2018: £439.5m) of which £459.1m (2018: £309.9m) related to the Road divisions. It comprised First Student £284.8m (2018: £205.1m), First Transit £30.7m (2018: £28.5m), Greyhound £62.8m

Cash flow

	2019 £m	2018 £m
EBITDA	670.3	690.6
Other non-cash income statement charges	3.7	17.2
Working capital excluding First Rail start of franchise cash flows	53.8	36.9
Movement in other provisions	(24.8)	(10.5)
Pension payments in excess of income statement charge	(47.8)	(47.9)
Cash generated by operations excluding First Rail start of franchise cash flows	655.2	686.3
Capital expenditure and acquisitions	(432.5)	(425.6)
Proceeds from disposal of property, plant and equipment	63.5	11.4
Interest and tax	(88.8)	(137.6)
Acquisition of non-controlling interest	–	(13.8)
Dividends paid to non-controlling minority shareholders	–	(1.1)
Other	(0.1)	(9.1)
Net cash inflow before First Rail start of franchise cash flows	197.3	110.5
First Rail start of franchise cash flows	–	88.5
Net cash inflow after First Rail start of franchise cash flows	197.3	199.0
Foreign exchange movements	(28.3)	23.2
Other non-cash movements	(2.1)	(2.6)
Movement in net debt in the year	166.9	219.6

Financial review continued

(2018: £44.4m), First Bus £79.8m (2018: £26.9m) and Group items £1.0m (2018: £5.0m). The balance between cash capital expenditure and gross capital investment represents new operating leases and creditor movements in the year.

Cash flow

The net cash inflow was £197.3m (2018: £110.5m before First Rail start of franchise cash flows) with the increase driven by higher proceeds from the disposal of property, plant and equipment primarily due to the sale of a Greyhound facility this year and lower interest payments as a result of the refinancing in March 2018 and the timing of certain working capital flows. Net cash inflow of £197.3m (2018: £199.0m including the First Rail start of franchise cash flows of £88.5m), combined with movements in debt due to foreign exchange, resulted in a decrease in net debt of £166.9m (2018: £219.6m) as detailed below.

Balance sheet

Net assets have increased by £32.7m since the start of the year. The principal reasons for this are the favourable translation reserve movements of £160.8m partly offset by the retained loss for the year of £108.0m and actuarial losses on defined benefit pension schemes (net of deferred tax) of £31.6m.

CGU carrying value

The carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year by reference to their projected value in use and following their

review of these projections, the Directors concluded that there continues to be sufficient headroom in all of the CGUs such that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amounts in respect of First Student, First Transit, First Bus and First Rail. Sensitivities on Greyhound are set out in note 11.

Funding and risk management

Liquidity within the Group has remained strong. At the year end there was £520.6m (2018: £766.4m) of headroom on committed facilities and free cash, being £353.3m (2018: £603.0m) of committed headroom and £167.3m (2018: £163.4m) of free cash. Largely due to the seasonality of First Student, committed headroom typically reduces during the financial year up to October and increases thereafter. Treasury policy requires a minimum level of committed headroom is maintained at all times. Our average debt maturity was 4.3 years (2018: 4.1 years). The Group's main revolving bank facilities require renewal in November 2023 following a two and a half year amendment and extension agreed in November 2018. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain financial risk management purposes.

Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2018/19 in the UK, 90% of our 'at risk' crude requirements (1.9m barrels p.a.) were hedged

at an average rate of \$60 per barrel. We have hedged 84% of our 'at risk' UK crude requirements for the year to 31 March 2020 at \$65 per barrel and 45% of our requirements for the year to 31 March 2021 at \$65 per barrel.

In North America 64% of 2018/19 'at risk' crude oil volumes (1.3m barrels p.a.) were hedged at an average rate of \$58 per barrel. We have hedged 52% of the volumes for the year to 31 March 2020 at \$62 per barrel and 22% of our volumes for the year to 31 March 2021 at \$66 per barrel. Interest rate risk

We seek to reduce our exposure by using a combination of fixed rate debt and interest rate derivatives to achieve an overall fixed rate position over the medium term of at least 50% of net debt.

Foreign currency risk

'Certain' and 'highly probable' foreign currency transaction exposures including fuel purchases for the UK divisions may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the Group does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant.

Net debt

The Group's net debt at 31 March 2019 was £903.4m (2018: £1,070.3m) and comprised:

			31 March 2019	31 March 2018
Analysis of net debt	Fixed £m	Variable £m	Total £m	Total £m
Sterling bond (2019)	–	–	–	249.9
Sterling bond (2021)	–	348.4	348.4	348.3
Sterling bond (2022)	322.1	–	322.1	321.6
Sterling bond (2024)	199.8	–	199.8	199.8
Bank loans	–	446.7	446.7	197.0
HP contracts and finance leases	59.9	–	59.9	104.7
Senior unsecured loan notes	210.0	–	210.0	195.2
Loan notes	8.7	0.7	9.4	9.5
Gross debt excluding accrued interest	800.5	795.8	1,596.3	1,626.0
Cash			(167.3)	(163.4)
First Rail ring-fenced cash and deposits			(524.7)	(391.5)
Other ring-fenced cash and deposits			(0.9)	(0.8)
Net debt excluding accrued interest			903.4	1,070.3

Under the terms of the First Rail franchise agreements, cash can only be distributed by the Train Operating Companies (TOCs) either up to the lower amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date. First Rail ring-fenced cash increased by £133.2m in the period principally due to working capital inflows at all three franchises.

Foreign exchange

The most significant exchange rates to pounds Sterling for the Group are as follows:

	Year to 31 March 2019		Year to 31 March 2018	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.30	1.32	1.40	1.34
Canadian Dollar	1.74	1.74	1.81	1.75

Pensions

We have updated our pension assumptions as at 31 March 2019 for the defined benefit schemes in the UK and North America. The net pension deficit of £273.7m at the beginning of the year has increased to £307.2m at the end of the year principally due to lower real discount rates and unfavourable foreign exchange movements partly offset by better asset returns and guaranteed minimum pension equalisation. Based on the most recent actuarial valuations as at 5 April 2016 and 5 April 2015 respectively, the combined funding deficit of the First Bus and Group defined benefit schemes in the UK, taking into account funding guarantees provided by FirstGroup plc, is approximately £250m higher than the balance sheet position on an accounting basis. The main factors that influence the balance sheet position for pensions and the principal sensitivities to their movement at 31 March 2019 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £28m
Inflation	+0.1%	Increase deficit by £23m

Seasonality

First Student generates lower revenues and profits in the first half of the financial year than in the second half of the year as the school summer holidays fall into the first half.

Dividends

The Board recognises that dividends are an important component of total shareholder return for many investors and remains committed to reinstating a sustainable dividend at the appropriate time, having regard to the Group's financial performance, balance sheet and outlook. The Board is not proposing to pay a dividend in respect of the year to 31 March 2019 but will continue to review the appropriate timing for restarting dividend payments.

Impact of new accounting standards

IFRS 16 Leases replaces IAS 17 with effect from accounting periods commencing 1 January 2019. The Group has performed a detailed impact assessment of IFRS 16, which is described further in Note 2 to the Accounts on pages 109-118.

Contingent liabilities

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

Investigations into the Croydon tram incident are ongoing and it is uncertain when they will be concluded. The tram network is operated by Tram Operations Limited (TOL), a subsidiary of the Company, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently anticipated to take place in early 2020 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.

On 26 February 2019, class action proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the class

action, is scheduled to take place in November 2019. It is not possible at this stage to determine accurately the likelihood or quantum of damages and costs, if any, or timing of such damages and costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

We believe that strong engagement, collaboration and dialogue are critical to the success of our long-term relationships with key stakeholders, including customers, investors, government and political stakeholders, our people, our suppliers and partners, and the communities we serve.

Engaging ethically

In line with our values and the expectations of our customers and partners, we are committed to conducting our relationships with our stakeholders with integrity, high ethical and moral standards, and professionalism in all our interactions. Who we are shapes not only what we do, but also how we do it.

We invest time and effort to put in place the right processes, policies and governance structures to ensure we meet these high standards of integrity and professionalism.

Sustainable Development Goals

The global Sustainable Development Goals (SDGs) were adopted by UN member states in September 2015, covering 17 key areas aimed at creating a world that is comprehensively sustainable, socially fair, environmentally secure, economically prosperous, inclusive and predictable by 2030. Although we can have a positive impact in some way on all the SDGs, we have identified the key areas where our contribution to the delivery of the goals can be greatest. The icons for each of these goals are shown against each of our key stakeholder groups.



- Our Code of Ethics applies to everybody working for or on behalf of FirstGroup and is supported by detailed policies and procedures which apply across the Group, including our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and our Anti-Bribery Policy. Our Code sets out the standards which our customers and stakeholders expect of us, and which we expect of each other.
- We are committed to recognising human rights on a global basis. We have a zero-tolerance approach to any violations within our company or by business partners.
- We are committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which we are involved, regardless of location or sector. Our Modern Slavery and Human Trafficking Statement sets out our policies and the steps we take to address risks in our business and our supply chains and can be found at www.firstgroupplc.com
- We base our business relationships on transparency, trust and accountability. We have a zero-tolerance approach to bribery, and never offer or accept any form of payment or incentive intended to improperly influence a business decision. The anti-bribery steering committee has the primary and day-to-day responsibility to ensure that our internal control systems and procedures are effective in countering bribery and corruption.
- We have an externally managed whistleblowing service available across the Group for colleagues with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

For further information on our governance arrangements, see pages 51 to 102.



Customers

We are committed to our customers and passionate about improving customer experience and satisfaction. We keep our customers at the heart of everything we do, and our teams work hard to meet and exceed their expectations.

How we engage

- Regular customer and passenger satisfaction surveys to identify what we do well and where we can improve
- Robust customer feedback processes through online and traditional channels
- Customer panels and events
- Ongoing dialogue with customer representative groups

Our five divisions have a varied mixture of customer types and revenue models. Some serve clients or partners such as local government, school boards or transportation authorities, while others deliver directly to passengers. Across all our divisions, the focus of our businesses is on delivering our vision, making travel smoother and life easier for the people using our services.

Our customers' requirements are complex and constantly evolving, so listening and identifying future needs and being able to respond quickly is critical. Our teams use a variety of methods to engage with customers, assessing satisfaction and gathering feedback.

The Board receives regular updates on matters relating to customers, including the results of customer surveys, and information and trends relating to customer satisfaction and feedback.

Enhancing customer experience

In all of our divisions, we are striving to improve customer experience, delivering more convenient services, smarter, easier and more flexible ticketing, better real-time information, improved onboard amenities, and lower emission vehicles.

We are using technology and innovation to help to reduce complexity and deliver the best experience for our customers – from our new e-tickets in Greyhound and First Rail, to contactless payment in First Bus, convenient

online tools for tracking student conduct in First Student, and the latest SAV technology in First Transit. More information on reducing complexity for our customers can be found in the Business review on pages 14 to 24.

Within each of our divisions we are bringing low carbon transport services to market for our customers, using our expertise and experience with low emission technologies, and encouraging customers to make the modal shift from private vehicles to more efficient public transport modes. Across First Rail, we offer our customers web-based carbon comparison tools to help potential car drivers and air passengers to see the carbon benefits of their rail journey alternatives. More information on our carbon performance can be found on page 41.

Accessible journeys

We are committed to supporting customers with disabilities or restricted mobility and recognise that access to public transport services is often fundamental to such customers' independence. Working with both national and local disability groups, we continue to invest in making our services more accessible and to improving the service we offer those with disabilities, for example, through better employee training or more accessible vehicles.

Investing in customer service excellence

This year we continued to deliver high-quality customer service training for employees around the Group. In 2019 our SWR customer experience training programmes received national accreditation from the Institute of Customer Service, while colleagues from First Student and First Transit benefited from online customer service modules through our First America University portal. More information about customer service training across our divisions can be found on page 33.

Delivering customer satisfaction

We use the results of regular surveys, and dialogue with our customers and our people to help shape our services.

We ask our customers for their views on the topics that matter to them, including service performance, safety and value for money. Our customer and passenger satisfaction surveys allow us to measure this, identifying what we do well and where we can improve.

First Student and First Transit conduct annual customer satisfaction surveys, offering our contract customers the opportunity to give their opinion about all aspects of our service.

In Greyhound, more than 70,000 passengers completed a post-trip survey on their travel experience this year, helping us to understand their journey better, and use this to improve our services.

In First Bus and First Rail, we use the insights gathered through surveys conducted by the independent passenger watchdog, Transport Focus. They consult a representative sample of passengers to produce the annual Bus Passenger Survey and twice-yearly National Rail Passenger Survey.

More information on our customer satisfaction KPIs can be found on page 40.

Responding to customer feedback

We are working hard across our businesses to make our customer feedback processes more convenient and easier to use for our customers. For example, TPE became the first rail company in the UK to offer support via WhatsApp to customers this year.

In First Rail, we are taking steps to ensure that claiming compensation is as easy as possible for customers, which includes the introduction or enhancement of 'delay repay' systems. We hold regular customer panels and events throughout our networks so that passengers can hear the latest developments in their area, and ask questions of our management teams.

In First Bus, around 36,000 customers completed an online Tell First Bus survey this year, answering two simple questions about their experience to help us to identify areas for improvement to our services. Our contact centre also handles enquiries from customers about any aspect of their journey, helping over 220,000 First Bus customers last year.

In First Student this year we will be launching our new First Feedback platform, allowing customers, students and their families to tell us about their experience of using our services through an easy and convenient online platform.

Improving on time performance and punctuality

We know that our customers want punctual, reliable transport services that get them where they want to be, when they want to be there. Good service performance has a major influence on customer satisfaction, so we constantly strive to improve our on time performance, punctuality and reliability.

More information on our punctuality KPIs can be found on page 39.



Investors

FirstGroup is committed to ensuring that it promotes the success of the Company for the long term benefit of our members as a whole.

How we engage

- Regular reports to the Board on investor relations activities
- Ongoing dialogue and individual engagement with shareholders
- Presentations from Executive Directors
- Annual report, website and statements

Engaging with shareholders and being fully aware of their range of views is one of the key aspects of corporate governance. The Group welcomes open, meaningful discussion with shareholders, particularly with regard to strategy, governance and remuneration. The Board receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback, and senior management and Board members have engaged throughout the year on a range of matters with institutional shareholders, private or employee shareholders.

The Executive Directors are available, through the Group Corporate Services Director, to discuss the concerns of major shareholders at any time during the year and the Chairman is available to discuss governance and strategy with major shareholders. The Senior Independent Director is available to discuss matters of concern that would not be appropriate through normal channels of communication, including issues relating to the Chairman's performance. Non-Executive Directors make themselves available to attend meetings with shareholders in order to develop an understanding of their views, and any shareholders may meet informally with Directors at the AGM.

There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial and operating performance throughout the Group. In the last year, Board members met with shareholders representing more than 50% of the issued share capital. General presentations to shareholders and the wider financial community are made by the Executive

Directors following the announcement of trading updates and half and full year results. The Company responds as necessary to requests from individual shareholders on a wide range of issues.

All investors are kept informed of key business activities, decisions, appointments and other key announcements on an ongoing basis via the regulatory news service and press releases. The Group's website (www.firstgroupplc.com) contains all of this information, together with financial reports, presentations and other information on the Group's operations.

The Remuneration Committee recognises that appropriate arrangements with respect to executive pay are of significant interest to shareholders. The Committee takes significant account of guidelines issued by the Investment Association, ISS and other shareholder bodies when setting the remuneration framework and seeks to maintain an active and constructive dialogue with investors in this area.

The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This will remain a key focus for the Board going forward.

For further information on our governance arrangements including remuneration, see pages 51 to 102.

Performing sustainably

We participate in evaluations, ratings and rankings of our environmental, social and governance (ESG) performance. These provide insights to investors on our non-financial performance and demonstrate how we manage ESG risks and opportunities in a way that positions us well for the future.

We have been recognised for our ESG leadership, having being named in the FTSE4Good Index Series for the 17th consecutive year. Our above industry average results in the CDP global disclosure rating also demonstrate our commitment to climate change mitigation, adaptation and transparency.



Government

Strong engagement with government at all levels is essential to all of our businesses in both the UK and North America.

How we engage

- Active participation in industry forums
- Direct engagement with policy makers
- Strong links with devolved national, regional, state and provincial governments
- Regular surveys of political stakeholders

We seek to engage with policymakers and influence the development of policy both directly, and through our trade organisations.

We are active members of RDG, the Confederation of Passenger Transport (CPT) and the American Public Transportation Association, which advocate with national/ federal government and regulators on behalf of the industries in which we operate.

At Group level, we maintain good relationships with both Government and Opposition policy teams and advisers, as well as significant parliamentarians, including select committee members and all-party parliamentary group officers. We conduct regular surveys of our political stakeholders to better understand and respond to their interests and needs.

Of equal importance is our relationship on the ground with local government. The elected representatives and officials who serve them are closest to our customers, their constituents. They use our services on a regular basis and have a keen understanding and stake in ensuring our services improve quality of life locally, by connecting people and communities.

Our North American businesses foster strong links with partners in all levels of government. First Student has a focus on local school districts, with whom it contracts to deliver student transportation services whilst First Transit has contracts at city/ municipal and state/ provincial levels. Greyhound engages at this level in relation to its locations and terminals, whilst maintaining strong links with federal Government with respect to national legislation and regulation, particularly around safety.

Devolution has created some key relationships for our UK businesses. In some areas, devolution has created overlapping responsibilities and interests in local and regional government on transport issues, which requires transparency and clarity on our engagement.

In the UK, the emerging cadre of elected mayors for city regions or combined authorities, together with MPs in the areas in which we operate are a key stakeholder group for our businesses. We also work closely with national governments in Scotland, principally through Transport Scotland and Wales, principally through Transport for Wales.

First Bus also works closely with a number of local authorities to pursue formal and informal partnerships which help us deliver better services through measures which cut road congestion and give priority to buses.

In First Rail, our TOCs engage regularly with the DfT, which, as the procuring authority letting franchise contracts, actively monitors our progress towards franchise targets and general performance.

Our franchised TOCs also deploy Regional Development Managers who liaise with local and regional government and other stakeholders, from user groups to significant employers and Local Enterprise Partnerships (business-led partnerships which steer local economic priorities and promote projects to drive economic growth and improve infrastructure in an area). Our South London-based company, Tram Operations Limited, contracts directly to the Mayor of London's transport agency and has a close working relationship. As a consequence, there is regular contact with London Assembly members and the Deputy Mayor for Transport.

We comply with the Lobbying (Scotland) Act 2016 regulations and key personnel are registered with the UK Lobbying Register. FirstGroup's gifts and hospitality policy is strictly adhered to when engaging with stakeholders at all levels.

Political donations are not a focus of our engagement with government. In the UK, we do not make political donations, following resolutions at the AGM. In the US, on limited occasions the businesses participate directly in the political process; all political donations are approved by our US General Counsel and must be legal, fully disclosed and comply with company policy. Greyhound has a political action committee, which pools campaign contributions from members and donates those funds to campaign on ballot initiatives or legislation, but it is not heavily used.



Our people

We employ more than 100,000 people in depots, stations and offices across North America, the UK and beyond. Attracting, developing and retaining customer-orientated and skilled people is essential to delivering our Vision, getting our customers where they want to go with ease and convenience.

How we engage

- 'Your Voice' employee engagement surveys
- Through our Employee Directors at Group and subsidiary level, and trade unions
- Site visits by senior managers
- Individual performance reviews and mentoring schemes

Employee engagement and representation

All employees have the opportunity to make their voice heard through our employee engagement survey, 'Your Voice'. The survey measures employees' satisfaction with the way they are managed, the pride they feel in working for the business and how likely they are to recommend us to others as a great place to work.

This year our engagement scores ranged from 48% to 82%, with our largest division, First Student, recording a 12% increase in employee engagement since the previous survey. Action plans based on these survey results will drive progress on the issues that matter most to our employees in 2019/20.

In addition, regular dialogue is maintained with employee representatives throughout the Group, including more than 30 trade unions.

Since the founding of our business, we have been committed to promoting employee involvement at a local level. As a result, we are one of the few publicly listed companies that has an Employee Director appointed to our plc Board and also to the Boards of most of our UK operating companies.

This gives our Boards an employee viewpoint on matters affecting the direction and governance of our business. It also provides another route for employees' ideas and suggestions on a wide variety of topics, from new commercial

opportunities and efficiency to safety and employee wellbeing, to reach the Boardroom.

Employee Directors are elected by an independently supervised ballot of employees in their respective companies. The Group Employee Director is nominated by the Employee Directors' Forum. The appointment is then recommended to the Board by the Nomination Committee, prior to being confirmed by shareholders at the Company's AGM.

The Employee Directors' Forum meets in person twice a year and monthly by other means, to discuss issues of common interest. The Company provides formal training for all newly-elected Employee Directors, and also arranges two training sessions each year for the Employee Directors' Forum, backed by formal performance and development reviews. This ensures that our Employee Directors are supported to develop the skills and knowledge they need to be effective in their role.

For further information on our approach to corporate governance, and on our Group Employee Director, see pages 51 to 102.

Investing in our employees

Each of our divisions continually considers the skills they will need to meet the future needs of the business. For all our divisions this has included an increased focus on customer service training and the development of strategies to address shortages in key roles.

Customer service training

- During the course of the year, almost 14,000 employees have been trained in customer service skills through a variety of different programmes. These include 'Customer Service Excellence' in our First Student division, 'Great Experience Makers' and

'Momentum' in First Rail and 'Journey Makers' in First Bus.

Addressing recruitment challenges

Like many employers, we are affected by the shortage of skilled engineers and mechanics on both sides of the Atlantic.

- In North America, we launched the 'First Transportation Training Center' in partnership with Baltimore City Community College to train young people in a range of relevant technical courses leading to nationally recognised qualifications. During the course, the students can also gain practical experience of working in our North American divisions and will be well placed to join us when they graduate in 2020.

With a tight labour market in both North America and the UK, all our Road divisions face similar challenges on driver recruitment and have taken steps to address it.

- First Student and First Transit created a 'Driver Shortage Task Force', which has already provided intensive recruitment support to more than 100 'critical locations' across the US and Canada.
- Greyhound refreshed its driver recruitment approach with targeted retention and referral bonuses and the introduction of fast track training for experienced drivers.
- In support of our commitment to increase the number of female applicants for all roles, First Bus has been piloting female-only recruitment events aimed at encouraging more women to apply for jobs as bus drivers.

Future talent

- To build the talent we will need for future leadership positions, we have continued to expand our graduate recruitment programme. During the year we increased

Graduate programme



'While I was at university, I started thinking about all the changes happening in the transport industry, and the work and collaboration which would be needed, and I wanted to be involved. FirstGroup is a great company and it provides me with a tremendous amount of support and development opportunities. The company has a well-established graduate programme and many of the graduates who joined before me now hold senior management roles across the Group.'

Karel Manouan,
2018 Rail Operations Graduate



Find out more
www.firstgroupcareers.com

Our stakeholders continued

the number of places offered from 22 to 27. In addition to opportunities in Engineering, Finance and Operational Management, we also launched a new graduate scheme in Property.

- In the UK, our apprenticeship schemes continue to be an important source of engineering and operational talent. 72 new apprentices joined our First Bus and First Rail divisions in 2018, bringing the total number of apprentices in training across the UK to 233.

Diversity and inclusion

The more varied our workforce, the broader our expertise and the greater our opportunities for innovation and success. We are committed to equality of opportunity, diversity and inclusion at every level, both in our Boardroom and in our wider business.

Gender diversity

As at 31 March 2019

● Female ● Male

Total employees¹

2019	40.0%	60.0%
108,722	43,438	65,284
2018	38.9%	61.1%
107,116	41,648	65,414
2017	40.0%	59.9%
104,205	41,704	62,454

Senior managers²

2019	23.2%	76.8%
370	86	284
2018	22.3%	77.7%
350	78	272
2017	20.6%	79.4%
248	51	197

Board directors³

2019	20.0%	80.0%
10	2	8
2018	20.0%	80.0%
10	2	8
2017	11.1%	88.9%
9	1	8

- 1 In 2018, the gender of 54 of our employees was unknown (2017: 47).
- 2 Using the Companies' Act definition of 'any employee who has responsibility for planning, directing or controlling the activities of the Company or a strategically significant part of the Company'.
- 3 After the year end we appointed another female Board member, bringing the percentage of female Board directors to 27.2%. See page 55.

The overall proportion of female employees increased during the year to 40.0%, up from 38.9% in 2018, and the number of women in senior management has increased for the third consecutive year to 23.2% up from 18.0% in 2016.

FirstGroup is committed to improving the gender diversity of our workforce. We have four gender diversity commitments:

- Increase the numbers of female applicants for all roles
- Encourage more women to stay and progress
- Support and develop more women into higher paying roles
- Ensure men are more aware and can play their part in creating an inclusive workplace which is welcoming to women.

Details on the actions we are taking to deliver these commitments are contained in our UK Gender Pay Gap Report which can be found on our website at www.firstgroupplc.com.

To support our commitment to encourage women to stay and progress, we have launched two new development programmes in the UK – 'Step Up' and the 'Women's Career Development Programme', aimed at women in non-management and management roles respectively. 75 women participated in these programmes during 2018 and further events are planned for 2019/20.



Step up programme

"I left the 'Step Up' course amazed by the possibilities available to women like me within FirstGroup and impressed by the enthusiasm of everyone involved to reach new levels of success in the industry. The Programme has empowered me and my peers to push forward with our careers."

Gemma Byrne, Train Driver,
Great Western Railway

Across the Group, we have policies and initiatives in place to promote diversity and inclusion, which this year have included:

- In 2018, GWR established an LGBTQ+ network called ASPECT, to promote workplace equality and inclusion. The network has already taken part in the Stonewall Workplace Index to benchmark performance, supported Pride events internally and externally, including the launch of a special rainbow designed Intercity Express Train, and joined Network Rail's group 'Archway' to share best practice.
- TPE has been ranked 26th in the Inclusive Top 50 UK Employers List – a definitive list of UK based organisations that promote inclusion across all protected characteristics, throughout each level of employment within an organisation.

Health and wellbeing

A wide range of initiatives are in place across our divisions to help our people to stay healthy and active.

- During the year, both Greyhound and First Bus have provided wellbeing advice to drivers with a focus on healthy eating.
- Greyhound has also taken steps to prevent employees from suffering back injuries by providing training on lifting, stretching, and posture.
- GWR and SWR have continued their rollout of mobile health kiosks, with more than 7,000 employees using the kiosks during the year to obtain a personal health assessment, supported by information about how to maintain a healthy lifestyle.
- Our businesses are also providing support for employees' mental health and all offer access to free and confidential counselling.
- Full and fair consideration is given to applications for employment by people with disabilities. We are committed to supporting disabled employees, including employees who become disabled during their employment, with regards to training, career development and promotion. In 2018, we supported Victoria Snell, one of our TPE employees when she had her right leg amputated following a stress fracture that failed to heal. She is now back at work and using her experience to help promote disability awareness within First Rail.

See page 37 for information on our approach to safety, and page 47 for information on health and safety within our holistic approach to risk management.



Communities

Strong community engagement helps us to sustain and improve the long term partnerships we have with our customers and wider stakeholders. We have well developed mechanisms in place to help us listen to and understand the needs of our communities, and we incorporate their feedback into our decision making processes.

How we engage

- Comprehensive, well developed engagement plans and activities
- Regular dialogue, local events, stakeholder reports and surveys
- Community investment including charitable engagement and employee volunteering

Our community engagement strategies

This year we have continued our focus on embedding community engagement practices at the local level across the Group, ensuring that our teams are going beyond their daily contact with our direct customers, and are listening, understanding and responding to the needs of our communities and wider stakeholders.

We continue to offer tools such as structured, standardised community engagement plans, and training on engagement techniques to employees at the local level across the Group.

We conduct regular surveys to seek the views of our communities, such as our annual stakeholder satisfaction surveys in First Rail. We use the results of these surveys to enhance our community engagement activities, and deepen the partnerships we have with our stakeholders and the customers and communities we serve.

Working with charities

We also commit our time, skills and resources to help those charitable causes important to our communities, both locally and nationally. This year we supported hundreds of charitable organisations through corporate donations and gifts in kind, including donating advertising space and vehicle hires, event sponsorships and travel tickets.

In total, FirstGroup and our employees donated £3.6m during 2018/19, as measured by the London Benchmarking Group model for community impact. See page 41 for a more detailed breakdown of our contribution.

Our charitable programmes focus on those areas where we believe we can achieve the greatest impact:

- Through the promotion of education, employability and skills, our aim is to empower people to reach their full potential and change individual lives to help the communities we serve.
- By providing support to environmental projects aiming to reduce the impact of congestion on our communities by cutting carbon emissions, improving air quality and encouraging sustainable transport.

We use our unique resources as a transport provider, volunteering drivers and vehicles to support projects for our community partners. In the UK, we donate advertising space across our network to help our employee-chosen charity partner, Action for Children, to share their messages with millions of people (see case study on the right hand side of this page). Our employees provide further support, giving their time and effort to fundraise and support the causes they are passionate about.

We collaborate with experts from the charity sector on issues that are important to our business, customers and communities. In the UK, we have worked with Guide Dogs for the Blind, Age UK and Railway Children, amongst others. Greyhound supports the Home Free programme in partnership with National Runaway Safeline, reuniting runaway children with their families.

Our programmes continue to be recognised as good practice, for example with GWR winning Best Promotional Partnership prize for a medium-sized company at the National Payroll Giving Excellence Awards this year. The award recognised the innovation and engagement methods used by GWR to make it as easy as possible for employees to sign up to our payroll giving scheme.

Our Community Rail Partnerships and local community investment

First Rail works in partnership with local councils, the Association of Community Rail Partnerships and the DfT to provide funding, advice and support for Community Rail Partnerships (CRPs). Our CRPs work with their local communities to encourage rail travel. They develop volunteer support networks and help deliver station and service improvements.

In First Rail, we also provide support through our Customer and Communities Improvement Funds (CCIFs), investing in schemes along our lines of route that demonstrate real benefit to the community, meet a social need, and are not for commercial gain, in areas including education, social inclusion, transport integration, and the provision of better travel information. More information about the impact of our CCIF funding can be found on our First Rail websites.



UK Charity of Choice partnership 2018 – 2021

FirstGroup is working with Action for Children, helping young people on their journey to better mental health.

Our three-year employee-chosen UK charity partnership aimed to achieve a partnership value of at least £1m – a target that has been exceeded after just 13 months thanks to the generous fundraising and volunteering of employees (who have run or cycled almost 2,700 miles so far), corporate donations, and the commercial value of digital and physical advertising space that we have gifted to the charity across our UK network.

Our support has allowed Action for Children to deliver over 240 hours of interventions, and to upskill 139 of the charity's employees to better help those children and families they see struggling with mental health problems.

Action for Children helps disadvantaged children across the UK through intervening early to stop neglect and abuse, fostering and adoption, supporting disabled children, and by campaigning tirelessly to make life better for children and families. With more than 550 services the charity improves the lives of more than 300,000 children, teenagers, parents and carers every year.



Find out more
www.firstgroupplc.com



Strategic partners and suppliers

Our key partners help us to understand and respond to the needs of our customers and stakeholders, through collaboration and sharing best practice. We work with more than 22,000 suppliers globally across our business, spending around £3.7bn each year on goods and services that help us deliver value to our customers and stakeholders.

How we engage

- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

Strategic partners

We work closely with our strategic partners across all our businesses. Our experience and strong operational track record allow us to maximise the potential from all our key relationships, irrespective of scale. For instance, our TOCs work closely with small local user groups and Community Rail Partnerships to provide enhanced services to specific communities; whilst also developing long term strategic alliances with Network Rail, a national infrastructure supplier.

Our local management teams are adept at mapping and understanding the needs of their local stakeholders; and developing partnerships which deliver enhanced services and value to both the business and the communities it serves. More information on our community engagement strategies can be found on page 35.

We also engage in strategic high-level partnerships through trade bodies, to ensure a coordinated response to industry-wide challenges, such as Brexit, or climate change. In First Rail, for example, we chair the Sustainable Development Steering Group for our industry representative body, the Rail Safety and Standards Board (RSSB), to help set sustainability goals for the rail industry and develop tools and guidance to support the industry transition to a lower carbon future.

Partnering with our supply chain

The suppliers we work with range from global companies to small, independent businesses. We aim to be a demanding customer but also a good one – approachable, and promoting both competition and collaboration within our supplier base.

We use a collaborative relationship management system, to provide us with clear, consistently applied processes to track performance. This approach provides a highly governed and structured process to select, segment and categorise our suppliers for relationship and performance management.

We share best practice internally through procurement, engineering and business forums and reports. This includes results from our supplier and customer collaboration surveys, highlighting things that are going well and others that require improvement.

In 2018, First Rail became certified to ISO44001 standard (formerly BS 11000) for collaborative working. We are now expanding these standards across other areas of our business. This will streamline our processes further and continue strengthening our working relationships with our supply chain.

Sustainable procurement

We work with suppliers in a fair, consistent and transparent manner and the Group has controls in place to ensure that all payments are made within the appropriate credit timeframe. The average credit period taken for trade purchases across our business is 31 days (2018: 29 days).

We also work with our suppliers to develop and deliver against environmental, social, and broader sustainability standards and objectives. We aim to ensure that goods and services are from sources that do not jeopardise human rights, safety, or the environment, and expect our suppliers to observe business principles and ethics consistent with our own. Our Group-wide Supplier Code of Conduct clearly sets out these expectations and is incorporated into our standard contracting terms and conditions with suppliers. We screen suppliers to assess the level of associated environmental and social risk and conduct audits and follow up issues identified where necessary.

We are working towards embedding the principles of BS 8903 for sustainable procurement into our UK procurement practices, which includes agents, contractors, external consultants, third-party representatives and business partners.



Reducing the impacts of waste in First Rail

First Rail handled 6,927 tonnes of waste in 2018/19. Reducing our waste impacts means incorporating a 'low waste' ethos from the outset. Much of our waste consists of food and packaging left behind by our customers and we continue to cut the volume of packaging used in our catering service to reduce this source of waste. Initiatives such as delivering food directly to our customers at their seats can remove the need for unnecessary packaging. We have also implemented measures to reduce single-use plastics, and across parts of our networks, new water fountains and discounts for hot drinks in reusable cups have offered the opportunity to remove packaging completely.

We are also ensuring more of our waste is recycled by providing convenient recycling facilities at our stations and even sorting through our customers' waste for items which can be recycled.

This year SWR was recognised internally and externally for achieving excellence in waste management through innovation, engagement and partnership working. As part of this, we have engaged an innovative waste management company with access to a wide range of local suppliers and disposal options, which has helped us to meet stretching recycling targets and achieve our goal to send zero waste to landfill.

Across First Rail as a whole, we recycled 75% of our waste over the last year.



Find out more
www.firstgroupplc.com

Safety

Providing mobility for millions of customers every day is full of inherent challenges, but we are determined to achieve our goal of zero harm. It is our duty of care to ensure our customers and stakeholders can use our services, and our people can carry out their work, in total safety.

Always front of mind – safety is our way of life. Our commitment to the safety of our passengers, our employees and all stakeholders interacting with our businesses is unwavering, and is articulated through our Dedicated to safety value which applies in everything we do.

Every year our road and rail fleets carry more than 2.2bn people more than nine billion miles, and we are responsible for more than 100,000 employees. To do this safely, we maintain robust safety management systems throughout the Group, and a clear focus on ensuring compliance with policies, processes and procedures. Be Safe, our safety behavioural change programme builds on this, making safety a personal core value for every employee.

Notwithstanding our continued dedication to safety, sadly there were four employee fatalities across our operations this year. Three of those employee fatalities were due to collisions, one in each of First Student, First Bus and Greyhound. A fourth employee, from First Transit, was fatally injured in a workshop incident.

Sadly there were fourteen passenger fatalities across our divisions from a total of seven incidents. One of these incidents, a Greyhound collision, resulted in eight passenger fatalities, and the first employee fatality in over seven years of operation for the division, when a tractor trailer crossed the highway into our bus's lane of traffic.

These tragic events strengthen our resolve to achieve zero harm to our employees, passengers and anyone else we come into contact with in the course of our business.

Safety leadership and governance

Our Executive Safety Committee (ESC) is chaired by the Chief Executive, and alongside our Board Safety Committee, is responsible for promoting a positive safety culture throughout the Group. Detailed information on our approach to safety governance and leadership can be found on page 55 to 56, and in our Board Safety Committee report on page 75. Information on employee health and wellbeing can be found on page 34.

Progress towards zero harm

This year we have continued in our efforts to accelerate our progress towards achieving zero harm across the Group.

2018/19 in focus

- Reduction of 3% in Employee Lost Time Injuries, and an 11% reduction in Passenger Injuries this year. More information on progress against our safety KPIs can be found on page 39.
- Launched three new Group-wide Global safety standards. These global standards drive a consistent approach in the three key safety areas of; safety validation of change, safety audit, and driver monitoring.
- Increased the number of our Be Safe coaches by 20. Our coaches support our people to deliver daily touchpoints (planned, positive safety coaching interactions) and weekly debriefs (collective feedback meetings to discuss touchpoints, share best practice and provide peer coaching at each location) as part of our Be Safe behaviour change programme (see case study, right).
- Used onboard technology more widely to aid driver performance and monitoring, drawing on expertise from our cross-divisional High Severity Collision Technology working group.
- Enhanced our near miss reporting process to give greater consistency and improve ease of reporting by giving access through our 'Employee Connect' app.
- Improved our use of data analytics to give greater insight into the causes of incidents and shape our actions to prevent them in future.
- Rewarded outstanding dedication to safety through our employee recognition Be First Awards. Employees from across the Group were nominated by their peers for our Dedicated to Safety award, showcasing the very best in safety performance.
- Continued to collaborate and share safety best practice with peers and stakeholders through industry groups, including RSSB, CPT (in the UK), the Campbell Institute (in the US), and the American Bus Association's Bus Industry Safety Council.



Be Safe

To support our robust safety management processes, policies and procedures, we continue to invest time, effort and resource into our Be Safe behaviour change programme across the Group.

It focuses on our objective of zero harm and making safety a personal core value for our employees. The programme centres on positive reinforcements of correct safety behaviours and group discussions for knowledge sharing and strengthened understanding around best practice.

We have held 73,000 safety debriefs since the programme began in 2016 (of which 31,000 were held this year), which has included everyone from senior leaders through to front line employees. This helps us to grow a deeper culture of safety and ensure our behaviours complement and drive the actions needed to continually improve our safety performance.

Although behavioural change takes time, we have seen an improvement in Employee Lost Time Injuries, and Passenger Injuries, in each of the three years to March 2019.

As the programme continues to be embedded across the business, we are working on the quality of our interactions – doing things well, coaching others, having more engaging conversations and building safety critical behaviours into our annual planning so that we continue to achieve sustainable improvement.

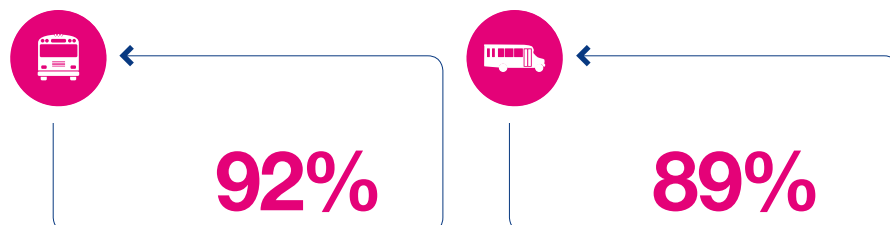


Find out more
www.firstgroupplc.com

Key performance indicators

1 Focused and disciplined bidding in our contract businesses

First Student and First Transit contract retention (%)



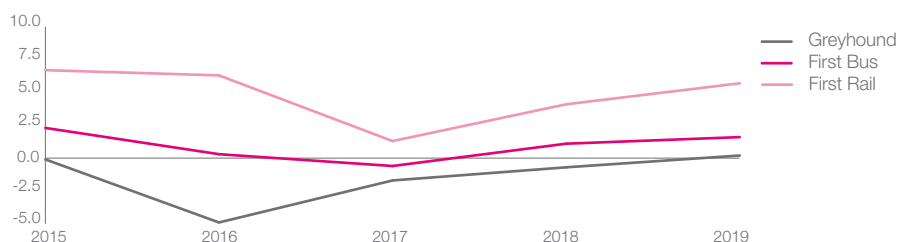
We measure contract retention as a percentage of existing business subject to bid in the year, rather than as a percentage of the contract portfolio as a whole.

First Student had a strong summer 2018 bid season with average price increases in excess of the employee cost inflation we face from the strong employment market in the US. We achieved a retention rate of 92% on our at-risk contracts subject to bid. This is an increase of 9 percentage points year-on-year (2018: 83%) and is also the highest level achieved in a number of years.

In First Transit, we also significantly increased our retention of at-risk contracts to 89% (2018: 82%) in the year.

2 Driving growth through attractive commercial propositions in our passenger revenue businesses

Greyhound, First Bus and First Rail change in like-for-like (LFL) revenue (% change year-on-year)



Like-for-like (LFL) revenue adjusts for changes in the composition of the divisional portfolio, holiday timing, 53rd week, severe weather and other factors that distort the year-on-year trends in our passenger revenue businesses.

In the year Greyhound's LFL revenue increased by 0.2%, with short haul growth lower than 1,000+ mile long haul growth and mid-range trips were slightly down year-on-year with competition from airline capacity increases.

First Bus LFL passenger revenue growth was 1.6%, although industry conditions remain uncertain and demand patterns continue to vary significantly amongst our local markets across the country.

In First Rail, LFL passenger revenue growth was 5.8%. Industry growth rates continue to be affected by UK macroeconomic uncertainty, modal shift due to lower fuel prices and changing working practices, while our networks have experienced challenges from strike action in SWR's case and the effect of rail infrastructure upgrade works.

Group revenue (£m)



Reported Group revenue in the year increased by 11.4% including a full year of the SWR franchise and the translation of our US Dollar-based businesses into pounds Sterling at stronger rates than the prior year, partly offset by the 53rd week in the Road divisions last year. Adjusting for these factors, Group revenue increased by 5.7% with growth in all our divisions apart from Greyhound, where revenues reflected the ongoing challenges in its long haul markets and withdrawal of services in Western Canada.

3 Continuous improvement in operating and financial performance

Punctuality

Greyhound on-time performance¹ (%)

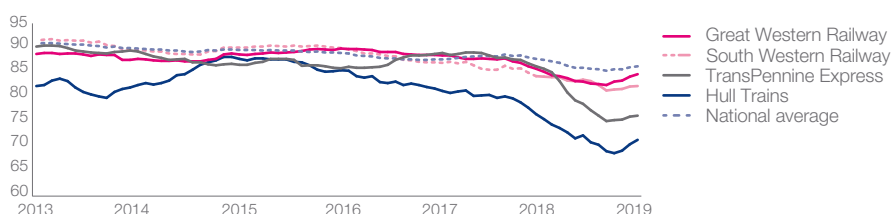


First Bus punctuality (%)



¹ We implemented GPS tracking in 2017; earlier data is not comparable due to this change in methodology.

First Rail Public Performance Measure (PPM)



Greyhound's on-time performance score was affected by poor fleet reliability. We took steps to improve this during the year through the introduction of new vehicles, as well as improvements to our fleet maintenance processes. As a result, although overall on-time performance fell during the year, as a whole we saw an improvement in the second six-month period.

First Bus punctuality measures percentage of services no more than one minute early or five minutes late and has seen a slight year-on-year improvement, despite congestion remaining a significant issue for services in many cities including Bristol. We continue to work with all local authorities to resolve or mitigate this and are able now to provide evidence to pinpoint problem areas through our GPS linked data.

The national average score of rail punctuality and reliability (PPM) saw a decrease during the year with contributory factors including TOCs being affected by substantial infrastructure upgrades on their networks as well as disruption caused by the introduction of the May 2018 national rail timetable. First Rail TOCs have been similarly affected with significant upgrade work on all three of our franchises although in common with other operators our PPM improved towards the end of the year.

Safety¹

Employee lost time injury rate (per 1,000 employees per year)



Passenger injury rate (per million miles)



¹ This year we updated our safety reporting definitions and data collection processes to capture a wider set of inputs to our safety KPIs. Historic data has been restated to reflect this. We continue to refine and enhance our reporting every year, and carry out robust analysis and review to help inform our safety strategy and plans.

We achieved a 3% reduction in our Employee lost time injury rate thanks to reductions in Greyhound, First Bus and First Student, despite increases in First Transit and First Rail. Total employee injuries were also reduced by 3%, in line with our continuing focus on positive safety behaviours and rules compliance through our Be Safe programme. There has also been progress in all divisions in reducing severity of injuries, with major injuries significantly down.

Passenger injuries per million miles have reduced by 11%, driven primarily by progress in First Bus, which offset an increase in First Transit. We continually review the root cause of passenger injuries, using data analysis to shape the focus of our safety programmes. More information on our approach to safety can be found on page 37.

Financial performance

Adjusted operating profit (£m)



Adjusted EPS (pence)



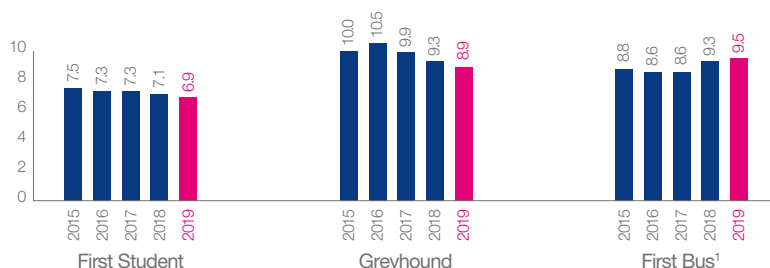
Adjusted operating profit and adjusted EPS highlight the recurring financial results of the Group before amortisation charges and certain other items (as set out in note 4 to the financial statements) which distort year-on-year comparisons.

Adjusted operating profit in constant currency increased by 4.0% or by 10.5% adjusting for SWR and the 53rd week in the Road divisions last year, reflecting progress in First Rail, First Bus and First Student partly offset by Greyhound and First Transit.

On a constant currency basis, adjusted EPS increased by 15.2% (or by 17.1% in reported currency), mainly reflecting lower net finance costs.

4 Prudent investment in our key assets (fleets, systems and people)

Average fleet age (Years)



¹ First Bus 2018 data onwards calculated on basis of vehicles in service. 2017 data also re-stated on that basis.

First Student made investments in buses during the year reflecting the strong increase in retention rates and uplift in new business wins achieved; therefore, our average fleet age reduced to 6.9 years.

Following a number of years where Greyhound required few additional vehicles, we have stepped up our fleet renewal plan, resulting in the addition of 108 new vehicles to the fleet this year. As a result our reported average fleet age reduced to 11.6 years (2018: 12.1 years), while adjusting for refurbishment the effective age was 8.9 years.

Our significant fleet investment programme in First Bus had led to a number of years where the fleet age reduced, but for the last two years we have been investing in the fleet at lower levels and therefore the fleet age increased to 9.5 years.

Group ROCE (%)



Reported return on capital employed (ROCE) is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by net assets excluding debt items.

Group ROCE increased to 10.5%, with higher adjusted operating profit and lower capital employed as translated at year end currency rates. In the prior year Group ROCE was 8.9% at constant exchange rates and 9.5% as reported.

The Road divisions ROCE was 6.4% (2018: 6.3% at constant exchange rates and 6.6% as reported).

5 Maintain responsible partnerships with our customers and communities

Customer and passenger satisfaction

First Student

(Average rating out of ten)



First Transit

(Average rating out of ten)



Greyhound

(Net Promoter Score)¹



First Bus

(% satisfied with their journey overall)



First Student and First Transit conduct annual surveys of clients, and maintained high levels of overall customer satisfaction in the year despite the effects of driver shortages in some areas. Scores were strong due to the continued focus on safety, operational consistency, and service delivery for our customers.

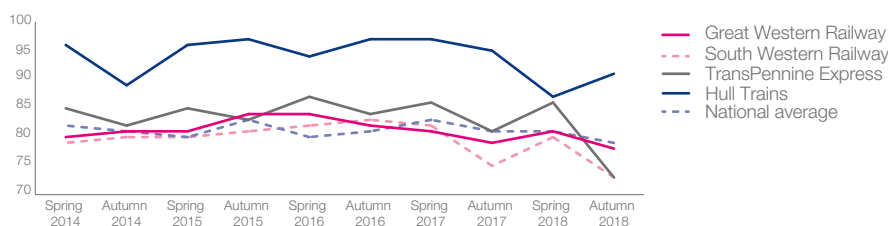
We refocused Greyhound's customer satisfaction KPI on the Net Promoter Score (NPS) methodology in 2016. This improved significantly in 2017, but fell in both of the last two years as on-time performance grew weaker. 2019 was especially impacted by summer on time performance, and improved in the second half of the year with new fleet deliveries. Initiatives aimed at improving customer service – for example customer awareness training, introduction of infotainment and e-ticketing – helped mitigate the performance score but did not outweigh punctuality.

Overall satisfaction with First Bus in the independent Transport Focus Bus Passenger Survey in England was 83%, which was a slight drop compared to last year (84%). Overall scores improved in four of our operating companies. Punctuality is a key driver of customer satisfaction, and our scores in certain areas particularly affected by congestion reflected this. Our driver welcome/greeting score and driver helpfulness and attitude score both improved, reflecting the focus given in the year to improving customer service. We also achieved a reduction in complaints about driver interaction compared with the previous year.

¹ Moved to NPS methodology in late 2016; earlier data not comparable due to this change.

First Rail

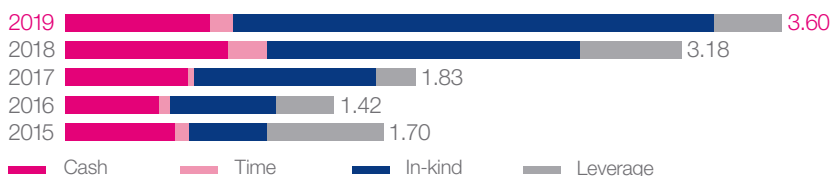
(% satisfied with their journey overall)



The latest independent Transport Focus National Rail Passenger Survey saw overall satisfaction across the country decrease year-on-year. GWR's scores reflected a number of short-term challenges including engineering work and employee training on new trains. Hull Trains again scored very highly for overall satisfaction in the Autumn survey, although the Spring figures were affected by fleet performance issues. SWR's scores were affected by several major incidents that unfortunately caused significant disruption and the period of the survey also saw additional disruption caused by RMT strike action. TPE also saw a decrease as when the survey was taken last autumn we were experiencing unprecedented disruption to customer journeys across the rail network in the North, following delays to a crucial electrification project.

Community investment

(£m measured using the LBG model)



This year we contributed £3.6m to the communities we serve across the UK and North America. This was measured by using the London Benchmarking Group (LBG) model which tracks cash contributions made directly by the Group, time (employee volunteering), in-kind support (such as travel tickets, and advertising space) and leverage (including contributions from other sources such as employees, customers and suppliers).

We have re-stated our 2018 charitable contribution data as a result of improvements in data quality and verification.

Greenhouse gas emissions

(Tonnes of carbon dioxide equivalent – tCO₂(e))

	2019	2018	2017	2016
Scope 1	2,344,768	2,431,367	2,436,362	2,416,781
Scope 2 ^a (location based)	265,924	276,973	270,988	267,241
Scope 3	18,179	9,339	10,668	15,126
Out of Scope	14,654	10,065	9,530	13,585
Total	2,643,524	2,727,744	2,727,548	2,712,733
% change (against 2016 baseline)	-3%	1%	1%	n/a
Scope 2 ^b (market based)	48,768	46,683	46,128	72,134
Per £1m of revenue	371	385	400	426
% change (against 2016 baseline)	-13%	-10%	-6%	n/a

Figures in the table above have been restated in consideration of changes in methodologies, improvements in the accuracy, or discovery of errors in previous years' data as per our stated policy.

Our gross carbon emissions have been classified in the following way:

- Scope 1 – Direct emissions from: vehicle use (owned and leased); fugitive refrigerant gas emissions; heating fuels used in buildings, and road and rail fuel use.
- Scope 2 – Indirect emissions from: electricity used in our buildings, and to power our electric rail and bus fleet. We report both location-based emissions (taking into account the UK grid average) and market-based emissions (reflecting the amount of energy from renewable sources).
- Scope 3 – Indirect emissions from: First Travel Solutions (including third party vehicle provision); business travel by air; hotel stays; water supply and treatment; and waste recycling and disposal.
- Out of Scope – Indirect emissions from: biofuel usage from all divisions in line with DEFRA reporting guidelines.

Data in this table has been independently assured by Carbon Credentials.

Please also see the Environmental Data Report (2019) on our website for further information.

94% of our greenhouse gas (GHG) emissions derive from the fuel and electricity we use to power our road and rail fleets.

From our baseline reporting year (2015/16), we have reduced our overall GHG emissions and carbon intensity (per £1m revenue) by 3% and 13% respectively.

Relevant factors in this include a 3.3% reduction in diesel, gas-oil and petrol use, and increases in the use of biofuel and gaseous fuels. In 2018/19 for example we recorded a 41% increase in compressed natural gas (CNG) use in our US businesses.

Decarbonisation of our power networks, coupled with increased electrification in First Rail has played a key role in reducing our carbon intensity per passenger and per £1m revenue.

Our reporting follows the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, applying the operational control approach to our organisation boundary against a materiality threshold of 5%. Any operation emitting less than 5% of the Company's total GHG emissions (or in combination with other emissions are less than 5% of corporate emissions) are regarded as immaterial.

An Environmental Data Report (2019) is available on our website (www.firstgroup.com/responsibility) and provides further analysis on our carbon, energy and environmental impacts, alongside information on our data and assurance processes.

Principal risks and uncertainties

Our risk management approach

We take a holistic approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view.

Our risk management structure

Whilst some risks such as treasury risk are managed at a Group level, all of our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions.

We seek to continue to improve the quality of risk management information generated by our businesses. The Group has a risk appetite framework which informs the business on the Board's appetite for certain risks.

Our current risk management structure is shown below:



Principal risks and uncertainties

Our risk management methodology is aimed at identifying the principal risks that could:

- adversely impact the safety or security of the Group's employees, customers and assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets
- adversely impact the Group's reputation or stakeholder expectations.

The Group's principal risks are set out in the table on page 43 onwards. These risks have been assessed taking into account their potential impact (both financial and reputational), the likelihood of occurrence, and any change to this compared to the prior year and the residual risk after the implementation of controls. Further information on our risk management processes is contained in the Corporate governance report on pages 65 to 66.

Areas of focus during the year

During the year work has continued in the development of a revised risk management system, designed to capture risks and opportunities to the Group.

New and emerging risks

New vehicle technologies are evolving rapidly in response to market innovation, increasing environmental regulation and consumer demand. Although these do present significant opportunities for our businesses, there is risk associated with the change required to our business models.

Principal risks and strategic priorities

To deliver our strategy, it is important that we understand and manage the risks that face the Group. The table below outlines our principal risks and identifies which of our strategic objectives may be affected by those principal risks.

Risk	Severity (Probability x Impact) High ← → Low	Applicability to divisions and Group Functions						Link to strategic priorities
								
External Risks								
Economic conditions including Brexit 								   
Political and regulatory								    
Strategic Risks								
Contracted businesses including rail franchising								    
Competition and emerging technologies								   
Operational Risks								
Information technology 								   
Data security including cyber security and GDPR								    
Treasury and credit rating								  
Pension scheme funding 								  
Compliance, litigation, claims, health and safety 								   
Labour costs, employee relations, recruitment and retention								    
Disruption to infrastructure/operations 								   

(V) Viability statement (see page 49)

- ◀ Risk increased
◀▶ Risk unchanged
▶ Risk decreased

Strategic priorities

- ① Focused and disciplined bidding
- ② Driving growth through attractive commercial propositions
- ③ Continuous improvement in operating and financial performance
- ④ Prudent investment in our key assets
- ⑤ Responsible partnerships with our customers and communities

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
External Risks		
Economic conditions including Brexit Changing economic conditions affect our different businesses in different ways. A less positive economic outlook, or a disruptive exit from the EU could have a negative impact on our businesses in terms of reduced demand and reduced opportunities for growth or to retain or secure new business. Our First Rail businesses are particularly sensitive to movements in key economic indicators. The same factors could also affect our key suppliers. A strong economic climate, particularly when combined with lower fuel prices, may result in reduced demand for public transportation in our Greyhound and First Bus businesses as alternative modes of transport become relatively more affordable. Economic conditions may also result in a tightening of labour markets resulting in employee shortages, rising pay, or affect the availability of public funding for transport services.	① ② ③ ④ To an extent, our First Bus and Greyhound operating companies are able to modify services to react to market changes. The geographic spread of our operations reduces the risk at a Group level. All of our businesses focus on controlling costs to ensure they remain competitive. The Group does not have any standalone operations entirely in the EU. Focus must be maintained to scan the economic environment and take proactive action so as to not adversely impact FirstGroup's execution of its strategy.	▲ The UK departure from the European Union may adversely impact the UK's economic position which in turn may have an adverse impact on the Group's UK and Irish operations. Action plans have been put in place to manage disruption caused by a disorderly exit from the EU.
Political and regulatory The political landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes, infrastructure initiatives, or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency. Following the 2016 Paris Agreement, a number of countries in which we operate have now engaged in defining either city, state or national decarbonisation plans. These plans set ambitious targets for the reduction of transport-related GHG emissions and the transition to low carbon economies.	① ② ③ ④ ⑤ The Group has dedicated legal teams in the UK and North America who advise on emerging issues. The Group actively engages with the relevant government and transport bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes. Our continued focus on service quality and delivery helps to mitigate calls for structural market change. We have a programme to measure and reduce our carbon emissions and are developing Group-wide carbon reduction targets with plans across our divisions to mitigate the regulatory risk and benefit from our operating markets transitioning to a low carbon economy.	▲ The political landscape in the US and the UK continues to present both risks and opportunities.

Risk and potential impact	Mitigation	Comment and movement during the year
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Strategic Risks

Contracted businesses including rail franchising

Approximately half of the Group's business is contracted, which is dependent on the ability to renew and secure new contract wins on profitable terms. Failure to do so would result in reduced revenue and profitability and incorrect modelling or bid assumptions could lead to greater than anticipated costs or losses.

Failure to comply with contract terms could result in termination, litigation and financial penalties and failure to win new contracts or non-renewal of existing contracts. This could also have a negative impact on delivering FirstGroup's strategy going forward.

Competition for new rail franchises is intense. We bid against rail operators from both the UK and other countries. Failure to win franchises in the future will result in a lower First Rail division contribution and profitability.

The GWR, TPE and SWR franchises cover a period during which there will be significant change including major infrastructure work, electrification and resignalling as well as the introduction of new trains, which require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational impacts to the Group.

① ② ③ ④ ⑤

The relevant divisions have experienced and dedicated bid teams who undertake careful economic modelling of contract bids and, where possible, seek to negotiate risk sharing arrangements with the relevant customer or contracting authority.

The Group also has a comprehensive review process for rail bids as they are developed and finalised involving a number of divisional and Group functions as well as final Board sign off.

Compliance with our rail franchise agreements is closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.



We continually review our contracts to take account of changing circumstances such as economic environment or infrastructure changes. Our rail franchise contracts are examples of this.

Future commitments to UK rail will only be entered into if they have an appropriate balance of potential risks and rewards for shareholders.

Competition and emerging technologies

All of the Group's businesses (both contract and non-contract) compete in the areas of pricing and service and face competition from a number of sources.

Our main competitors include the private car and existing and new public and private transport operators across all our markets. Airline competition impacts demand for bus travel, especially in Greyhound's long haul business. Emerging services such as Uber, ride sharing apps and price comparison websites make access to alternative transport solutions easier. However, emerging technologies such as autonomous vehicles and on demand schemes also provide opportunities to grow and develop our market segments.

As the uptake of electric vehicle technology rapidly increases, so the per passenger carbon footprint of all modes of transport can be reduced, providing competition for our services on environmental grounds and opportunities for us to reduce our emissions further.

Increased competition could result in lost business, reduced revenue and reduced profitability, negatively impacting the effective execution of FirstGroup's strategy in line with its expectations.

① ② ③ ④

The Group continues to focus on service quality and delivery as priorities in making our services attractive to passengers and other customers, across our portfolio of businesses.

We have a dedicated cross-divisional Consumer Experience Team focused on improving our service to customers and improving access to our services. In our contract businesses, a competitive bidding strategy and a strong bidding team are key.

Wherever possible, the Group works with local and national bodies to promote measures aimed at increasing demand for public transport and the other services that we offer.

We work with industry bodies advocating for the development of clean vehicle technologies and partners at a local level to develop integrated mobility solutions for our customers and transition our vehicles to modern low emission fleets.



In North America, Greyhound has implemented new pricing technology tools to allow for a more rapid response to an increasingly competitive marketplace driven by low cost airline competition.

We currently have a number of autonomous vehicle pilot projects in the US and are working on one in the UK. We are also running pilots for on demand technology both in the US and UK.

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks		
Information technology (IT) The Group relies on IT in all aspects of our business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information. Process failure, security breach or other operational difficulties may also lead to revenue loss or increased costs, fines, penalties or additional insurance requirements. Prolonged failure of our sales websites could also adversely affect revenues. Continued successful delivery and implementation of the Greyhound IT transformation plan is required to improve yield management and drive future growth. Failure to properly manage the implementation of new IT systems may result in increased costs and/or lost revenue.	① ② ③ ④ The Group has continued to focus on removal of legacy assets with a focus on modern cloud-based assets which are naturally more resilient to failure. In addition the Group is fully focused on continuing to improve cyber security defences with additional resources being focused on the area and the appointment of a chief information security officer (CISO) to ensure clear focus.	◀ ▶ We continue to improve key asset resilience, business and IT continuity as the importance of digital sales channels continues to grow.
Data security including cyber security and GDPR All business sectors are targeted by increasingly sophisticated cyber security attacks. Across our divisions we are seeing increased use of mobile and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing. A failure to comply with the General Data Protection Regulation (GDPR), which came into force in May 2018, could result in significant penalties and could have adverse impact on consumer confidence in the Group.	① ② ③ ④ ⑤ We have a number of threat detection tools and processes across all our businesses which remain under constant review against emerging threats.	◀ ▶ In the year we have appointed a CISO to provide further focus in the area of cyber security and compliance with GDPR, the Health Insurance Portability and Accountability Act, and Network and Information Systems directives. We have also invested in data and cyber security training and awareness programmes for employees and this is now part of a continuous campaign.
Treasury and credit rating As set out in further detail in note 24 to the financial statements on pages 139 to 144, treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk. Foreign currency and interest rate movements may impact the profits, balance sheet and cash flows of the Group. Ineffective hedging arrangements may not fully mitigate losses or may increase them. The Group is credit rated by Standard & Poor's and Fitch. A downgrade in the Group's credit ratings to below investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.	① ③ ④ The Group's Treasury Committee manages treasury policy, and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks appropriately. The Group is continuously focused on improving operating and financial performance as part of our strategic objectives as outlined on page 13.	▼ Leverage (Net Debt: EBITDA) remains within our target range. We refinanced our £800m Revolving Credit Facility in November 2018 and that is now committed until 2023, providing significant liquidity headroom for the Group.

Risk and potential impact	Mitigation	Comment and movement during the year
Pension scheme funding The Group sponsors or participates in a number of significant defined benefit pension schemes, primarily in the UK. Future cash contribution requirements may increase or decrease based on pension scheme investment performance, rates of interest and inflation and estimated life expectancy as well as changes in the underlying membership of the schemes. Other factors, such as changes to the relevant regulatory environments, can affect the pace of cash funding requirements.	① ③ ④ Diversification of investments, hedging of liabilities, amendment of the defined benefit promises and the introduction of defined contribution benefits for new starters in First Bus, FirstGroup corporate functions and our Canadian businesses have reduced these risks. The Group also seeks to remove liabilities from the balance sheet where it can be achieved cost effectively. Under the First Rail franchise arrangements, the Group's train operating companies are not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within any particular franchise.	▲ The Group has closed most of its defined benefit schemes in its Road divisions to future accrual. This will lead to the natural reduction of the size and volatility of the pension funding risk over time. Through our membership of the Rail Delivery Group we are engaged in an industry wide project to consider the long term funding model for The Railways Pension Scheme. The Group is also consolidating its Local Government Bus obligations across England and Scotland separately, which will achieve economies of scale in terms of investment and de-risking opportunities as well as ongoing running costs, with significant risk reduction already taking place.
Compliance, litigation, claims, health and safety The Group's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage. The Group is also subject to other litigation, which is not insured, particularly in North America, including contractual claims and those relating to employee wage and hour, and meal and break matters. A higher volume of litigation and claims can lead to increased costs, reduced availability of insurance cover, and/or reputational impact. Increased frequency of accidents, clusters of higher severity losses, a large single claim, or a large number of smaller claims may negatively affect profitability and cash flow.	① ② ③ ⑤ Compliance with Group and divisional policies and procedures. The Group has a very strong focus on safety and it is one of our five values. The Group self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. We purchase insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by the Group's dedicated in-house legal teams with external assistance as appropriate.	▲ The legal climate in North America, particularly in the US, continues to deliver judgements which are disproportionately in favour of plaintiffs, and at times unpredictable. The costs of dealing with this challenging legal environment are factored into our budgets. Due to the scale and scope of our operations, risk mitigation in this area continues to be an area of key focus for the Group.

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks		
Labour costs, employee relations, recruitment and retention Employee costs represent the largest component of the Group's operating costs, and new regulation or pressure to increase wages could increase these costs. Competition for employees, particularly in an improved economic climate, can lead to shortages which increase costs and affect service delivery. High employee turnover could lead to higher than expected increases in the cost of recruitment, training and labour costs and operational disruption. Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.	① ② ③ ④ ⑤ The Group seeks to mitigate these risks via its recruitment and retention policies, training schemes and working practices. Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular employee communication, satisfaction surveys, and the presence of Employee Directors (who are voted for by the employees) on many of the Group's UK operating company boards and the FirstGroup plc Board. Where increased wages and incentives are necessary to attract and retain employees, those extra costs are factored into our bid models, where possible, to ensure appropriate returns are achieved.	◀ ▶ Strong economic conditions and low unemployment, continue to impact retention and recruitment. Competition for commercially-licensed drivers is increasing as more organisations offer delivery services. During the year, recruitment strategies have been refreshed across all five divisions, providing intensive recruitment support through initiatives such as expanded digital recruitment channels, retention and referral rewards and fast tracked on-boarding.
Disruption to infrastructure/operations Our operations, and the infrastructure on which they depend, can be affected by a number of different external factors, many of which are not within our control. These factors include terrorism, adverse weather events and climate change or potentially pandemics. Greater and more frequent adverse weather caused by climate change increases the risk of service disruption and reduced customer demand with consequent financial impact, potential increased costs and accident rates. As a leading transport provider, we must prioritise these risks of addressing climate change, both through managing its physical and transitional impacts and reducing emissions in support of international agreement to limit planetary warming to 1.5 degrees. As national governments align policies and plans with targets for low-carbon and cleaner forms of energy, climate change also presents a business opportunity related to the falling cost of alternative energy sources and the development of new mobility technologies. The threat from terrorism is enduring and continues to exist in all of our markets. Public transport continues to be regarded as an attractive and viable target and has previously been subject to attack. Across our businesses, we take all reasonable steps to help guard against such activity on the services we operate. An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or specifically in the Group's security and safety record and could reduce demand for our services, increase costs or security requirements and cause operational disruption.	① ② ③ ⑤ We continue to develop and apply good practice, and provide guidance to our employees to help them identify and respond effectively to any potential threat or incident. We maintain close working relationships with specialist government agencies, in relation to terror threats, in both the UK and North America. We employ dedicated security specialists in the UK and North America. The geographic spread of the Group's businesses offers some protection against specific incidents. In addition, some of our contract-based businesses have force majeure clauses in place. We have severe weather action plans and procedures to manage the impact on our operations. The Group continues to target reductions in our emissions, including through behaviour change initiatives, research and development and investment in new technology. We work closely with those responsible for planning and maintaining our network infrastructures and our asset plans for both our fleet and buildings consider potential climate change impacts.	◀ ▶ Severe weather has led to service disruption in both our North American and UK operations but our businesses have well developed plans to limit as far as possible the disruption. In relation to terrorism, some developments including the weakened position of Islamic State in Syria have created the false perception that the threat may be reducing. This is not the case and the threat remains significant and consistent in relation to western societies.

The risks listed are not all of those highlighted by our risk management processes and are not set out in any order of priority. Additional risks and uncertainties not presently known to us, or currently deemed to be less material, may also impact our business. Indication of a movement in a risk may not indicate a change in the overall net risk position after taking into account risk mitigations.

PROSPECTS AND VIABILITY

The UK Corporate Governance Code 2016 – provision C.2.2

The Directors are required to make a statement in the Annual Report regarding the viability of the Group, including explaining how they assessed the prospects of the Group, the period of time for which they have made the assessment and why they consider that period to be appropriate.

Prospects

Assessment of prospects

FirstGroup is a market leader in five segments of the passenger transport industry, operating primarily in the USA and UK. The Group's business model is set out on page 12, which explains how the Group is managed and its strategy delivered.

The Board believes that for the foreseeable future there will continue to be strong customer demand for public transport services and for the carrying of children safely to and from school. As such, there will continue to be growth opportunities in the markets that each of the Group's five divisions operate within.

The annual strategy review, business plan and budget are key processes by which the Board tests and gains comfort in the longer-term prospects for each of the divisions and the Group as a whole. The Group's overall cashflows and financing facilities are also reviewed annually to ensure that the Group has adequate liquidity to continue as a viable entity and to invest in each of its divisions.

As part of its ongoing oversight role, the Board actively considers the risks facing each division and monitors key developments in each of their markets and, where appropriate, agrees relevant initiatives and investments to respond to the risks and developments.

The likely future level of customer demand, the scale of each division and their ability to bring global expertise to local markets, underpins the Board's assessment that the Group overall will remain viable into the future.

Strategy implementation

When implementing the strategy to rationalise the Group's portfolio, with the future emphasis being on First Student and First Transit, including pursuing structural alternatives to separate First Bus, a detailed assessment of the Group's prospects and viability will be undertaken to confirm that there will be a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. For the purposes of the viability assessment, it has been assumed that any separation plans will only be pursued if they are value-enhancing for the Group.

Viability

Time horizon

The Directors have assessed the viability of the Group over a three-year period. This period reflects the Group's corporate planning processes and is considered appropriate for a fast-moving competitive environment such as passenger transport.

Scenario testing

In making their assessment, the Directors have taken into account the potential financial and operational impacts, in severe but plausible scenarios, of the principal and emerging risks which might threaten the Group's viability during the three-year period to 31 March 2022 and the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of such risks (details of the risks and mitigating actions are set out on pages 44 to 48). The assessment of the available mitigating actions included the Group's ability to manage its cost base and capital expenditure. In making their assessment, the Directors have made the assumption that the Group will be able to access debt markets to refinance the existing £350m Bond expiring in April 2021.

The broad details of the scenarios that were considered in the assessment are: 1) a significant economic downturn (including the impact of a 'disruptive Brexit') with a GDP fall of 3% resulting in an adverse operating environment; 2) heightened operational pressures due to increased competition, driver shortages and adverse weather; 3) a weak economy with a 2 – 4% fall in UK and US GDP, accelerated funding of pension scheme deficits and a closure of the bond markets to new issues; and 4) consideration of the Group's strategic portfolio rationalisation plans, including modelling of the impact on the Group's viability of the disposal of Greyhound, for which a process is underway.

The results of this scenario testing showed that the Group would be able to remain viable and maintain liquidity over the assessment period.

Corporate planning processes

The Group's corporate planning processes include completion of a strategic review, preparation of a medium-term business plan and a quarterly re-forecast of current year business performance. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining the Group's existing investment grade status. It also considers the ability of the Group to deploy capital. A key assumption underpinning these corporate planning processes is that debt and asset-backed financing markets will be sufficiently available to the Group, even if the bond markets are closed as in scenario 3, to enable the refinancing of existing loan facilities and to put in place, if required, additional finance facilities.

PROSPECTS AND VIABILITY CONTINUED

Statement

Based on the results of the analysis explained above, including scenario testing, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2022.

The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

GOING CONCERN STATEMENT

The Group has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium-term contracts with government agencies and other large organisations in the UK and North America.

The Group has a diversified funding structure with average debt duration at 31 March 2019 of 4.3 years (2018: 4.1 years) and which is largely represented by medium-term unsecured bank facilities and long-term unsecured bond debt. The Group has an £800m committed revolving banking facility of which £353.3m (2018: £603m) was undrawn at the year end. This facility has a maturity of November 2023.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2020 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Governance

Governance

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Improving quality of life

Match made in heaven for Royal Wedding trains

SWR and GWR worked with partners at the Royal Borough of Windsor and Maidenhead, Network Rail and the British Transport Police to help customers successfully complete 45,000 journeys to and from Windsor to watch the ceremony of the wedding of Meghan Markle and Prince Harry. Our companies took additional steps including more trains and announcements in foreign languages.

Low Emission Buses in Glasgow

First Bus are introducing low emission vehicles in a commitment to improving air quality, supporting the ambition of Glasgow City Council. This includes an investment to date of more than £30m in 150 buses for key routes around the city. The buses are equipped with on board features including Wi-Fi and charging points for customers' convenience.



Board of Directors



Wolfhart Hauser ^N
Chairman

Appointed: 2015 (independent on appointment)

Skills and experience: Wolfhart Hauser has had a distinguished career having been Chief Executive Officer (CEO) of Intertek Plc, the leading international testing company, for 10 years until 2015 and having overseen over 600% return since he joined the Board in 2002. He was previously CEO of TÜV SÜD for four years, and also worked for many years in a number of senior management roles in TÜV SÜD divisions, where the business provided road traffic safety services and training for taxi, bus and other vehicle drivers. He was also CEO of TÜV Product Service for 10 years, supporting rail manufacturers, operators and authorities with a range of services that are fundamental to reliable, safe and secure rail operation. He was previously a Non-Executive Director (NED) of Logica plc.

Other appointments: NED at Associated British Foods plc and Senior Independent Director (SID) at RELX PLC.

Nationality: German



Matthew Gregory ^F
Chief Executive

Appointed: 2015 and became Chief Executive on 13 November 2018

Skills and experience: Matthew has a deep understanding of FirstGroup, having joined the company as Chief Financial Officer (CFO) in December 2015, before his appointment as Chief Executive in November 2018. Matthew has strong strategic and operational expertise, including delivering strategy and driving performance improvement. He has extensive international experience, including significant M&A and corporate finance activity. He was formerly Group Finance Director of Essentra plc, a component manufacturer and distributor, having previously been Director of Corporate Development, where he was responsible for multiple international acquisitions, as well as driving growth and margin improvement in the group's largest division. His early career was spent at the manufacturing and distribution division of Rank Group Plc where he was responsible for managing multinational corporations, introducing new technologies and restructuring legacy businesses. Matthew qualified as a chartered accountant at EY and has recent and relevant financial experience.

Nationality: British



Ryan Mangold ^F
Chief Financial Officer

Appointed: with effect from 31 May 2019

Skills and experience: Ryan was appointed as CFO in May 2019, having previously been Group Finance Director of Taylor Wimpey Plc for 8 years. Ryan has a strong track record of building strong financial discipline in the organisations he has worked at. During his time at Taylor Wimpey, Ryan played an integral role in strengthening the balance sheet and driving operational improvements; also playing a leading role in the rebuilding of the business post the financial crisis to become a constituent of the FTSE100, the sale of the North American business and the improvement of its pensions position. Ryan was previously at Anglo American group of companies, where he was Group Financial Controller at Mondi and played a significant role in its demerger from Anglo American in 2007. Ryan is a chartered accountant and has recent and relevant financial experience.

Nationality: South African / British

Board Committees

^A Audit Committee

^B Board Safety Committee

^N Nomination Committee

^R Remuneration Committee

^F Financial Expert

● Chair



Martha Poulter **A**
Independent Non-Executive Director

Appointed: 2017

Skills and experience: Martha has deep expertise in technology and cyber security, specialising in the integration of new technology systems to transform and enable business performance. Throughout her career she has led technology programmes across hospitality, finance and service industries, with a strong focus on customer service and driving operational improvements and efficiencies. Martha has led and executed technology strategies across Europe, America and Asia. Most recently Martha was the Executive Vice President and Chief Information Officer (CIO) of Starwood Hotels & Resorts Worldwide and, prior to that, she was Vice President of General Electric and CIO of GE Capital with global responsibility for IT strategy and operations.

Other appointments: Senior Vice President and CIO of Royal Caribbean Cruises Ltd.

Nationality: American



Julia Steyn **R**
Independent Non-Executive Director

Appointed: 2 May 2019

Skills and experience: Julia brings extensive knowledge of the US transport industry to the Board. Julia served as vice president, Urban Mobility and Maven at General Motors (GM) until earlier this year. Maven combines all of GM's car- and ride-sharing offerings, including its strategic alliance with Lyft, under a single personal mobility brand. Julia first joined GM in 2012 as vice president, corporate development and global M&A, to manage GM's partnerships globally while also developing merger and acquisition opportunities. Prior to this, Julia was vice president and co-managing director for Alcoa's corporate development group, having previously worked in London, Moscow and New York for Goldman Sachs and A.T. Kearney.

Nationality: American



Imelda Walsh **R N B**
Independent Non-Executive Director

Appointed: 2014

Skills and experience: Imelda brings considerable experience to the Board gained across a number of sectors, as well as outstanding remuneration practice skills. She was formerly NED and Chair of the Remuneration Committee of Sainsbury's Bank plc, Mothercare plc and William Hill plc. She has held senior executive roles at J Sainsbury plc (where she was Group HR Director), Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. Imelda played a central role in delivering the turnaround of J Sainsbury plc, instilling a commercial culture, great service and operational effectiveness throughout the organisation.

Other appointments: NED and Chair of the Remuneration Committees of Mitchells & Butlers plc and Aston Martin Lagonda Global Holdings plc.

Nationality: British



David Robbie **A R F**
Senior Independent Non-Executive Director

Appointed: 2018 and became SID with effect from 31 May 2019

Skills and experience: David brings valuable turnaround experience to the Board, with a lead role in the integration of P&O with Royal Nedlloyd, and operational efficiency, cash optimisation and improved ROCE programmes at Rexam following its strategic refocus from 2010. He has significant international corporate finance and M&A transaction experience. He was Finance Director of Rexam PLC from 2005 until its acquisition by Ball Corporation in 2016. Prior to his role at Rexam, David served in senior

finance roles at BTR plc before becoming Group Finance Director at CMG plc in 2000 and then CFO at Royal P&O Nedlloyd N.V. in 2004. He served as a NED of the BBC between 2006 and 2010 and as Chairman of their Audit Committee. David qualified as a chartered accountant at KPMG and has recent and relevant financial experience.

Other appointments: NED and member of the Audit, Nomination and Remuneration Committees of DS Smith Plc.

Nationality: British



Warwick Brady ^A
Independent Non-Executive Director

Appointed: 2014

Skills and experience: Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes, particularly in the transportation sector. His previous roles include Chief Executive of Mandala Airlines in Asia, Deputy Operations Director at Ryanair plc, and Chief Operating Officer at Air Deccan/Kingfisher in India and easyJet plc, during its transformation to become a FTSE100 business. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.

Other appointments: CEO of Stobart Group Ltd, where he has delivered on M&A, turnarounds, complex financing and strategic re-focus to position the business for significant future shareholder value generation; and strategic Board Advisor at Vistair Systems Ltd.

Nationality: British



Steve Gunning ^{A F}
Independent Non-Executive Director

Appointed: 1 January 2019

Skills and experience: Steve has been the CFO of British Airways (BA) for the last three years and has been announced as the new CFO of International Airlines Group (the parent company of BA), effective 20 June 2019. Prior to that he served as CEO of IAG's Cargo Division for five years. During his career Steve has gained considerable experience leading operational turnarounds, overseeing major corporate integrations processes, corporate governance and complex pension negotiations. Steve qualified as a chartered accountant at PwC and gained experience in both the UK and the US and worked in the rail, financial and manufacturing sectors. Steve has recent and relevant financial experience.

Other appointments: Director of IAG Global Business Services, Avios Group and IAG Cargo.

Nationality: British



Jim Winestock ^{B N A}
Independent Non-Executive Director

Appointed: 2012

Skills and experience: Jim brings to the Board considerable operational experience gained within a large complex organisation, together with a track record of achievement. He has served in a number of senior roles and was a member of the management committee during his career at United Parcel Service, Inc, latterly as Senior Vice President and Director of US operations and global security with responsibility for all US operations and 360,000 employees.

Other appointments: NED of YRC Worldwide, Inc. Jim also serves on the Board of three not-for-profit organisations in the US.

Nationality: American



Jimmy Groombridge ^B
Group Employee Director

Appointed: 2017

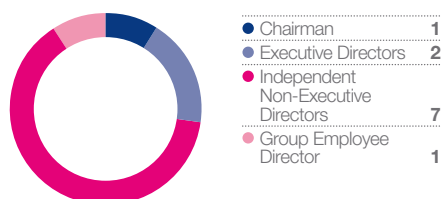
Skills and experience: Jimmy was a bus driver for almost 40 years and having worked on projects for different departments within FirstGroup, he brings a unique experience of employee engagement at all levels to the Board. He is currently an employee of First Eastern Counties, where he served as Employee Director for more than a decade. He also served as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a champion of our Group Safety Programme "Be Safe".

Nationality: British

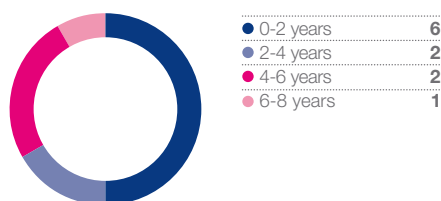
About the Board

The Board focuses on matters that add value for shareholders, both present and future.

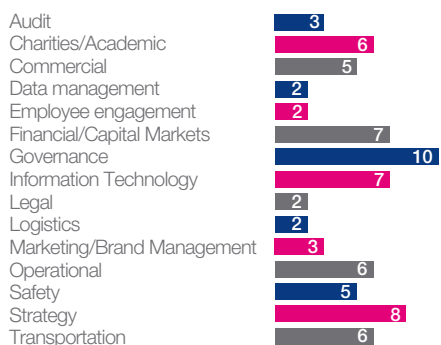
Board composition



Length of tenure



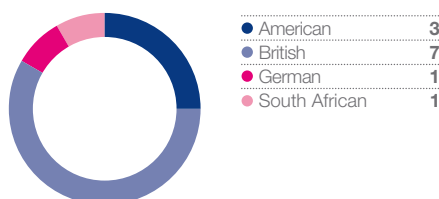
Core areas of expertise¹



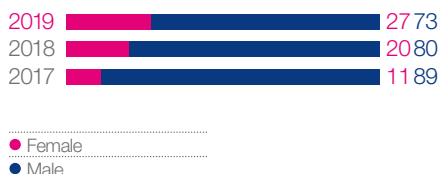
The graphs on this page reflect our Board composition with effect from 31 May 2019

¹ Some Directors are represented in more than one category

Nationality¹



Board gender diversity (%)



Our Group Employee Director

- promotes employee involvement and participation in the affairs of the Group, through share ownership, employee surveys and other means
- identifies methods of achieving such employee involvement and participation and assists the FirstGroup Board to implement these
- encourages suggestions from employees for improvements in the business of the Group and identifies how such suggestions can be evaluated and implemented where appropriate
- considers the implications for the Group of political developments and initiatives, particularly in relation to transport policy and safety
- considers issues of a strategic or commercial nature affecting the Group
- promotes the Group's policies and procedures amongst employees, in particular those related to safety, diversity and inclusion, and business ethics
- demonstrates and promotes the Group's Vision and Values amongst employees

Our Chief Executive

- promotes the creation and maintenance of a safe working environment and a safety-focused culture across the Group; he does the latter by leading the Executive Safety Committee
- establishes the Group's Values and standards and sets the tone from the top
- leads the Executive Committee in the day-to-day running of the Group's business
- develops the Group's business objectives and strategy, having regard to the interests of shareholders, customers, employees and other stakeholders
- ensures the business of the Group is conducted, and results are delivered, in the right way
- establishes and maintains an organisational structure that enables the Group's strategy to be implemented effectively
- leads communication with shareholders
- establishes a strong senior management team which has the knowledge, skills, attitude and motivation to achieve the Group's business objectives and strategy, and with appropriate succession planning to ensure that this continues in the future. See page 60 for the Executive Committee composition
- promotes the interests of the Company with special regard to planning and development to secure the Group's future and sustainable success

Our Non-Executive Directors

- provide a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling a vital role in corporate accountability
- challenge constructively the strategies proposed by the Executive Directors
- scrutinise the performance of management in achieving agreed goals and objectives
- play a leading role in the functioning of the main Board Committees

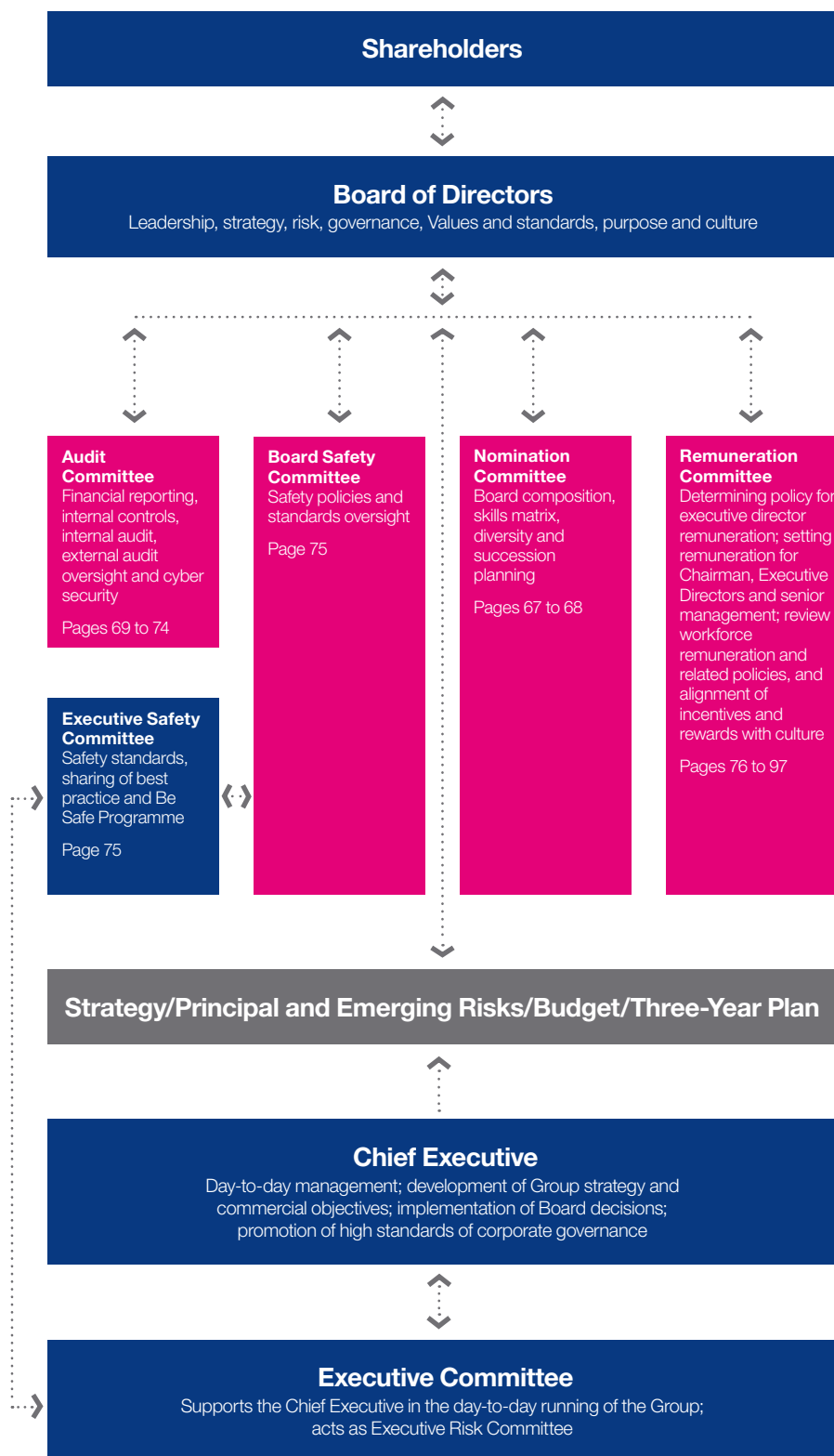
Our governance framework

Our Chairman

- provides an appropriate balance of support and challenge to the Chief Executive in order to maintain an effective working relationship
- promotes the Board, ensuring it functions efficiently and in conformity with the highest standards of corporate governance
- ensures Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items
- chairs the Nomination Committee and ensures the Board has an appropriate balance of skills and experience and effective succession planning in place
- facilitates effective and constructive relationships and communications between Non-Executive Directors, Executive Directors and senior management
- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board

Our Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern
- acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary
- meets with the Non-Executive Directors without the Chairman being present at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman
- deputises for the Chairman, as necessary



For further information please visit our website www.firstgroupplc.com

Your Board is focused on delivering shareholder value.



Wolfhart Hauser
Chairman

Our new Vision

Travel and customer expectations do not stand still and our goals need to evolve with the times too. We want to be known for providing outstanding customer service through easy solutions that allow our customers to improve their quality of life.

We have evolved our Vision to one that is more customer-centric, as we become known for great service, and getting our customers where they want to go with ease and convenience. To be successful and reach our goals, we must always focus on putting our customers first and see everything we do through the eyes of both the people that use our services and the clients that contract with us.

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

Our Values

The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and

In this section

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Audit Committee report	69
Board Safety Committee report	75

Some of the Board's areas of focus during the year

- Appointments of Matthew Gregory and Ryan Mangold as Chief Executive and Chief Financial Officer respectively
- Appointments of Steve Gunning and Julia Steyn as Non-Executive Directors
- Succession planning for the Board and senior management
- Delivering shareholder value
- Overseeing the development of the refreshed Group and divisional strategy
- Refreshment of the Board's understanding and approach to risk appetite (stakeholder-led), which resulted in a new risk management system currently being rolled out
- Assessment of the impact of external trends on existing Group-wide and business-level plans, followed by challenge, support and feedback in respect of future plans and direction of travel
- Review of the updated Corporate Responsibility strategy
- Review of recommendations arising out of the external evaluation exercise

Areas of focus in the future

- Disciplined growth and bidding
- Maintain strong cash management
- Review and implementation of recommendations arising out of the internal Board evaluation

oversees their implementation by the Chief Executive. It provides leadership within a framework of appropriate and effective controls. The Board is also responsible for the culture and Values of the Group.

Our Values are:

- Committed to our customers
- Dedicated to safety
- Supportive of each other
- Accountable for performance
- Setting the highest standards

Our Values are recognised across the Group and are fundamental to the way we operate. We see these Values as key to the way we work with our customers, suppliers, employees and stakeholders in general.

Our Board evaluation assists us in highlighting areas in which improvements can be made.

To ensure we can fulfil our purpose, both today and for the years to come, we depend on getting the fundamentals right. This means having a robust financial position, a clear strategy executed well, and strong Vision and Values that inform all our decision making as part of a healthy corporate culture. We recognise that it will take time for our new Vision to embed, but we remain focused on delivering for our customers and other stakeholders.

Being close to our business

In order for the Board to be able to review strategy, to determine our approach to risk and to respond to events, we need to be close to our businesses and operations, our managers and employees, our customers and our stakeholders. We must be highly engaged, be close to the business, be able to both support and challenge management, and be well-equipped to oversee governance, financial controls and risk management.

To that effect, during the year, the Board visited our operations in Dallas and Philadelphia given the importance of our US operations to the overall business. These visits provided us with an opportunity not only to see our businesses, but also to meet our employees and understand their views and opinions on the Group. The visits were combined with in-depth presentations from our divisional management teams on the risks, opportunities, performance, customer propositions and strategic initiatives of their businesses.

Strategy and performance

As discussed elsewhere in the Annual Report, the progress that we made in our businesses, and the changes seen in our markets, mean the time is now right to implement new plans to drive the business forward. Our plans provide a clear strategy and place the Group's future emphasis on our core North American contracting businesses, where we see the greatest potential to generate long-term sustainable value and growth. The creation of a more focused portfolio is the most appropriate means for us to accelerate the creation of substantially increased value going forward. The TSR chart on page 60 depicts our performance over the past three years relative to our peers.

Board and Committee composition

On 31 May 2018 Matthew Gregory was appointed as Interim Chief Operating Officer after the departure of the Chief Executive Tim O'Toole, and I was asked to become

Corporate governance report continued

Chairman's report continued

Executive Chairman. After a thorough selection process, involving both external and internal candidates, we were delighted to be able to appoint Matthew to the role of Chief Executive effective from 13 November 2018. After the year end, Ryan Mangold was appointed to the role of Chief Financial Officer, following a thorough internal and external search. During the process to recruit a permanent Chief Financial Officer, Nick Chevis, who is Director of Finance, has taken on the role on an interim basis.

We have also made changes to the composition of the Board from a non-executive perspective. In January 2019, Steve Gunning was appointed as a Non-Executive Director and a member of the Audit Committee. In May 2019 we announced the appointment of Julia Steyn as Non-Executive Director. Julia will join the Remuneration Committee in place of Drummond Hall who is retiring from the Board at the end of May. He will be succeeded by David Robbie as Senior Independent Director.

Culture

Board culture is monitored on an ongoing basis, with high-quality and transparent Board procedures being recognised as key to supporting effective performance, a formal assessment of which is conducted through a well-established annual evaluation process, which in 2017/18, was externally-led. As with previous years, we report against progress made in the period and provide details of actions agreed for the coming year, which can be found on page 62.

Diversity

The composition of our Board includes the variety of skills and competences that are needed to add value to our businesses. We remain committed to equality of opportunity, diversity and inclusion at every level, both in the Board and across our wider business. Three of our Non-Executive Directors are women, some are from different ethnic backgrounds and one is nominated by the UK workforce. We believe diverse experiences and attitudes help us better understand the needs of our customers and communities, and deliver more creative and innovative solutions.

Remuneration

There continues to be a great deal of focus on Directors' remuneration and the way it is disclosed. The Remuneration Committee has ensured that there is a clear line of sight for management between pay and performance in the areas most valued by our shareholders. See our Directors' remuneration report on page 76.

Compliance with the Code

The Annual Report and Accounts for the year ended 31 March 2019 have been prepared in accordance with the UK Corporate Governance Code which was published in 2016 (the 'Code') by the Financial Reporting Council ('FRC') and is available to view at www.frc.org.uk.

From 31 May until 13 November 2018 the Company did not comply with a provision set out in the Code, specifically provision A.2.1, which states that the role of Chairman and Chief Executive should not be held by the same individual. The Chairman was asked to perform the role of Executive Chairman while the process to recruit a permanent Chief Executive was underway. The Board felt that this was necessary at the time to allow them to conduct a thorough selection process and cause minimum disruption to the Group. The Company has complied with the rest of the provisions set out in the Code. Details of how the principles of the Code have been applied are set out in the Governance section of this report and in the Strategic Report. On 16 July 2018, the FRC published its new 2018 UK Corporate Governance Code (the '2018 Code'). At the centre of the 2018 Code there is an emphasis on the importance of positive relationships between a company and its shareholders and stakeholders. The Board, which has always been focused on the duties owed by its Directors under section 172 of the 2006 Act, has been attentive to the changes being introduced under the 2018 Code and indeed many of the initiatives which have been flagged by the FRC in the 2018 Code – including those in relation to: corporate culture; diversity; strengthening the stakeholder voice in addition to the work we have been doing for years in this respect through our Employee Directors and Group Employee Director; and adopting appropriate remuneration structures – are areas in which the Board is already committed to providing focus and upholding high standards of corporate governance. This is evidenced through this Annual Report. The Company expects to comply with the 2018 Code in the Annual Report and Accounts for the year ending 31 March 2020.

Risk management

We continue to adopt a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. Overall management of risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework.

During the year, we developed and introduced a new risk management system that will enhance the current assurance process.

More detailed information on the Group's system of internal control and risk management can be found in the Principal risks and uncertainties section on page 42 and in the Audit Committee report on page 69.

Safety

Always front of mind, safety is our way of life.

Our goal is for zero injuries and we continue to evolve and develop our safety programmes across the Group. More information on our safety activities can be found on page 37 and in the Board Safety Committee report on page 75.

Engaging with shareholders

Engaging with shareholders, and their representative bodies, and being fully aware of their views is one of the key aspects of

corporate governance. My fellow Directors and I welcome open, meaningful discussion with shareholders, particularly with regard to governance, strategy and remuneration. The Board and management have undertaken a number of activities in this regard during the year, many of which are detailed in this Annual Report and Accounts, and listened to all of our shareholders' suggestions.

The Board receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This has always been a key focus for the Board.

At the Company's forthcoming Annual General Meeting ('AGM'), all Directors who are able to attend will be available, as usual, to meet shareholders after the meeting to discuss any issues they may have.

I hope you find the information which follows in this report informative and interesting.

Wolfhart Hauser
Chairman

Leadership

The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes its long-term success for the benefit of the shareholders as a whole. The Board ensures that an appropriate balance between promoting long-term growth and delivering short-term objectives is achieved.

The Board is primarily responsible for:

- determining strategic direction and demonstrating leadership
- focusing on matters that add value for shareholders of the Company, both present and future
- the governance and stewardship of the Group to provide protection and security for the shareholders' assets
- setting the Group's culture, standards and Values, and ensuring that its obligations to shareholders and other stakeholders are understood and met
- determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives
- ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations

The Board is the decision-making body for all matters of such importance as to be significant to the Group as a whole because of their strategic, financial or reputational implications or consequences.

Specific key matters have been reserved for approval by the Board and these include:

- the Group's strategy
- major acquisitions, mergers or disposals
- UK rail franchise bids
- dealings with regulatory authorities on matters of significance
- capital and liquidity matters
- medium-term plan and annual budget
- Board and Committee membership
- financial results, viability statement and governance
- the appointment and removal of Directors and the Company Secretary

Board meetings and visits

The core activities of the Board and its Committees are carried out in scheduled meetings. Additional ad hoc meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings.

To ensure the Board sees the Group's operations in action, the Directors normally meet at least three times each year at the Group's sites in the UK and North America. This provides senior management from across the Group with the opportunity to present to the Board and its Committees and to meet Directors informally. It also provides the Board with the opportunity to review operational matters on site.

In order to carry out its work, the Board has established a planned programme of agendas to ensure all necessary matters are covered and to allow sufficient time for debate and challenge. The Board also takes time to review past decisions where necessary. At Board meetings, the Directors receive and consider papers and presentations from management on relevant topics and senior executives are regularly invited to attend meetings for specific items. Effective review and decision-making is supported by providing the Board with high-quality, accurate, clear and timely information including input from advisers where necessary.

Board meetings are structured around:

- divisional updates
- strategy
- financial and operational updates
- assessment of risks and how they should be managed and mitigated
- other reporting items for approval
- reports from the Committee Chairs, the Group Employee Director and the Company Secretary

Division of responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive, and these roles, as well as those of other Directors, are clearly defined so that no single individual has unrestricted powers of decision. This is clearly shown on pages 55 and 56.

The Committees of the Board

The four principal Committees of the Board are:

- Audit Committee
- Board Safety Committee
- Nomination Committee
- Remuneration Committee

Their members are appointed by the Board upon the recommendation of the Nomination Committee and membership is spread between the Non-Executive Directors and the Group Employee Director, drawing on each of their relevant skills and experience. Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances that prevent them from doing so. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion.

The Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. It normally meets every two months and its main responsibilities are to:

- act as a communication forum for discussing Group wide issues
- communicate, review and agree on significant issues and actions
- help to develop, implement and monitor strategic and operational plans
- take active control of succession planning, talent management, Areas of Expertise, innovation and IT
- consider the continuing applicability, appropriateness and impact of risks, acting as Executive Risk Committee
- lead the Group's culture and safety programme, supported by the Executive Safety Committee

The Executive Committee also provides leadership and direction for the Group on our Environmental, Social and Governance (ESG) impacts, including climate change. Updates on material issues relating to corporate responsibility are reported to the Executive Committee, with ad hoc matters raised in between formal reports. Related risks and opportunities are incorporated into our risk management approach and each division has policies, principles and frameworks specific to their business to manage and monitor progress.

Corporate governance report continued

Leadership continued

The Chief Executive and the Group Corporate Services Director subsequently update the Board on ESG matters so that the Board is able to identify and assess the significant ESG risks to the Company's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response.

The Brexit Steering Committee

The Brexit Steering Committee was established shortly after the EU referendum in 2016 and has been meeting at regular intervals since then. The meetings have become more frequent since summer 2018 when the prospect of a hard Brexit began to look more likely.

A formal project plan has been put in place by the Group General Counsel and the Group Corporate Services Director. Senior individuals within the Group functions and divisional management teams have responsibility for delivering the actions on a timely basis. Progress is being monitored by the committee, through the Programme Director for Corporate Services, to ensure that the Group is suitably prepared for a hard Brexit, should it occur.

Key areas of focus include:

- employees/right to work
- supply chain
- cross-border bus operations

The Board has been kept informed of developments and progress on this matter throughout the year.

Executive Committee

In addition to the Chief Executive, who chairs it, its members are:

Rachael Borthwick Group Corporate Services Director	Ryan Mangold Chief Financial Officer (from 31 May 2019)
Nick Chevis Interim Chief Financial Officer (until 30 May 2019)	Dennis Maple President, First Student
Giles Fearnley Managing Director, First Bus	Steve Montgomery Managing Director, First Rail
Michael Hampson General Counsel & Company Secretary	Brad Thomas President, First Transit
Dave Leach President, Greyhound	

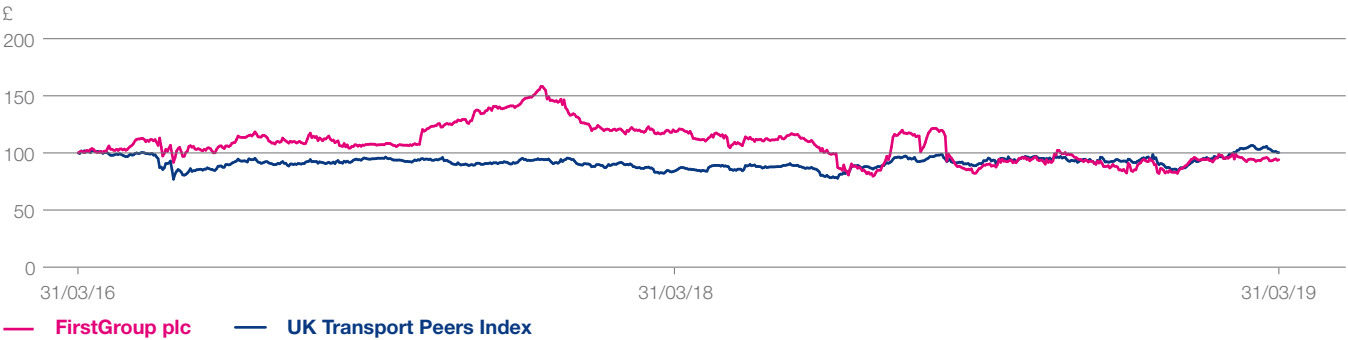
First Student and First Transit, Philadelphia

In March 2019 the Board visited First Student and First Transit facilities in Philadelphia. During their visit to First Student's Safety Office, they discussed the extensive hiring process for drivers in Philadelphia, including but not limited to background checks, road and classroom instruction and ongoing training throughout their career at First Student. They also received a presentation on safety statistics, policies and procedures, and learned about the new Safety Committee made up of drivers, monitors, managers, clerks and maintenance colleagues. The picture shows Drummmond Hall, Imelda Walsh and Jimmy Groombridge during the visit to the Safety Office.

Performance graph

The chart below shows our TSR performance over the last three years relative to some of our UK peers.

3-year Total Shareholder Return (31 March 2016 – 31 March 2019)



Whilst the Board recognises that there is more to do to increase shareholder value, over the three years to 31 March 2019 the level of TSR generated by the Company is broadly in line with our UK competitors (Go-Ahead Group plc, Stagecoach Group plc and National Express Group plc).

Effective management and good stewardship of the Group are led by the Board.

The attendance of Directors at Board meetings in the year ended 31 March 2019 is shown on the table below. The Board held six scheduled meetings during the year. The table includes scheduled and non-scheduled meetings. Committee meetings attendance is shown in the respective Committee reports.

Board Director	Meetings eligible to attend	Meetings attended
Chairman		
Wolfhart Hauser ^N	15	15
Executive Directors		
Tim O'Toole ¹	8	6
Matthew Gregory	15	15
Non-Executive Directors		
Warwick Brady	15	13
Jimmy Groombridge	15	15
Steve Gunning ²	2	2
Drummond Hall ³	15	14
Martha Poulter	15	13
David Robbie ^A	15	14
Imelda Walsh ^R	15	14
Jim Winestock ^B	15	14

1 Tim O'Toole resigned on 31 May 2018

2 Steve Gunning was appointed on 1 January 2019

3 Drummond Hall will retire on 31 May 2019

Board balance

The Board at 31 March 2019 was comprised of the Chairman, one Executive Director, the Group Employee Director and seven Non-Executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of the minority shareholders are protected.

Board independence

It is the Company's policy that at least half the Board should be independent Non-Executive Directors. The Board carries out a review of the independence of its Directors on an annual basis. The Board considers each of its current

Board Committee Chairmanships

^A Audit Committee

^B Board Safety Committee

^N Nomination Committee

^R Remuneration Committee



Employee Directors' Forum

The majority of our bus operating companies and Train Operating Companies in the UK have Employee Directors on their boards. FirstGroup's Employee Directors meet twice yearly in London as members of the Employee Directors' Forum, which is chaired by the Group Employee Director and supported by the Deputy Company Secretary. The Group Employee Director is nominated by the Employee Directors' Forum, and serves a maximum of three, three-year terms.

Non-Executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each Director provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate aims of the Company and there are no business or other relationships likely to affect, or which could appear to affect, their judgment. Jimmy Groombridge, the Group Employee Director, is not considered by the Board to be independent as he is an employee of the Group.

Commitment

All Directors are expected to attend each Board meeting and each Committee meeting for which they are members, save for in exceptional circumstances. To help enable this, scheduled Board and Committee meetings are arranged at least a year in advance to allow Directors to manage other commitments. If a Director is unable to attend a meeting, they receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Company Secretary any matters they wish to raise and to follow up on the decisions taken at the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters

with the Directors. Reasons for non-attendance are generally prior business and personal commitments or illness.

During the year, a number of corporate events, such as the period between 11 April and 8 May 2018 when the Board received and considered a proposal from Apollo Management IX L.P. relating to a possible offer for the Group, meant that meetings had to be called at short notice with some Directors having to miss them because of previously arranged commitments which they could not cancel. This has been the case for Tim O'Toole, Warwick Brady and Martha Poulter (two meetings); and Drummond Hall, David Robbie, Imelda Walsh and Jim Winestock (one meeting). Scheduled meetings were however fully attended by all Directors during the year.

The Board is satisfied that each of the Non-Executive Directors is able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil the role and are asked to confirm that they can make the required commitment.

During the year, the Chairman met on five occasions (in May, September and November 2018, and January and March 2019) with the Non-Executive Directors without the Executive Directors present, allowing for informal discussions on a variety of issues.

Receiving timely information enables the Directors to discharge their duties on strategic, financial, operational, compliance and governance issues effectively.

Induction and development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by Company Secretariat, includes visits to the Group's businesses and meetings with senior managers and advisers. The programme is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its Committees, and the Company's corporate governance practices and procedures. It also provides them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

In addition, in order to assist all Directors in the performance of their duties, there are procedures in place to provide them with appropriate and timely information, including receiving information between meetings regarding Group business developments, financial performance and shareholder sentiment.

Directors are also provided with training opportunities to ensure they are kept up to date on relevant legal, regulatory and financial developments, changes in best practice and ESG matters. Typical training for Directors includes attendance at seminars, forums, conferences and working groups as well as receiving updates on various legal, regulatory and corporate governance matters. The training programme is kept under regular review.

All Non-Executive Directors can attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the AGM.

Evaluation

The Board undertakes regular evaluations of its own performance as well as that of its Committees providing an opportunity to consider ways to identify greater efficiencies, maximising strengths and highlighting areas for further development.

Following internal reviews in 2015/16 and 2016/17, in 2017/18 an external Board and Committee evaluation was carried out by

Some of the activities the Board carried out during the year

- **April 2018**
Performance evaluation exercise, externally facilitated
- **May 2018**
Board and Committee meetings in London
Review and approval of final results for 2018
Tim O'Toole steps down as Chief Executive
Wolfgang Hauser appointed Executive Chairman
Matthew Gregory appointed as Interim Chief Operating Officer
- **June 2018**
Publication of the 2018 Annual Report
- **July 2018**
AGM and Board meeting in Aberdeen
Consideration of shareholder views
- **September 2018**
Board and Committee meetings in Dallas
Site visits
- **November 2018**
Board and Committee meetings in London
Announcement of half-yearly results
Appointment of Chief Executive
Strategic options
- **January 2019**
Appointment of Steve Gunning
- **March 2019**
Steve Gunning joins the Audit Committee
Board and Committee meetings in Philadelphia
Site visits
Budget and three-year plan review
Approval of Gender Pay Gap Report
Strategic review

Board visit to First Transit's SEPTA location in Philadelphia

In the picture to the right, David Robbie is greeted by Charles Oleson, Maintenance Manager for First Transit's SEPTA location in Philadelphia. The Board visited this location in March 2019. The operation's technicians work in a paperless shop environment to maintain their 64 paratransit vehicles. First Transit was awarded this contract in 2016, operating more than 2 million revenue miles per year.



2017/18 Board and Committee evaluation exercise

Area identified	Issue to address	Action taken
Board composition	Add expertise in the field of accountancy and finance	Appointments of David Robbie, Steve Gunning and Ryan Mangold
	Need greater expertise in strategic development and technology	Appointments of Ryan Mangold and Julia Steyn
Meetings management and focus	Afford Non-Executive Directors further exposure to management below Board and Executive Committee level	Executives below Board and Executive Committee level now attend Board and Committee meetings for relevant agenda items
Strategic oversight	Impact of technology and disruption in the industry	The Chief Information Officer has been asked to lead on innovation and frequently presents to the Board and the Audit Committee
	Return to profitable growth and shape of the portfolio	Covered by Strategy Update announcement released on 30 May 2019
Risk management and internal control	Standalone sessions and deep dives	New risk management framework developed by the Group Director of Assurance following a number of sessions, individual interviews and deep dives with the Board and the Executive Committee

Lintstock, the London-based corporate advisory firm. All members of the Board participated, including the Company Secretary and the Deputy Company Secretary. Outcomes from this review were discussed as part of the Board meeting in May 2018. The Board agreed that, overall, the Board and its Committees were working well, and a number of key points and development themes were identified from the evaluation. These are shown on the table above.

The exercise led by Lintstock was carefully structured and involved the completion of an online questionnaire and individual interviews.

The Senior Independent Director carried out an evaluation of the performance of the Chairman through a series of individual interviews with members of the Board. The key points were fed back to the Chairman. Overall, the Chairmanship of Wolfhart Hauser was viewed positively. Board discussions were considered open and challenging, with participation of members actively encouraged.

With regards to the Committees of the Board, the exercise showed that there continued to be an effective relationship between the Board and its Committees. Board Committees were all considered to work well with thorough debate, a clear grasp of issues and subject knowledge. Committees are considered to be well chaired and managed. Further details of the findings from each of the individual Committee evaluations are set out in their respective reports.

Following the individual Directors' reviews, the Chairman has confirmed that the Directors

standing for election at this year's AGM continue to perform effectively and to demonstrate commitment to their roles.

The 2018/19 evaluation was carried out internally and will be reported on next year.

Information and support

The Company Secretary and the Deputy Company Secretary, through the Chairman, are responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. Company Secretariat is also responsible for ensuring communication flows between the Board and its Committees, and between senior management and Non-Executive Directors. All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense.

All Directors receive detailed papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. The head of each division attends Board meetings on a regular basis to ensure that the Board is properly informed about the performance of that division and any issues that it faces. Between meetings Directors are provided with relevant information on matters affecting the business. Such updates are carried out

by a variety of methods, including conference calls and video conferences of the full Board or between the Chairman and/or the Chief Executive and the Non-Executive Directors. Company Secretariat also circulates monthly financial and operational reports as well as papers and updates on relevant issues. Board and Committee papers are delivered securely to the Directors using a fully encrypted electronic portal system which enables a faster and more secure distribution of information.

The Company Secretary is Michael Hampson, who joined the Group in 2016. Michael is secretary to the Nomination and Executive Committees, and his deputy, Silvana Glibota-Vigo, is secretary to the Audit, Remuneration, Board Safety and Executive Safety Committees.

Conflicts of interest

The Directors have a statutory duty under the 2006 Act to avoid situations in which they have, or can have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's conflict of interest procedures are reflected in the Articles of Association (the 'Articles'). In line with the 2006 Act, the Articles allow the Directors to authorise conflicts and potential conflicts of interest where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. Directors do not participate in decisions concerning their own remuneration or interests.

The Company Secretary minutes the consideration of any conflict or potential conflict of interest and authorisations granted by the Board. On an ongoing basis, the Directors inform the Company Secretary of any new, actual or potential conflict of interest that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when authorisation is given, a Director is not absolved from their duty to promote the success of the Company.

Furthermore, the Articles include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching their duty if a conflict of interest arises. These provisions will only apply where the circumstance giving rise to the potential conflict of interest has previously been authorised by the Directors.

The Board considers that the formal procedures for managing conflicts of interest currently in place have operated effectively during the year under review.

Election and re-election of Directors

Directors are required under the Articles to submit themselves for election by shareholders at the AGM following their appointment by the Board. Also, in accordance with best practice and the Code, all of our Directors put themselves forward for re-election by shareholders annually.

Steve Gunning, Julia Steyn and Ryan Mangold, who were appointed with effect from 1 January, 1 May and 31 May 2019 respectively, will therefore retire and submit themselves for election and all other Directors, except for Drummond Hall, will submit themselves for re-election at the forthcoming AGM.

Following the formal performance evaluation process in relation to their fulfilment of their duties pursuant to section 172 of the 2006 Act, the Chairman is content that each Director continues to be an effective member of the Board and demonstrates commitment to their role.



Board visits Greyhound maintenance facility in Dallas, Texas

In September 2018, the Board learned about the key procedures Greyhound employees perform to keep customers and drivers safe. Greyhound sets the highest standard for intercity bus travel safety across North America. Maintenance facilities, such as this one in Dallas, play a big role in meeting that safety standard as employees excel in keeping buses moving so customers have an enjoyable travel experience.



Chief Executive visits First Student locations in Illinois

Along with First Student Chief Operating Officer Paul Osland, Matthew visited the Villa Park, Crest Hill, Naperville and Schaumburg locations. The Chief Executive met First Student colleagues in Illinois to discuss safety, operations and performance. The Illinois team is committed to working together through touchpoint and debrief sessions and sharing best practices.

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders and other stakeholders.

The Board ensures that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established a framework for risk management and internal control that identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding shareholders' investment and the Group's assets. To that effect, the Board has ensured that the Company has in place systems for managing and mitigating significant risks, which incorporate performance management systems and appropriate remuneration incentives.

Fair, balance and understandable reporting

The Board considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the necessary information required for shareholders to assess the Company's position and performance, business model and strategy, and that the business continues to operate as a going concern. The co-ordination and review of the Annual Report and Accounts follows a well-established and documented process, which is conducted in parallel with the formal audit process undertaken by the external auditor and the review by the Board and its Committees.

Internal control

The Board is responsible for determining the nature and extent of any significant risks the Group is willing to take in order to achieve its strategic objectives and for maintaining sound risk management and internal control systems to ensure that an appropriate culture is embedded throughout the Group. The Board has established a Group-wide system of risk management and internal control that identifies and enables management and the Board to evaluate and manage the Group's principal risks with a view to safeguarding the Group's stakeholders. This system is bespoke to the Company's particular needs and the risks to which it is exposed and is designed to manage, rather than eliminate, risk. Owing to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss. The effectiveness

of the Group's system of internal control is regularly reviewed by the Board.

The Board confirms that throughout the year ended 31 March 2019 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management and Internal Control published by the FRC.

To assist in the identification and management of the Group's principal risks, the Board has:

- established a risk management framework
- developed a system of regular reports from management
- reserved specific key matters for its decision
- authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems
- established a number of Group-wide procedures, policies and standards
- set up a framework for reporting matters of significance
- authorised the Board Safety Committee to oversee the Group's framework of safety policies and procedures to manage safety risks

Key elements of the Group's system of internal control which have operated throughout the year are:

- a clearly defined organisational structure with established responsibilities
- a focused business strategy, thus restricting potential risk exposures
- Group financial, treasury, operating, compliance and administrative policies and procedures which incorporate statements of required behaviour
- ongoing review of safety, operating and financial performance of the Group's businesses

- regular reports to the Board, Board Safety and Executive Safety Committees on safety matters
- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short-term forecasts, annual budgets and a medium-term business plan
- well-defined procedures to assess, approve, control and monitor major investments, with proposals being subject to rigorous strategic, financial and commercial examination
- divisions identifying and reviewing their principal risks and controls for monitoring and managing risks, which are reviewed by senior executive management. The updated divisional and Group risk profiles, which are reviewed by the Chief Executive and Chief Financial Officer, are presented to the Executive Committee on a monthly basis
- an established methodology for ranking the level of risk in each of its business operations and the principal risk issues associated therewith
- implementation of appropriate strategies to deal with principal risks, including careful internal monitoring and ensuring external specialists are consulted where necessary
- a centrally co-ordinated internal audit programme to verify that policies and internal control procedures are being correctly implemented and to identify any risks at an early stage
- reviewing and monitoring the confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties
- regular reports to the Audit Committee on the adequacy and effectiveness of internal controls
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking

Twice a year the Board is presented with an update for its robust assessment on the principal risks facing the Group, together with a risk map, highlighting any changes made since the previous update and the reasons for any changes. Each Committee that reports regularly to the Board provides an update on the status of risks considered within its remit. Annually, the Group's risk management framework is robustly reviewed by the Audit Committee.

Reviews of internal controls within operating units by internal audit have sometimes highlighted control weaknesses, which are discussed with management and, where appropriate, the Audit Committee, and remedial action plans are agreed. Action plans are monitored by internal audit and, in some cases, follow up visits to the operating entity are conducted until such time as the controls that have been put in place are working effectively. No material losses, contingencies or uncertainties that would require disclosure in the Annual Report and Accounts have been identified during the year by this process.

The Board, in conjunction with management, continually reviews and develops the internal control environment. No significant internal control failings were identified during the year. Where any gaps are identified, processes are put in place to address them and these are continually monitored.

The process is designed to provide assurance by way of cumulative assessment. It is a risk-based approach.

Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility encompasses all published information including, but not limited to: the year end and half-yearly financial statements; regulatory news announcements; and other public information.

The quality of the Company's reporting is ensured by having in place procedures for the review of information by management. There are also strict procedures to determine who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 102.

The Group adopts a financial reporting and information system that complies with generally accepted accounting practice. The Group Finance Manual details the Group's accounting policies and procedures with which subsidiaries must comply. Budgets are prepared by subsidiary company management which are then consolidated into divisional budgets. These are subject to review by both senior management and the Executive Directors followed by formal approval by the Board. Regular forecast updates are completed during the year and compared against actions required. Each subsidiary unit prepares a monthly report of operating performance with a commentary on variances against budget and the prior year, which is reviewed by senior management. Similar reports are prepared at a Group level. Key performance indicators, both financial and operational, are monitored on a weekly basis. In addition, business units participate in strategic reviews, which include consideration of long term financial projections and the evaluation of business alternatives.

Treasury operations

The Board has set a policy for the management of the risks from treasury operations and this is set out in more detail in note 24 to the consolidated financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations. In addition, the treasury committee approves decisions regarding fuel, foreign exchange and other matters reserved for its decision.

Tax strategy

We believe we have a responsibility to manage our tax affairs in a way that sustainably benefits the customers and communities that we serve. We also have a responsibility to shareholders to ensure we pay the right amount of tax and ensure compliance with the tax rules in each country in which we operate. Our Tax Strategy was approved by the Board in March 2018 and is available on our website. The Board receives regular updates on taxation matters through the Audit Committee.

Annual General Meeting

The Notice of AGM is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the AGM, shareholders can meet informally with the Directors.

At the 2018 AGM, the Chairman provided shareholders with a brief summary of the Company's activities for the previous year. All resolutions at the 2018 AGM were voted on by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes, rather than just those of the shareholders attending the meeting.

As recommended by the Code, all resolutions proposed at the 2018 AGM were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy clearly advised that a vote withheld is not a vote in law and is not used in calculating the votes for or against a resolution.

You will be aware that one of the Company's shareholders requisitioned a General Meeting. As a result, we are proposing to hold this year's AGM at a later date than normal.

Details of the date and venue and the resolutions to be proposed, together with explanatory notes, will be sent out in the Notice of AGM which will be posted in due course. A summary of the business to be carried out at the AGM will be published on the Company's website.

Nomination Committee report

The Committee regularly reviews the Board composition to ensure it maintains an appropriate balance of skills and expertise.



Wolfhart Hauser
Chair, Nomination Committee

The Committee is primarily responsible for leading the process for appointments to the Board and reviewing the composition of the Committees, ensuring that we have the right mix of skills and experience.

The Chief Executive attends meetings of the Committee upon invitation. Committee members take no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but are involved in the recommendations on Committee membership changes. The General Counsel & Company Secretary acts as the Committee Secretary.

In terms of how the Committee operates, if a matter were to concern the Committee Chair, then he would leave the meeting and another member would instead take the Chair.

Activities during the year

During the year, the Committee kept under review the balance of skills, experience, independence, knowledge and diversity (including gender), on the Board to ensure the orderly evolution of the membership of the Board and its Committees. In identifying and nominating candidates for approval by the Board, the Committee tried to ensure that the right people with the right range of skills and experience, specifically transportation and travel industry expertise, are on the Board and in senior management positions in the coming years.

Appointment of Chief Executive

Following the resignation of Tim O'Toole in May 2018, the Committee recommended the appointment of Matthew Gregory as Interim Chief Operating Officer (COO), in addition to his responsibilities as Chief Financial Officer. During his tenure as Interim COO, Matthew demonstrated the combination of strong leadership skills and strategic decisiveness, which allowed FirstGroup to make progress in a number of key areas. Having conducted a thorough selection process, which considered external and internal candidates, the Board

unanimously concluded, on the Committee's recommendation, that Matthew was the right person to take on the role of Chief Executive. Matthew's comprehensive knowledge of the Group, his experience in previous roles and leadership capabilities are precisely the qualities needed to drive the Group's value mobilisation strategy at pace.

Recruitment of two independent Non-Executive Directors

When considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure with due regard to diversity. Prior to making an appointment, the Committee evaluates the balance of skills, sector knowledge, independence, experience and diversity on the Board and, in light of this evaluation, prepares a full description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions
- considers candidates from different genders and a wide range of backgrounds

Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company.

Prior to the appointment of Steve Gunning and Julia Steyn, the Committee ran a comprehensive and rigorous search, with a candidate profile and position specification drawn up. MWM Consulting, a global executive search firm with no other connection with the Company, were engaged to assist with the selection process and conducted searches to identify suitable, qualified candidates. A number of interviews

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
Wolfhart Hauser (Chair)	6/6	Company Chairman	Yes, on appointment as Chairman ¹
Drummond Hall	6/6	Senior Independent Director Remuneration Committee	Yes
Imelda Walsh	6/6	Chair of Remuneration Committee Board Safety Committee	Yes
Jim Winestock	6/6	Chair of Board Safety Committee Audit Committee	Yes

¹ From 31 May until 13 November 2018 the Chairman was asked to perform the role of Executive Chairman while the process to recruit a permanent Chief Executive was underway. Following the appointment of Matthew Gregory as Chief Executive, Wolfhart Hauser reverted to his non-executive Chairman role.

and meetings were held with shortlisted candidates. Steve and Julia's appointments were then recommended to the Board for approval as they fully met the criteria required. Steve joined the Board on 1 January 2019 and the Audit Committee in March 2019. Julia joined the Board on 1 May 2019. She will join the Remuneration Committee on 31 May 2019.

In addition, also during this year, the Committee recommended the appointment of David Robbie as Senior Independent Director following the retirement of Drummond Hall with effect from 31 May 2019.

Recruitment of Chief Financial Officer

Oggers Berndtson, an executive search firm with no other connection with the Company, assisted with this search which started as soon as the appointment of Matthew Gregory as Chief Executive was confirmed. Several internal and external candidates were considered; Ryan Mangold's credentials as a business transformation leader, a wealth of experience from other sectors and a strong track record of executing complex corporate changes to enhance shareholder value, particularly in listed companies, were the main considerations for the Committee when making the recommendation to the Board.

Committee evaluation

The performance of the Committee was considered through the annual Board evaluation process, in which members were requested by Lintstock to provide specific feedback using a tailored questionnaire and also individual interviews. From the responses provided, it was confirmed that the Committee continued to operate effectively and that progress had been made in the year. Further information on the wider evaluation exercise is available on page 62.

Diversity

The Committee and the Board consider diversity as an important factor when reviewing the composition of the Board. The Committee views diversity in its wider sense, including gender, length of tenure, nationality and multiple-industry expertise.

The Board consists of Directors with a wide range of skills and experience drawn from a number of industries, including transportation, listed companies, accounting and employee representation, and which are vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee discussions.

Furthermore, the Board comprises a range of nationalities, which brings cultural diversity as

well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision-making.

Whilst the Board at 31 March 2019 was below its target of 25% female, I am pleased to report that we have since then increased female representation to 27% with the appointment of Julia Steyn in May 2019. Julia's corporate development expertise and experience at the forefront of the emerging mobility services sector will be of immense value to the Group as our services continue to evolve to provide greater ease and convenience for our customers.

The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee. Future appointments to the Board must also complement the balance of skills the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage more women and people from diverse backgrounds to achieve their full potential in their careers in the Group. The Committee is mindful of the target set out in the Hampton-Alexander Review of 33% female representation by 2020, as well as of the Parker review on ethnic diversity on the Board. In line with this, as part of an overall approach to HR management, there are policies and training programmes in place across the Group to promote and embed diversity and inclusion. With regards to Board diversity, the Committee will continue to make recommendations for new appointments based on merit, with candidates measured against objective criteria and with regard to the skills and experience they would bring to the Board. Further details on the Group's approach to diversity are set out on page 34.

Looking ahead to 2019/20

In the coming year, we will continue to monitor the needs of the Board and its Committees, with the aim of ensuring the Group's succession planning policy is aligned to, and evolves to meet, the ongoing business objectives and strategic goals of the Group.

Summary of Committee activities during the year

May 2018

Appointment of Matthew Gregory as Chief Operating Officer



Appointment of Wolfhart Hauser as Executive Chairman



November 2018

External performance evaluation – review of results

Appointment of Matthew Gregory as Chief Executive

January 2019

Appointment of Steve Gunning as Non-Executive Director



May 2019

Appointment of Julia Steyn as Non-Executive Director



Appointment of Ryan Mangold as Chief Financial Officer



The Committee has focused on the quality and effectiveness of financial reporting and on regulatory, compliance and internal audit matters, aimed at protecting the interests of shareholders.



David Robbie
Chair, Audit Committee

The Committee is comprised only of independent Non-Executive Directors. It is chaired by David Robbie, who has recent and relevant financial experience and the requisite competence in accounting. The other Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, including transportation, distribution and IT. The composition of the Committee changed earlier in 2019 with the appointment of Steve Gunning, who has a wealth of financial and operational experience. Along with the Committee Chair, Steve has recent and relevant financial experience. The Deputy Company Secretary acts as Committee Secretary.

Additional meeting attendees

The Group Chairman, the Chief Executive, the Interim Chief Financial Officer (CFO), the General Counsel & Company Secretary, the Interim Director of Finance, the Group Director of Assurance and his team, the Group Financial Controller and Deloitte LLP (Deloitte) are normally invited to attend Committee meetings, as well as other members of the Board, including the Group Employee Director, the Chief Information Officer (CIO), the Group Director of Security and executives from across the business. This gives the Committee direct contact with key leadership.

Throughout the year the Committee periodically met without others present and also held separate private sessions with the Group Director of Assurance and his team and with Deloitte, allowing the Committee to discuss any issues in more detail directly. These discussions helped shape thought processes and decision-making, and promoted a more rounded view of the Group, allowing the Committee to make meaningful interventions to quality beyond simply seeking management feedback and to challenge key judgemental areas.

Activities during the year

The Committee continued to play a key role within the FirstGroup governance framework to support the Board in matters relating to financial reporting, internal control and risk management. As well as the key activities undertaken or overseen by the Committee during the year through a periodic and structured rolling agenda, this report shares insights into the Committee's discussions. The table on page 70 provides further information on the year's activities, which included the review and amendment of its terms of reference to bring them in line with recent corporate governance changes. In addition,

it is worth highlighting that the table refers to Committee activities during the year 2018/19, up to March 2019. At its meetings in May 2019, which will be reported on next year, the Committee carried out its year end related activities, including receipt, review and approval of Deloitte's audit report in respect of the 2018/19 year end.

Interaction with the regulator

During the year, the Company received correspondence as part of a review by the Financial Reporting Council (FRC) of the Group's accounting treatment for its sections of the Railways Pension Scheme (RPS) and related disclosures. This correspondence has been actively considered by the Committee Chair and the comments received discussed with the Committee. The FRC has concluded its review and consideration of the Group's accounting for its participation in the RPS. The review was performed by staff of the FRC who have an understanding of the relevant legal and accounting framework. Whilst not changing the accounting treatment adopted, the Company was requested to enhance the disclosure provided, so that the impact of the accounting approach could more clearly be identified and understood. This has been included in the disclosure in note 36 to the financial statements reflecting that the Group concurs that the suggested enhancements would help the users of the financial statements. The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
David Robbie (Chair)	4/4	Senior Independent Director Remuneration Committee Financial expert	Yes
Warwick Brady ¹	3/4		Yes
Martha Poulter	4/4		Yes
Jim Winestock	4/4	Chair of Board Safety Committee Nomination Committee	Yes
Steve Gunning ²	1/1	Financial expert	Yes

¹ Warwick Brady missed the November meeting due to other pressing last minute commitments at Stobart Group. He was fully briefed before and after the meeting by the Committee Chair.

² Steve Gunning was appointed on 1 January 2019.

Corporate governance report continued

Audit Committee report continued

Summary of Committee activities during the year

The Committee:	May 2018	Sep 2018	Nov 2018	Mar 2019
Financial Reporting				
reviewed the Group's final and half-yearly results, considered the significant accounting policies, principal estimates and accounting judgements used in their preparation, the transparency and clarity of disclosures within them, and compliance with financial reporting standards and governance	●		●	
reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis	●		●	
reviewed the process for assessing the long-term viability of the Company	●			
received reports from management and Deloitte on accounting, financial reporting regulation and taxation issues	●	●	●	●
reviewed reports from Deloitte on its audit in respect of the final and review of the half-yearly results prior to them being approved by the Board	●		●	
reviewed and assessed the process by which the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy	●			
Internal control, risk management and internal audit				
reviewed the structure and effectiveness of the Group's system of risk management and internal control and the disclosures made in the Annual Report and Accounts on this matter	●			●
reviewed the Group's risk management activities undertaken by the divisions and at Group level in order to identify, measure and assess the Group's principal and emerging risks and review the risk appetite statement, developed by management, for recommendation to the Board	●			●
reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process, including the development of a new risk management framework	●			●
approved the annual internal audit plan and reviewed reports from the internal audit department relating to control matters, monitored progress against the internal audit plan and any deviations to the plan were agreed	●	●	●	●
monitored and assessed the Group's insurance arrangements and material litigation matters (insured claims)		●		●
considered reports from the General Counsel & Company Secretary on litigation matters		●		●
External audit				
approved the terms of engagement of Deloitte, the fees paid to them and the scope of work they carried out	●		●	
performed an annual review of the policies on the independence and objectivity of Deloitte, the use of Deloitte for non-audit services and the employment of former employees of Deloitte	●			
reviewed the performance and effectiveness of Deloitte in respect of the previous financial year			●	
assessed the objectivity and independence of Deloitte	●			
received reports on the findings of Deloitte during the half-yearly review and annual audit, and reviewed the recommendations made to management by Deloitte and management's responses	●		●	
reviewed the external audit plan			●	
reviewed letters of representation to Deloitte	●		●	
recommended the re-appointment of Deloitte	●			
planned for the external audit tender			●	●
Other matters				
reviewed its terms of reference and the results of its performance evaluation, including effectiveness				●
reviewed and approved response to FRC correspondence on RPS accounting			●	●
received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters	●	●	●	●
received reports from the CIO on cyber security	●	●	●	●
received reports on matters raised on the confidential whistleblowing system and the process for the investigation of such matters, ensuring that the arrangements in place were appropriate for employees to confidentially raise concerns about possible legal, regulatory or other improprieties	●	●	●	●

Looking ahead to 2019/20

The Committee will remain focused on the audit and assurance processes within the business, and maintain its oversight of financial and other regulatory requirements. In addition to its routine business, the Committee's priorities for 2019/20 will be:

- Tender of the external audit service
- IFRS 16 'Leases'
- Information security
- Embedding of new risk management system

Internal control and risk management

During the year, the Committee reviewed the requirements of the Code in relation to the assessment and reporting of longer term viability, risk management and internal control. The Committee assessed the Group's risk management methodology, which is used to identify and manage the principal and emerging risks, as well as the reporting and categorisation of Group risks, and made recommendations for improvement. A new system was designed and the Committee will oversee its embedding in the coming year. The Committee also reviewed the process for assessing the principal and emerging risks that could threaten the Company's business model, future performance, solvency or liquidity in order to make the long term viability statement on page 49 and considered the appropriate period for which the Company was viable. Key external audit findings and management actions were discussed as well as reports on the outcomes of internal audit planned activities. The operation and effectiveness of the internal audit function were also reviewed, including its focus, plans and resources. The Committee monitored the progress of action plans to ensure they were completed satisfactorily. The Company's policies on financial risk management, including the Company's exposure to liquidity risk, credit risk and certain market-based risks including foreign exchange rates, interest rates and fuel prices, can be found in note 24 to the consolidated financial statements.

Internal audit

Internal audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements. It provides objective assurance on risk and controls to senior management, the Committee and the Board. Internal audit's work is focused on the Group's principal and emerging risks. The mandate and programme of work of the internal audit department is

considered and approved by the Committee annually and includes a number of internal audits and health-checks across the Group's divisions. Findings are reported to relevant operational management and to the Committee. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and to the Committee at each meeting. The Committee reviews and discusses the effectiveness of internal audits on an annual basis with the Group Director of Assurance, who attends every Committee meeting.

The Group Assurance Director was appointed during the year to oversee the Insurance function. As a result, several steps were taken to safeguard the independence of the Group Internal Audit function with regard to any audit work touching on insurance matters. During 2018/19, Group Internal Audit completed an audit of the North American Insurance Claims and Safety Incident processes, in which the Group Director of Assurance was a co-sponsor of the audit in his insurance role. In order to avoid any perceived conflicts, the North American Vice President of Internal Audit had complete ownership of the entire audit process including final say on the overall rating. The North American Vice President of Internal Audit worked directly with the Interim Chief Financial Officer to clear the audit report and had direct access to the Chair of the Audit Committee throughout the audit process. A similar approach was taken for Group Internal Audit's detailed insurance claims reviews at the end of the financial year.

Auditor independence and objectivity

The independence of Deloitte, whose lead audit partner is Mark Mullins, is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Deloitte's independence and objectivity are safeguarded by a number of control measures which include:

- limiting the nature of non-audit services performed by the external auditor
- placing restrictions on the employment by the Group of certain employees of the external auditor
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure the Company remains compliant
- providing a confidential helpline that employees can use to report any concerns, including those relating to the relationship between Group employees and the external auditor

- the rotation of the lead auditor partner after five years
- independent reporting lines from the external auditor to the Committee and the opportunity to meet the Committee independently
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained
- the process for approving all non-audit work provided by Deloitte. Further detail on page 74

Assessing the effectiveness of the external audit process

During 2018/19, the effectiveness and quality of the external audit process were reviewed by the Committee and the findings reported to the Board. The review involved an initial assessment of the delivery and performance of Deloitte against the external audit plan for the year. An annual assessment was then carried out by the Committee, taking into account the results of questionnaires completed by each of the divisions and Group management functions. These questionnaires covered a variety of topics including the audit partners and team; the planning and execution of the audit approach; audit quality, and insights and added value provided by the audit process. Feedback from the annual assessment was shared with Deloitte so that any areas for improvement could be followed up. The Committee concluded that the external audit process carried out by Deloitte continued to be effective and satisfactory, and included the necessary degree of challenge to matters of significant audit risk and areas of management subjectivity. Having reviewed the independence, objectivity and effectiveness of Deloitte, the Committee has recommended to the Board that Deloitte be re-appointed. Ordinary resolutions to re-appoint Deloitte as auditor and authorise the Directors to set their remuneration will be proposed at the 2019 AGM. 2019/20 will be Deloitte's last year as external auditor.

The FRC's Audit Quality Review (AQR) team selected for review the audit of the Group's financial statements for the year ended 31 March 2018. The review is concluded. However, the final report has not yet been issued and the Committee will consider the findings of the FRC's 2018 AQR of Deloitte as a whole and the actions being taken by Deloitte to address the matters raised and report accordingly.

External audit tendering process during 2019/20 timeline:

2019

January – May 2019

Selection and issuance of tender documents to audit firms.

May – July 2019

Shortlisted candidates meetings with key divisional and Group management, and with tender panel.

2019 AGM

Proposed re-appointment of Deloitte by shareholders for 2019/20 audit.

July – September 2019

Interviews of shortlisted candidates. Committee to agree two choices (with a preferred candidate) to present to the Board for approval.

September 2019

Approval by Board of selection of new auditor.

2020

September 2019 – May 2020

New auditor observes the Committee in November 2019, March and May 2020, and shadows Deloitte for half year and full year results audit.

2020 AGM

Approval of new auditors by shareholders.

November 2020

New auditor to undertake review of half year results.

2021

May 2021

New auditor to complete audit of full year results.

External audit tendering

Deloitte was appointed in 1999 following a full tendering process. In compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee responsibilities) Order 2014 (the Order) and as reported previously, the Committee has initiated a tender process for the external audit contract for the year ending 31 March 2021, ahead of the conclusion of Mark Mullins's five-year tenure. 2018/19 has been a year of planning for the external tender and we will report fully on the process we are following by way of regulatory announcements and in next year's Committee's report. The expected timeline for the external audit tendering process during 2019/20 is shown above.

The five-year tenure of the current audit lead partner will end on completion of the audit for the financial year ending 31 March 2020. The proposed tender timeline complies with the provisions set out in the Order. There are no contractual obligations which restrict the choice of external auditor, and the tender process will be based on a clear selection and assessment criteria.

Fair, balanced and understandable

The Committee is mindful of the Code's provision C.1.1 relating to fair, balanced and understandable reporting and sufficient time is built into the annual report timetable to ensure that the full Board receives sufficient opportunity to review, consider and comment on the report as it progresses. Learn more about fair, balanced and understandable reporting on page 65.

Committee effectiveness review

The external Board evaluation carried out in 2018/19 included an evaluation of the performance of the Committee. Overall it was concluded that the Committee was effective, used its time well, and had an appropriate focus on the key issues, and the quality of its work provided assurance to the Board. In order to further enhance the Committee's effectiveness, it was agreed that its members should continue to develop their technical knowledge. As such, in January 2019 Deloitte facilitated a training session on IFRS 16 and the impact of corporate governance changes on the work of the audit committees. The intention is that these knowledge sessions will be held periodically. Further information on the wider evaluation process is available on page 62.

Significant issues

Group Finance has worked closely with Deloitte to ensure that the Group provides the required level of disclosure regarding the significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business sensitive. The main areas of judgement are set out overleaf.



Committee training

The Committee receives technical updates at each meeting including on matters such as accounting standards and the audit and governance landscape. Committee members also meet with divisional management on a periodic basis, such as when travelling for overseas meetings, in order to gain a better understanding of how FirstGroup's policies are embedded in operations. The picture was taken during the Board visit to the First Transit SEPTA location in Philadelphia.

Significant issues and judgments

How the Audit Committee addressed these issues

Forecast margin and long-term growth rate used in the impairment testing of Greyhound

Management exercises a significant amount of judgment during the impairment testing process as it is based on an estimation of future growth rates, cash flows and a suitable discount rate. An impairment charge of £277.3m on the Greyhound cash-generating unit (CGU) had been recorded last year and monitoring of this impairment continued during 2018/19.

The Committee has considered and challenged the inputs for the impairment test model. The cash flow forecasts have been reviewed alongside past performance and committed operational changes to the business. The discount rate has been benchmarked to externally available data. The long-term growth rate assumption of 2.8% has been applied in line with both market data and the macroeconomic environment in North America. Sensitivities to the model inputs have been tested for reasonableness. The value in use of Greyhound exceeded its carrying amount of £295.4m (2018: £590.4m) by £85.2m (2018: £(277.3)m shortfall). Sensitivity analysis indicated that Greyhound's margin would need to fall by 0.8% or more or long term growth rates would need to fall below 1.4% for there to be an impairment on this CGU. An increase in the discount rate of 134 basis points or more would lead to the value in use of the CGU being less than the carrying value. Further detail on impairment testing is provided in notes 4 and 11 in the consolidated financial statements.

North America self-insurance provision and valuation of significant claims

Provisions are measured at management's best estimate of the likely settlement of all known incidents. A valuation of the expense required to settle the obligation and, where applicable, the discount rate is used to calculate the expected settlement. Following adverse settlements and developments on a number of aged insurance claims, against a backdrop of a hardened wider motor claims environment and adverse development factors, management had to increase specific case reserves. The impact of these adverse developments was a charge of £94.8m.

The Committee has reviewed the provision and challenged the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provision against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data. The Committee agreed with management's view not to charge the items relating to the adverse developments in arriving at adjusted operating profit for the North American divisions in order to avoid distorting year-on-year comparisons for these businesses. The Committee considered this significant issue at its meetings in March and May 2019. Further detail on the assumptions used in determining the value is provided in note 4 in the consolidated financial statements.

Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities

The Group participates in a number of defined benefit pension schemes. Management exercises significant judgement when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.

Management has engaged with external experts and the Committee has considered and challenged the assumptions used for estimating the liabilities. Sensitivity analysis has been performed on the key assumptions: inflation, discount rate and mortality. The overall liabilities have also been assessed for reasonableness. Further detail on pensions is provided in note 36 in the consolidated financial statements.

Revenue recognition

Estimates are made on an ongoing basis when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. In addition, revenue recorded may be subject to manual adjustment to reflect the timing and valuation of revenue recognised, e.g. due to timing of travel or where amounts are unbilled at a period end.

The Committee has reviewed the revenue recognition policies and challenged the appropriateness of such policies. It was concluded that these policies and their application were in line with accounting standards. Regular forecasts are compiled on the outcome of these types of franchises and contracts to assess the reasonableness of the assumptions applied. Further detail on revenue recognition is provided in note 2 in the consolidated financial statements.

Going Concern and Viability

The Group regularly prepares an assessment detailing available resources to support the going concern assumption and the long-term viability statements.

The Committee reviewed and challenged management's funding forecasts and sensitivity analysis and the impact of various possible adverse scenarios, including the impact of Brexit. Following the review, which the Committee carried out at its meeting in May 2019, the Committee recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report. The statements can be found on page 49.

SWR contract profitability

The Committee regularly reviews projected trading for all rail franchises to ensure that they remain profitable over the respective franchise term.

The Committee considered the profitability of rail franchises and SWR in particular at various meetings during the financial year. In May 2019 the Committee reached the conclusion that the SWR franchise was an onerous contract and agreed that a provision of £145.9m shall be recognised. Further detail on rail franchises profitability is provided in notes 4 and 26 in the consolidated financial statements.

TPE onerous contract provision

Management prepared updated financial forecasts for this franchise until the initial end date of 31 March 2025. The TPE franchise was considered onerous and an onerous contract provision had been recorded the previous year. The Committee reviewed this provision during the year.

The Committee considered the updated projections for TPE and concluded that a provision of £106.9m was appropriate. Further detail is provided in notes 4 and 26 in the consolidated financial statements.

Non-GAAP measures

The Committee regularly reviews items which management consider appropriate to adjust for in arriving at Group and divisional results in order to avoid distortions in year-on-year comparisons.

The Committee considered the treatment of the adjusting items as set out in note 4 to the consolidated financial statements and in May 2019 reached the conclusion that this treatment was appropriate.

Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services that may be provided, those prohibited, and a process through which other non-audit services may be provided. The policy requires that non-audit services of the external auditor will only be used where the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity. Twice a year the Committee is also provided with a report on all non-audit assignments awarded to the external auditor and a breakdown of non-audit fees incurred. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2019 are set out in note 6 to the consolidated financial statements. The policy, which was reviewed by the Committee in March 2019, is summarised below:

	Fees for other services				Audit fee
Fee categories	Non-permitted services	Permitted non-audit services	Other permitted non-audit services	Statutory and audit-related services	n/a
	Projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team	Projects or engagements where the external auditor is best placed to perform the work due to their network and knowledge of the business or experience and market leadership in a particular area	Projects or engagements not covered under any of the other categories but where the external auditor is best placed to provide them	Projects or engagements where the external auditor is best placed to perform the work as it is clearly audit-related	
Examples of other services	Tax, payroll, HR, legal, valuation and actuarial services Management or decision-making consultancy Bookkeeping and preparing accounting records and financial statements Internal control or risk management procedures, internal audit outsourcing services Corporate financial, restructuring or transaction-related services	Formalities relating to shareholder circulars and other regulatory reports Professional training	Due diligence related to M&A Consultations and audits regarding acquisitions and disposals, financial accounting and reporting standards Investment circular reporting accountant engagements Employee benefit plans, IT security and sustainability audits Reports required by regulators	Review of half-yearly and other interim financial information Advice on accounting treatment of proposed transactions Reporting on regulatory returns	n/a
Roles and responsibilities	↑ ⋮	↑ ⋮	↑ ⋮	↑ ⋮	↑ ⋮
CFO	n/a	Approval needed before work starts		Pre-approved as part of the approval of the annual audit fee	Negotiation and recommendation
Audit Committee		Approval needed if services likely to cost more than £125,000	Approval needed if services likely to cost more than £75,000 Consider if tender should be conducted		Review and approval

Board Safety Committee report

The Committee promotes a positive safety culture across the Group.



Jim Winestock
Chair, Board Safety Committee

Summary of Committee activities during the year

- **May 2018**
Review of safety targets and approval of performance objectives
- **November 2018**
Review of external performance evaluation results
The Board and Committee evaluation process which was carried out during the year confirmed that the Committee continued to operate effectively. Further information is available on page 62.
- **January 2019**
Annual review of terms of reference
Approval of Global Safety Standards
Use of new technologies to improve safety performance
- **At every meeting**
Safety performance of the Group, divisions and operating companies
Key safety initiatives
Be Safe programme
Reports from the Executive Safety Committee and Business Review Meetings
- **Ad hoc**
Lessons learnt and steps taken following significant incidents

The Committee meets at least three times a year and the Deputy Company Secretary acts as Committee Secretary. It is supported by the Executive Safety Committee, which is chaired by the Chief Executive, and meets every two months.

The Executive Safety Committee oversees the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies. It takes a proactive approach to improving safety performance and undertakes 'deep dives' on specific topics of our high-risk areas to understand root causes and inform safety interventions.

Safety Governance

Our commitment to the safety of our passengers, our employees and all third parties interacting with our businesses remains unwavering. As one of our five Values, it is central to how we do business, alongside our new Vision: we provide easy and convenient mobility, improving quality of life by connecting people and communities.

The overall structure of FirstGroup's safety governance represents a balance between delegated decision making to the operating company and retaining strategic direction, oversight and challenge from the Board.

It is the responsibility of the Committee to promote a positive safety culture throughout the businesses and reports back to the Board on safety trends, actions and other deliberations.

Our approach to safety governance is characterised by:

- the Committee overseeing material safety matters and risks across the Group, as well as reviewing targets in respect of safety performance
- management of the relevant operating company having primary responsibility for the design and implementation of an effective safety management system, and accountability for safety performance
- the safety function providing advice directly and through a series of networks across the Group.

Role and responsibilities

- Keep under review the development and maintenance of a framework of policies and standards for managing safety risks and their impact on the Group's activities
- Assess the impact of safety decisions and actions taken by the Group on its reputation, employees and other stakeholders
- Monitor and assess the commitment and behaviour of management towards safety-related risks
- Review safety performance and significant safety incidents, considering the key causes thereof and ensuring actions are taken and communications made by management to prevent similar incidents occurring in the future
- Make proposals to the Remuneration Committee regarding appropriate safety performance objectives for Executive Directors and certain senior managers
- Review the findings of internal or external reports on the Group's safety, assessing any strategies and action plans developed by management in response to issues raised and, where appropriate, making recommendations to the Board on such matters

Across all of our divisions we implement targeted biannual assurance reviews of our safety management systems, improvements and performance. We use data analysis and insights to prioritise our efforts in improving safety through both technology and behaviour.

Looking ahead to 2019/20

The Committee will continue to review our safety strategy, procedures and systems in order to improve our safety performance. In doing so, we will focus on:

- Divisional reviews (First Rail and First Transit)
- Fatigue and driver management
- Technology

Membership and operation

Committee member	Meetings attended	Other Committees/Roles	Independent
Jim Winestock (Chair)	3/3	Audit Committee Nomination Committee	Yes
Jimmy Groombridge	3/3	Group Employee Director	No
Imelda Walsh	3/3	Chair of Remuneration Committee Nomination Committee	Yes

 The Committee's terms of reference can be found at www.firstgroupplc.com

Directors' remuneration report
Statement by the Chair of the Remuneration Committee

The backdrop of this year's results has framed the Committee's decisions and the reward outcomes for Executive Directors.



Imelda Walsh
Chair, Remuneration Committee

Dear Shareholder

I am pleased to present the Directors' remuneration report for the financial year ended 31 March 2019.

Overview 2018/19

The overall trading performance for the Group was ahead of our expectations this year. Group revenue increased by 5.7% in constant currency and adjusting for the 53 weeks of trading in the Road divisions and the start of the South Western Railway (SWR) franchise. On the same basis adjusted operating profit increased by 10.5% with adjusted EPS increasing by 15.2% in constant currency. However, the Group's statutory results were adversely impacted by a number of events, recorded as adjusting items in the accounts. These arose principally as a result of the

decision to provide for future losses on SWR while negotiations continue with the Department for Transport in relation to this franchise; the charge required to enlarge the Group's North American self-insurance reserve, and costs associated with Greyhound's withdrawal from Western Canada. As a result of these adjusting items, the Group recorded a statutory operating profit of £9.8m this year (2018: loss of £196.2m) and statutory EPS was (5.5)p (2018: (24.6)p).

This backdrop has framed the decisions of the Remuneration Committee and the reward outcomes for the Executive Directors.

As noted in my Statement last year, Tim O'Toole stepped down from his position on the Board and as Chief Executive on 31 May 2018. Ahead of the appointment of a replacement Chief Executive, Matthew Gregory, our Chief Financial Officer was appointed as Interim Chief Operating Officer in addition to his existing role, and our Chairman, Wolfhart Hauser, was appointed as Executive Chairman. Following a formal search process which included internal and external candidates, the Board was pleased to appoint Matthew as Chief Executive on 13 November 2018 and at this time Wolfhart reverted to his role as Chairman. Full details of Tim's termination arrangements, Matthew's new package and the remuneration arrangements which applied to him and Wolfhart in the period from 31 May to 13 November 2018 are detailed in this report. On 2 May 2019 the appointment of Ryan Mangold as Chief Financial Officer was announced, with effect from 31 May 2019.

Our approach to remuneration

The key principles underpinning the Committee's approach to executive remuneration are:

- Alignment with strategy and business objectives
- Rewarding performance
- Performance-biased framework
- Competitive remuneration
- Simplicity and transparency

Alignment with strategic objectives

The Executive Directors and senior management are specifically incentivised to achieve the Group's strategic objectives:

- 1 Focused and disciplined bidding in our contract businesses
- 2 Driving growth through attractive commercial propositions in our passenger revenue businesses
- 3 Continuous improvement in operating and financial performance
- 4 Prudent investment in our fleets, systems and people
- 5 Maintaining responsible partnerships with our customers and communities

2018/19 performance and reward decisions

EABP

The Committee carefully considered the outcome of the Executive Annual Bonus Plan (EABP) by firstly reviewing performance achieved against each of the financial and non-financial targets and then a broader consideration of overall performance.

The financial targets for our Executive Directors under the EABP are based on revenue, adjusted operating profit and cash flow outcome. The overall performance against each measure was positive with target performance being exceeded.

The EABP also includes non-financial measures relating to safety and customer satisfaction which are measured at divisional level and combined to provide a Group outcome. Performance against the non-financial measures was mixed across the divisions. Safety performance improved in First Bus, First Student and Greyhound but this was offset by below-target performance in First Rail and First Transit. Similarly our customer satisfaction measures saw improvements in First Student and First Transit with weaker performance in First Rail, First Bus and Greyhound.

In respect of individual performance, out of a potential 10%, the Committee awarded Matthew 7%. Full details on each objective and the performance achieved are set out on pages 84 and 85 of the Annual report on remuneration.

Taking into account the above outcomes, the formulaic EABP award for Matthew Gregory resulted in a potential award of 69.7% of the maximum.

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However, whilst underlying performance improvement in the year was strong, and the Committee commends management's delivery of good progress, Matthew and the Committee agreed that the overall performance should be considered in the context of the decision to provide for the Group's share of the potential future losses on the SWR franchise and the increase to the level of North American self-insurance reserves described on page 08.

Therefore the Committee exercised its discretion in this regard, and awarded a bonus of 33.4% of the maximum potential, which equates to 50.1% of his average salary during the year.

Under the approved Remuneration Policy, 50% of the award is normally paid in cash with 50% deferred into shares (which do not vest for 3 years, and which are not subject to any further performance conditions). In view of the provision of £145.9m made this year in respect of the SWR franchise (described on pages 07-08), the Committee decided that the deferred share element of the Chief Executive's bonus should be awarded on a conditional basis. In 2022 when the normal deferment period for the award ends, the Committee will assess the extent to which the SWR provision has been required or is likely to be required over future years. Based on that assessment, it will determine at its discretion (and after taking into account any other factors relating to First Rail that it considers relevant) the extent (if any) to which the conditional award will vest. Any shares vesting under this element will be reported in the relevant Remuneration Report, including the Committee's decision and any further supporting information.

Matthew will therefore receive a cash bonus of 25.05% (£135,708) of his average salary during the year. A further 25.05% (£135,708) of his average salary during the year will be awarded in shares which may vest at the end of three years, subject to the performance condition relating to the SWR provision.

LTIP

The vesting of the 2016 LTIP award was subject to two performance measures: 50% ROCE and 50% relative TSR. The Company's performance was just below median under the TSR measure, therefore this element of the award lapsed.

When assessing performance under the ROCE condition, the Committee determined that a number of adjustments should be

made, regarding the write off of Greyhound goodwill, the TPE onerous contract accounting (both reflected in the 2017/18 results), the exceptional charge in respect of the North American self-insurance reserves, and the phasing of approximately £90m in working capital grant and other funding inflows in First Rail which we expect to reverse in the 2019/20 financial year. These adjustments result in a fairer assessment of performance, with the ROCE outcome reduced to 7.6%, which triggers the threshold level of vesting of 12.5% of the total LTIP award. The Committee considers this level of vesting is appropriate, noting the near-miss vesting in respect of the TSR element and the Company's progress in growing earnings and a more disciplined approach to capital allocation. The award will therefore partially vest on 28 June 2019, equating to 95,528 shares for Matthew Gregory (with a value of £87,140¹), and will be subject to a two-year holding period.

Directorate changes

Tim O'Toole stepped down as Chief Executive, and from the Board on 31 May 2018. In order to assist with a period of transition, he was placed on garden leave until his employment ended on 30 September 2018 and during this period his salary, pension and benefits continued to be paid as usual. Payment in lieu of Tim's salary and benefits for the unexpired period of his notice were then paid in monthly instalments, subject to mitigation. As at 31 March 2019, a maximum of two further monthly instalments were payable. In addition, the Company paid for Tim's legal advice in relation to his departure.

Full details are set out in the section Payments to past Directors on page 90. As reported last year, Tim did not receive an annual bonus for 2018 and he was not eligible to participate in the annual bonus plan for 2019.

On leaving employment, Tim's outstanding awards under the LTIP lapsed and no further awards were made in 2018. Tim had 599,482 unvested deferred bonus shares awarded in 2016 and 2017. The Remuneration Committee gave careful consideration to the treatment of these shares and determined that, as they related to past performance, they should vest on their normal vesting dates. The 516,356 shares awarded in 2017, due to vest in 2020, remain conditional on a determination by the Committee following the conclusion of appropriate investigations into the 2016 Croydon tram incident. If the Committee

determine that any of these shares will vest, a full explanation will be provided in the 2020 Directors' remuneration report.

Matthew Gregory, then Chief Financial Officer, took on the additional role of Interim Chief Operating Officer for the period 31 May 2018 to 13 November 2018. During this period, his annual salary was increased from £437,000 to £500,000.

On his appointment as Chief Executive on 13 November 2018, the following changes were made to Matthew's remuneration package:

- salary increased to £635,000
- pension allowance reduced from 20% of salary to 15% of salary, in line with the average company contribution to employee pensions in the UK
- maximum LTIP opportunity increased from 175% to 200% of salary
- shareholding requirement increased from 150% to 200% of salary

These arrangements are in accordance with our approved Remuneration Policy and provide a heavier weighting towards variable pay than the package for the previous Chief Executive. It delivers on the commitment made to shareholders, set out in my Statement in 2015, that we would reduce the fixed pay of a newly appointed Chief Executive, compared to that of his predecessor. On an annualised basis, fixed pay (defined as salary and pension allowance) has reduced by circa 30%. Matthew's salary will not be reviewed before 1 April 2020.

Matthew's maximum opportunity under the EABP remains at 150% of salary. His bonus for 2018/19 has been based on his average salary during the year. His LTIP award made in June 2018 was based on 175% of his salary as CFO (£437,000). On his appointment as Chief Executive, a further LTIP award was made in November 2018 to reflect the time during the year when Matthew was eligible for a maximum LTIP award of 200% of salary and his new salary of £635,000. Full details of both awards can be found in the table on page 89.

In recognition of **Wolfhart Hauser** taking on the role as Executive Chairman for the period 31 May 2018 to 13 November 2018, his annual fee was increased from £295,000 to £595,000. This was based on a careful assessment of the increased time requirements and the Board's desire for immediate action to review each business

¹ In line with the UK Companies (Miscellaneous Reporting) Regulations 2018, the estimated value of the 2016 LTIP at vesting has been calculated based on the average share price over the last three months of 2018/19 (91.22p). The actual value of the 2016 LTIP, based on the share price on the date the awards vests, will be shown in the 2020 report. In line with the early adoption of requirements under the Regulations, none of the total value of £87,140 at vesting can be attributed to share price growth as the share price at award was 92.60p in 2016.

Directors' remuneration report continued

Statement by the Chair of the Remuneration Committee continued

unit and improve operational performance. A significant portion of the increase in fee (after tax) was used by Wolfhart to purchase FirstGroup plc shares. Over this period, 56,016 shares were purchased and by the end of the year Wolfhart owned 340,574 shares, an increase of 20% over the prior year.

On Matthew Gregory's appointment as Chief Executive, Wolfhart's fee reverted to £295,000 per annum.

Full details of the terms of departure and changes to roles and resulting remuneration changes were set out at the time each announcement was made.

Finally, on 2 May 2019 we announced the appointment of **Ryan Mangold**, as CFO, on a salary of £450,000 (disclosed in the announcement), which in the view of the Committee is commensurate with the substantial experience he brings of successful business transformation. Further details of his appointment terms, in accordance with our approved Remuneration Policy, are set out on page 89.

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies to ensure that we remain aligned with best practice. In particular, the Committee is mindful of the 2018 Code and legislative changes which come into force for FirstGroup for our 2019/20 financial year. Our aim for this year's reports has been to begin to comply with these new requirements as far as practicable, for example with a new section 'Our remuneration in context' so that we are well placed to be fully compliant next year. In view of the fact that three individuals served in the role of Chief Executive or Executive Chairman during 2018/19, the Committee decided against early disclosure of a CEO pay ratio. The required methodology for the Chief Executive pay figure would involve reporting a composite figure for these individuals, which would not provide shareholders with a meaningful comparison of the remuneration of the Chief Executive versus typical employee pay. We intend to fully comply with the requirement in the 2020 Directors' remuneration report.

Pay across the Group

To ensure we are able to attract and retain the skills and talent we need, the Group is committed to offering an attractive reward package for employees at all levels. In addition to competitive base salaries, we offer a wide range of benefits to employees and their families, tailored to local markets. Further information is included in this report on page 80.

Our second Gender Pay Gap Report was published in March 2019. Our median gender pay gap across the UK businesses is -5.1%. This means that women's median hourly pay is 5.1% higher than men's. More detail is given in our 2018 Gender Pay Gap Report, which can be found on the FirstGroup plc website, and the 'Our People' section of this report on page 33.

Non-Executive Directors' ('NED') fees

No changes were made to NED fees in 2018. These remained at £58,000 per annum with additional fees of £12,000 payable to the Senior Independent Director and the Chairs of the Audit, Board Safety and Remuneration Committees.

2019/20 Performance and Reward

Matthew Gregory's salary will remain at £635,000 for 2019/20 and will next be reviewed in April 2020.

The Committee considers that the existing EABP framework continues to be an appropriate short-term incentive. Targets in respect of the 2019 EABP will reflect the business context and challenges as well as the overall business plan for addressing these at both divisional and Group level and will be disclosed next year. These measures will continue to be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics.

It is the Committee's intention to make awards under the LTIP this year and it is anticipated that the approach regarding metrics will be similar to that adopted in the 2018 LTIP, that is, 20% Road ROCE, 40% EPS and 40% relative TSR. The targets for these awards will be published in the 2019/20 Directors' remuneration report.

Accounting standard IFRS 16

The introduction of the new accounting standard IFRS 16 will have significant implications in respect of the reporting of our financial results, the exact impact of which was not fully known at the time this report was published. This will affect the evaluation of the EPS and ROCE performance conditions of the outstanding 2017 and 2018 LTIP awards. In view of this, and after considering emerging market practice in this regard, the Committee has taken the decision that it will convert the IFRS 16 performance outturns back to an IAS 17 basis when assessing the degree of performance achieved. This will make the performance conditions no more or less stretching than would have originally been the case. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis will be included in the relevant

year's Directors remuneration report in the section(s) on LTIP vesting.

Similarly, for 2019/20 incentive targets for both the EABP and the 2019 LTIP awards, the Committee has decided to set these on a pre-IFRS 16 basis in order to give clarity to participants at the outset, rather than seeking to subsequently restate the targets.

Looking ahead

For the coming year, it is anticipated that the Committee will focus on the following areas:

- supporting the Group's business objectives and strategy to rationalise the portfolio and refocus the business on our market leading contract-based businesses in North America
- ensuring compliance with new regulatory requirements, including the new UK Corporate Governance Code and the widening of the remit of the Committee
- ensuring that remuneration arrangements are designed to promote the long-term success of the Company and appropriately incentivise management to deliver the strategy

Shareholder engagement

The Committee maintains an open and transparent dialogue with shareholders on the issue of executive remuneration and considers ongoing engagement in this regard as vital to ensuring that remuneration strategy continues to be aligned with the long term interests of the Group's shareholders. We believe that in relation to incentive outcomes, both annual and long term incentives have, in recent years, reflected overall business performance and the Committee has exercised downward discretion, on a number of occasions where warranted.

The Committee were pleased that the Company's Directors' Remuneration Policy was approved by shareholders at the AGM in 2018 (84.52% voted in favour). The Committee has reviewed the remuneration outcomes for the year and confirm that the Policy has operated as intended. This Statement and the Annual report on remuneration will be subject to an advisory vote at the 2019 AGM, and we look forward to your support.

Finally, I am grateful to my colleagues on the Committee and those who support our work.

Imelda Walsh

Chair, Remuneration Committee

Remuneration policy at a glance

Summary of Remuneration Policy

Purpose and link to strategy		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Key Features of the policy
Fixed Pay To attract and maintain high-calibre executives with the attributes, skills and experience required to deliver the Group's strategy	Salary and benefits							Salary increases (in percentage terms) will normally be within the range for those of Group employees. Pension allowances for Executive Directors are in line with the average company contribution to employee pensions in the UK.
Executive Annual Bonus Plan (EABP) To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy. The deferred share element of our EABP encourages retention and provides a link between the bonus and share price growth.	EABP – Cash Element EABP – Deferred Share Element							Maximum bonus opportunity is 150% of base salary for Executive Directors. At least half of the bonus award will be deferred into shares, normally for a period of three years. Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.
Long-Term Incentive Plan (LTIP) Incentivises the execution of strategy and drives long-term value creation and alignment with longer term returns to shareholders.	LTIP							Normal award policy is for a maximum award opportunity of 200% of base salary for the Chief Executive and 175% for other Executive Directors. Measured over three financial years from the year of award. Shares which vest under the LTIP are subject to an additional holding period of two years. Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.
Shareholding Guidelines To ensure that Executive Directors' interests are aligned with those of shareholders over a longer term time period	Shareholding Guidelines							The Chief Executive is expected to hold shares equivalent to 200% of base salary and other Executive Directors 150% of base salary, within a five year period from their date of appointment.

The Company's Remuneration Policy was approved by Shareholders at the AGM on 17 July 2018 and will apply at the latest until the 2021 AGM.

- ① The Remuneration Policy can be found on our website at www.firstgroupplc.com/investors

Directors' remuneration report continued

Remuneration at a glance continued

Remuneration for 2019

Single figure of remuneration for 2019

	Year	Salary £000s	Benefits £000s	Pension £000s	Annual bonus		Long-Term Incentive Plan £000s	Total £000s
					Cash £000s	Value of deferred shares £000s		
Matthew Gregory	2019	542	14	97	136	–	87	876

More detail can be found on page 82.

Incentive outcomes: Matthew Gregory

Annual bonus

Metrics	Maximum potential award	% of award which vested
Adjusted operating profit	45%	36.3%
Revenue	20%	12.8%
Cash flow	10%	10.0%
Safety	7.5%	1.9%
Customer satisfaction	7.5%	1.7%
Personal performance	10%	7.0%
Total	100%	69.7%
Total after Committee discretion¹	–	33.4%

More detail can be found on pages 84-85.

LTIP

Metrics	Maximum potential award	% of award which vested
ROCE	50%	12.5%
Relative TSR	50%	0%
Total	100%	12.5%

More detail can be found on page 86.

- 1 In line with the approved Policy, the Committee carefully considered the above EABP formulaic outcome against the backdrop of wider business performance and context, and exercised its discretion as set out on page 85.

Remuneration for 2020

Salary	- Matthew Gregory's salary from 1 April 2019 will remain at £635,000 - Ryan Mangold's salary from his appointment on 31 May 2019 will be £450,000
Benefits and Pension	- Matthew Gregory will continue to receive a pension allowance of 15% of salary, and additional benefits in accordance with the approved Remuneration Policy. - Ryan Mangold will receive a pension allowance of 15% of salary and additional benefits in accordance with the approved Remuneration Policy, from the date of his appointment.
Incentives	- Maximum annual bonus potential will remain at 150% of salary and maximum long-term incentive award for the CEO will be 200% of salary. - Targets in respect of the 2019 EABP will continue to be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics. 50% of any annual bonus will be deferred into shares for three years - It is anticipated that the approach regarding metrics for the 2019 LTIP awards will be similar to that adopted in the 2018 LTIP, that is, 20% Road ROCE, 40% EPS and 40% relative TSR. The targets for these awards will be published in the 2019/20 Directors' remuneration report. - Malus and clawback apply to all incentive awards. More detail can be found on pages 92 and 93.

Our remuneration in context

In setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to rewarding other employees in the Group. FirstGroup operates in a number of markets and its employees carry out a diverse range of roles across the UK and North America. Due to the varied

nature of the operations of our divisions and the respective employment markets, we have a range of remuneration practices across the organisation. These are designed to be relevant to each individual market. Approximately 90% of our UK employees and 55% of our US employees are covered by collective bargaining arrangements.

At its meeting in November 2018, the Committee reviewed a report which summarised these practices and updates will be provided on a regular basis. This process allows the Committee to consider the remuneration outcomes for the Executive Directors' and members of the Executive Committee in the light of remuneration

of the rest of the workforce. The Committee also fully reviews the Gender Pay Gap report and looks at the statistics for each of our UK reporting entities, as well as discussing the actions that management are taking to improve the representation of women in our workforce and to close gender pay gaps, where these exist.

The main difference between the remuneration of the most senior employees (including Executive Directors) and that of the wider workforce is that remuneration for senior employees is more heavily weighted towards variable pay, which is linked to business performance. Our management population is typically eligible to participate in annual bonus plans, while long-term incentives are provided only to the most senior executives as these individuals are considered to have the greatest potential to influence Group performance over the longer term.

The impact of performance on the remuneration of our Chief Executive is illustrated in the chart below. This shows his potential earnings at minimum, on-target and maximum levels of performance along with the impact of a 50% increase in share price.

Base salaries for all employees, including Executive Directors, are reviewed annually. When considering salary increases for Executive Directors and Executive Committee members, the Committee pays close attention to increases available to the wider workforce.

FirstGroup offers a wide range of employee benefits to all employees regardless of role.

We are committed to helping our colleagues save for retirement through a variety of company pension arrangements, which are designed in line with local market practice. In the US the company contributes towards a number of defined contribution plans including 401(k) arrangements and various union multi-employer plans. We operate a number of different pension plans in the UK which reflect

the history and requirements of those businesses. Approximately half of our UK employees who are in a pension plan participate in a defined benefit section of the Railways Pension Scheme. Other employees are members of defined contribution schemes. Therefore, we have a variety of pension arrangements, but when taken together across our UK businesses these have an average company contribution of circa 15% of salary. Matthew Gregory receives a pension allowance of 15% of salary (£10,000 p.a. of which is paid into a defined contribution pension plan) and Ryan Mangold, our new CFO, will also receive a pension allowance of 15% of salary, which is in line with the average company contribution to employee pensions in the UK. This is an issue we will continue to keep under review but the pensions arrangements for our executive directors are a reduction on our previous policy.

Another key element of our employee engagement strategy is the opportunity to share in the growth and success of the business through our UK employee share plans. UK employees (including Executive Directors) with six months' service are eligible to participate in the Company's Save As You Earn (SAYE) and Share Incentive Plan, known as Buy As You Earn (BAYE). In accordance with HMRC limits, the maximum participation level in the SAYE plan is £500 per calendar month. Participants are granted linked share options, by reference to projected savings, with a 20% discount to the share price at the time of grant. On the maturity of the savings contracts, participants can elect to use the accumulated savings to exercise their options or may request the return of their savings. The maximum participation level in the BAYE is £150 per month, in line with HMRC limits. The Company provides two Matching Shares for every three shares purchased (Partnership Shares), subject to a maximum Company contribution of shares to the value of £30 a month. The shares are held in trust and become available for release

with no tax or National Insurance liability once held for five years.

Other benefits in the UK include discounted travel on our rail and bus services, and discounts on shopping, entertainment and eating out. We also operate childcare voucher schemes across our UK businesses and our Employee Assistance programme offers all employees access to free, 24/7 confidential telephone, online and face to face advice for problems they may be experiencing at home or work.

Greyhound Canada and some of our larger UK businesses have their own dedicated in-house Occupational Health teams; our other businesses use external specialist advisers to support employees with health problems which may be affecting their performance at work.

In the US we offer a broad spectrum of health and welfare benefits to our employees and their families, including life insurance, health, dental and vision benefits for employees and their dependents. We also provide disability plans for short and long term illness. Employee and family wellbeing is a focus through our 'Route to Rewards' wellness program, and throughout the year we encourage participation in wellness activities. In Canada, our employee benefits include life insurance, health and dental benefits, and disability coverage for employees and their dependents.

All our divisions run workplace health and wellbeing programmes to support employees to stay fit and healthy.

Employee engagement

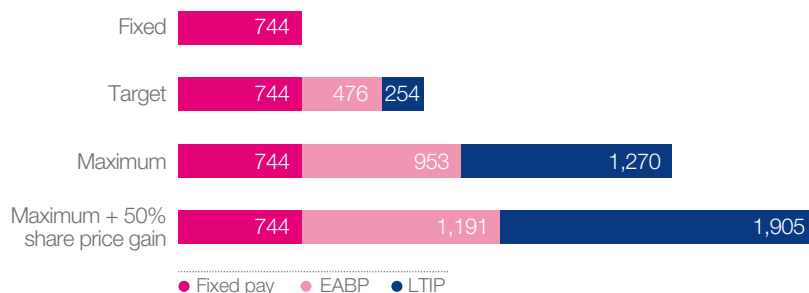
While the Committee does not formally consult with employees on Executive Director remuneration, a number of different mechanisms are in place to gather feedback from employees across a range of issues. More information on our 'Your Voice' survey is set out on page 33.

The Group engages with its UK workforce through our Employee Directors and Jimmy Groombridge, our Group Employee Director is invited to attend all the Committee's meetings. Our Committee Chair, Imelda Walsh, will also periodically attend meetings of the Employee Directors' Forum. More information on the role of our Employee Directors is set out on page 57.

The Committee believes that it is important for our employees to understand how the remuneration of our Executive Directors is determined and will utilise the different communication channels operating across the Group to ensure our employees are aware of the information available in the Directors' remuneration report.

Chief Executive

Total Remuneration (£000s)



Directors' remuneration report continued

Annual report on remuneration

This part of the Directors' remuneration report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Annual report on remuneration and the Statement by the Chair will be put to an advisory shareholder vote at the 2019 AGM.

Executive Directors' total remuneration (audited)

	Role	Year	Salary £000s	Benefits £000s	Pension £000s	Annual bonus		Long-Term Incentive Plan £000s	Total £000s
						Cash £000s	Value of deferred shares £000s		
Matthew Gregory ¹	CEO	2019	542	14	97	136	— ³	87 ⁴	876
	CFO	2018	437	14	87	73	73	—	684
Tim O'Toole ²	CEO	2019	141	6	28	—	—	—	175
		2018	846	43	211	—	—	—	1,110

1 As noted in last year's Annual report on remuneration, Matthew Gregory advised the Committee that he did not wish to be considered for a salary increase at 1 April 2018. On his appointment as Interim COO on 31 May 2018, Matthew received an increase in his annual salary to £500,000. When Matthew was appointed as Chief Executive on 13 November 2018, his salary was increased to £635,000. Taking into account these changes, total salary payable to Matthew for the year ended 31 March 2019 was £542,000.

2 Tim O'Toole stepped down from the Board on 31 May 2018. The table above reflects his remuneration during the period 1 April 2018 to 31 May 2018.

3 As explained on page 85, the Committee decided that the deferred share element of the Chief Executive's bonus should be awarded on a conditional basis. In 2022 when the normal deferral period for the award ends, the Committee will determine at its discretion the extent (if any) to which the conditional award will vest. Any shares vesting under this element will be reported in the relevant Remuneration Report, including the Committee's decision and supporting rationale.

4 In line with the regulations, the estimated value of the 2016 LTIP at vesting has been calculated based on the average share price over the last three months of 2018/19 (91.22p). The actual value of the 2016 LTIP, based on the share price on the date the award vests, will be shown in the 2020 report. In line with the early adoption of requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, none of the total value of £87,140 at vesting can be attributed to share price growth as the share price at award was 92.60p in 2016.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, private medical cover, life assurance and advisory fees.

Matthew Gregory's benefits for the year comprised: £12,000 car allowance and £2,000 for UK private medical insurance. In the period 1 April 2018 – 31 May 2018, Tim O'Toole received benefits of: £2,000 car allowance and £4,000 for US medical insurance.

Pension (audited)

Matthew Gregory received a pension allowance of £97,000 including a defined contribution pension input amount of £10,000. This comprised 20% of his base salary up until his appointment as Chief Executive on 13 November 2018, when his allowance was reduced to 15% of salary.

In the period 1 April 2018 – 31 May 2018, Tim O'Toole received a pension allowance of £28,000 including a defined contribution pension input amount of £2,000. This was 20% of his base salary.

Tim O'Toole's defined benefit pension accrual ceased on 5 April 2018, as the FirstGroup Pension Scheme closed to future accrual. As such, he accrued no new defined benefit pension in the year to 31 March 2019.

Following his resignation as a Director in May 2018, any increase in his benefits over the year related to evaluation or late retirement increases designed to preserve the value of previously accrued benefits, rather than accrual of new benefits.

Information in the table below includes the total accrued benefit at 31 March 2019 which represents the annual pension that is expected to be payable on eventual retirement given the length of service and salary of Tim O'Toole.

	Age at 31 Mar 2019	Pension age	Total accrued benefit at 31 Mar 2019 ¹	Increase in accrued annual pension at 31 Mar 2019 £000s
Tim O'Toole	63	65	26	1

1 Tim O'Toole's defined benefit pension accrual ceased on 5 April 2018, as the FirstGroup Pension Scheme closed to future accrual. No additional benefits are available on early retirement.

Performance-related pay

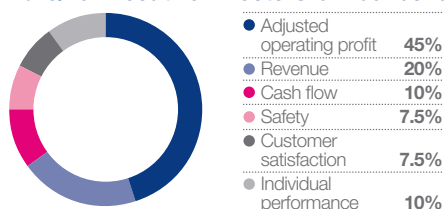
The Committee believes it is important for Executive Directors that a significant proportion of the remuneration package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The Committee considers performance against a range of metrics, including safety, to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

The table below outlines each of the performance measures used in the Company's performance-related incentives and how they support the Company's strategy and business objectives as outlined in the Strategic report:

	KPIs	Business objectives	Our Values
LTIP			
Road ROCE	●	●	
TSR		●	
EPS	●		
Bonus			
Adjusted operating profit	●	●	
Revenue	●	●	
Cash flow	●	●	
Safety	●	●	●
Customer satisfaction	●	●	●
Individual performance	●	●	●

Executive Annual Bonus Plan

2018/19 Executive Directors' annual bonus (audited)



For 2018/19 the EABP aimed to incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus did not change from 2017/18 and was weighted so that 75% was based on financial metrics and 25% on non-financial metrics.

Directors' remuneration report continued

For 2018/19, the EABP comprised the following six elements:

Adjusted operating profit – a KPI used in managing the business.

Revenue – encourages management to deliver sustainable growth through volume and pricing.

Cash flow – encourages management to devise operational plans focused on cash generation to create options for the Board in relation to, among other uses, investment in key assets of fleet, systems, people and debt reduction.

Safety – to ensure that risk controls, safety procedures and behaviours are constantly enhanced. Performance was assessed against a balanced scorecard using a broad range of indicators, including long term injuries, passenger injuries and collisions.

Customer satisfaction – a key focus at all levels of the Group. Performance was assessed against a balanced scorecard of measures such as customer satisfaction surveys, punctuality and cancellations across all five divisions.

Individual performance – recognises achievement in other significant areas. Performance was assessed against individual objectives for the year, which were aligned with the Group's strategy.

Stretching, relevant and measurable targets were set by the Committee against each of these elements and the Committee also reviewed targets at individual divisional level. The financial targets were based on the Group's plan and took into consideration the latest available consensus and expectations for 2018/19.

When determining the outcome for the year, the Committee assessed each element of the annual bonus separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements, including the performance of each division and the Company's performance on a rail and non-rail basis, and formed a rounded assessment of Matthew Gregory's performance at the end of the year.

In keeping with the practice applied in previous years, the original target ranges for the revenue and operating profit elements have been adjusted to reflect the actual reported foreign exchange rate changes experienced in the year under review.

For 2018/19, the financial and non-financial performance outcomes on a formulaic basis are summarised below and before the Committee made its assessment as to whether, in light of the underlying performance of the Company, it was appropriate to exercise its discretion and make further adjustments

Metrics	Actual performance	Threshold (0%)	Target (50%)	Maximum (100%)	Maximum potential award	% of award which vested	Outcomes
Adjusted operating profit ¹	£332.9m	£314.0m	£325.6m	£340.7m	45%	36.3%	Group EBIT performance achieved at 81% of maximum
Revenue	£7,126.9m	£6,933.2m	£7,087.1m	£7,230.2m	20%	12.8%	Group Revenue performance achieved at 64% of maximum
Cash flow ²	£75.9m	Less than £75.7m	n/a	£75.7m or greater	10%	10%	Group cash generation for the year exceeded the EABP target level (even after adjusting for the higher than usual level of Rail ring-fenced cash) and delivered full payout
Safety	Between threshold and target	Balanced scorecard of indicators			7.5%	1.9%	Group safety performance is a composite score of performance across each division. Improved safety performance from First Bus and Greyhound, offset by weaker performance in First Student, First Rail and First Transit.
Customer satisfaction	Between threshold and target	Balanced scorecard of measures			7.5%	1.7%	Group customer satisfaction is a composite score of performance across each division. Good performance from our contract based businesses First Student and First Transit, offset by weaker performance in First Rail, First Bus and Greyhound.

1 Adjusted operating profit figures throughout this document are before other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

2 Group cashflow for the year was adjusted to remove the exceptional impact of ring-fenced cash from First Rail.

As previously reported, Tim O' Toole was not eligible for an annual bonus for 2018/19.

The Committee carefully reviewed Matthew Gregory's performance against his personal objectives. Matthew's objectives had evolved during the year to reflect his roles as CFO, Interim COO and now Chief Executive. Reflecting on the key deliverables required during the year, and taking into account Matthew's growing role and associated levels of responsibility, the Committee considered his performance against the following key objectives and their achievement:

Objective	Assessment
Led the strategic review which has determined, with Board support, that a portfolio rationalisation is central to delivering enhanced shareholder value.	Fully achieved
Instigated a comprehensive, externally-facilitated structural change and efficiency programme, including a 'bottom up' review of the Group's cost base.	Fully achieved
Demonstrated good progress in the key areas relating to our safety culture.	Partially achieved
Developed a new vision aimed at placing the customer at the centre of our business.	Partially achieved
Driven the appropriate culture and Values including the diversity agenda and actions to improve employee engagement across the Group.	Fully achieved

The Committee determined that Matthew had delivered these objectives to a high standard and had also made a good transition to the role of Chief Executive. Considering his achievement against his specific personal objectives, as well as his performance across three roles over the financial year, the Committee awarded him 7% out of a possible 10%.

Taking into account the above outcomes, the formulaic EABP award for Matthew Gregory resulted in a potential award of 69.7% of the maximum.

Whilst underlying performance improvement in the year was strong, and the Committee commended management's delivery of good progress, Matthew and the Committee agreed that the overall performance should be considered in the context of the decision to provide for the Group's share of the potential future losses on the SWR franchise and the increase to the level of North American self-insurance reserves described on pages 7 and 8.

Therefore, the Committee exercised its discretion in this regard and awarded a bonus of 33.4% of the maximum potential, which equates to 50.1% of his average salary during the year.

Under the approved Policy, 50% of the award is normally paid in cash with 50% deferred into shares (which do not vest for 3 years, and are not subject to any further performance conditions). In view of the provision of £145.9m made this year in respect of the SWR franchise (described on pages 7 and 8, the Committee decided that the deferred share element of the Chief Executive's bonus should be awarded on a conditional basis. In 2022 when the normal deferment period for the award ends, the Committee will assess the extent to which the SWR provision has been required or is likely to be required over future years. Based on that assessment, it will determine at its discretion (and after taking into account any other factors relating to First Rail that it considers relevant) the extent (if any) to which the conditional award will vest. Any shares vesting under this element will be reported in the relevant Remuneration Report, including the Committee's decision and any further supporting information.

Matthew will therefore receive a cash bonus of 25.05% (£135,708) of his average salary during the year. A further 25.05% (£135,708) of his average salary during the year will be awarded in shares which may vest at the end of three years, subject to the condition relating to the SWR provision.

The overall bonus payout for 2018/19 is as follows:

	Matthew Gregory
Maximum bonus opportunity (% of salary)	150%
Annual bonus (% of salary)	25.1%
Actual bonus (£000s)	136

Directors' remuneration report continued

Long-Term Incentive Plan

2016 Long-Term Incentive Awards (audited)

The vesting of the 2016 LTIP awards was subject to the achievement of ROCE and TSR performance conditions (each representing 50% of the award) over a three-year performance period.

TSR performance was measured against a comparator group of 32 companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup.

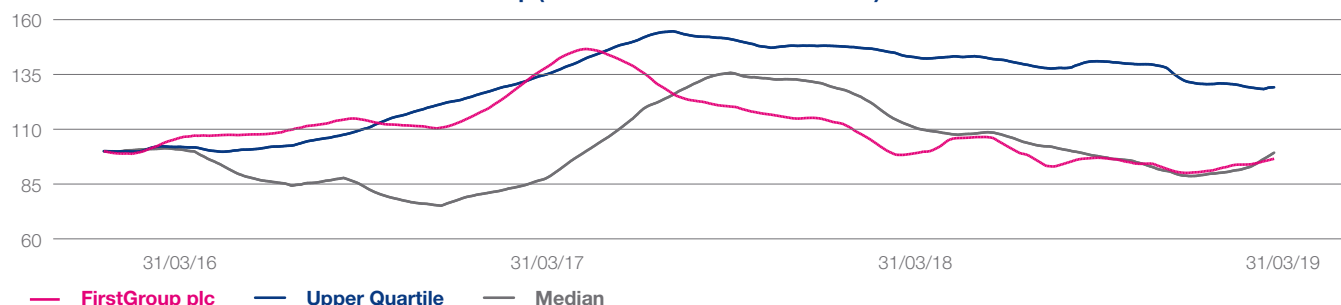
As disclosed in the 2016 Directors' Remuneration report, ROCE for LTIP purposes has been calculated by dividing adjusted operating profit after tax by net assets (excluding cash and debit items). To reflect those items outside management's control, the definition of ROCE is adjusted for:

- use of constant currency – the use of constant currency is established practice at FirstGroup and ensures that management are rewarded for improving the underlying performance of the business. LTIP targets are based on estimated foreign exchange rates in line with those rates included in the Group's Three-Year Plan, which is updated annually.
- exclusion of pension deficit – the exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element; and
- exclusion of non-continuing rail franchises – First Rail franchises that are not contracted to be operated for the full duration of the LTIP performance period are excluded from the ROCE calculation. Winning a franchise or being awarded an extension to an existing franchise (a Direct Award) within the performance period will lead to that franchise being included in subsequent LTIP awards, but not being included in the calculation of existing awards. This ensures a like-for-like comparison across the performance period. For the avoidance of doubt and in accordance with this methodology, the SWR franchise is not included in the ROCE calculation for the 2016 award.

The performance in respect of each of the metrics was as follows:

Metrics	Actual performance	Entry level (0%)	Threshold (12.5%)	Maximum (50%)	% of award which vested
ROCE	7.6%	<7.6%	7.6%	8.7%	12.5%
Relative TSR	47th percentile	Below median	Median	Upper quartile	0%

2016 LTIP – TSR Performance Versus Peer Group (31 March 2016 – 31 March 2019)



The Company's performance was just below median under the TSR measure, therefore this element of the award lapsed.

When assessing performance under the ROCE condition, the Committee determined that a number of adjustments should be made, regarding the write off of Greyhound goodwill, the TPE onerous contract accounting (reflected in the 2017/18 results), the exceptional charge in respect of the self-insurance reserve, and the phasing of approximately £90m in working capital grant and other funding inflows in First Rail which we expect to reverse in the 2019/20 financial year. These adjustments result in a fairer assessment of performance, with the ROCE outcome reduced to 7.6%, which means the threshold level of vesting of 12.5% of the total LTIP award was achieved. The Committee considers this level of vesting is appropriate, noting the near-miss vesting in respect of the TSR element and given the Company's progress in growing earnings and a more disciplined approach to capital allocation. The award will therefore partially vest on 28 June 2019, equating to 95,528 shares for Matthew Gregory (with a value of £87,140¹), and will be subject to a two-year holding period.

¹ In line with the regulations, the estimated value of the 2016 LTIP at vesting has been calculated based on the average share price over the last three months of 2018/19 (91.22p). The actual value of the 2016 LTIP, based on the share price on the date the awards vests, will be shown in the 2020 report. In line with the early adoption of requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, none of the total value of £87,140 at vesting can be attributed to share price growth as the share price at award was 92.60p in 2016.

Long-Term Incentive Awards made during the year (audited)

The Committee carried out a review of the LTIP performance metrics in 2017, which included consultation with major shareholders. As reported last year, in view of the overall results for 2018, the Committee took some further time to review the calibration of the targets for the 2018 award.

The subsequent awards were made in July 2018. There was no change to the three measures and weighting attached to each. All metrics will be assessed over a three-year performance period (which commenced on 1 April 2018).

The awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, as with all LTIP awards, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory and has the ability to amend the formulaic vesting outcome if they believe this is appropriate. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

Details of the performance metrics and targets for the 2018 LTIP awards are set out below.

Earnings per Share ('EPS')

EPS growth will be determined using Adjusted EPS. The Committee considers Adjusted EPS to be an appropriate reflection of trading performance as it eliminates factors which distort year-on-year comparisons and so should be used to incentivise the achievement of underlying growth. The Committee noted that differences between adjusted and statutory EPS will need to be carefully considered and this is consistent with the overall review process carried out by the Committee when confirming any vesting decision.

EPS growth will be assessed at constant currency. The use of constant currency is established practice at the Company to eliminate foreign exchange translation effects only and ensures that management are rewarded for improving the underlying performance of the business.

When assessing performance, the reported Adjusted EPS for 2020/21 will be compared against the reported Adjusted EPS for 2017/18, restated into constant currency based on the effective foreign exchange rates in 2020/21.

Details of the EPS targets for the 2018 LTIP are set out below:

EPS CAGR ¹	% of award which vests
< 4%	0%
= 4%	8%
≥ 11%	40%

1 Between threshold (4%) and maximum (11%), vesting will be on a straight-line basis.

EPS targets are unchanged from the awards made in 2017 and were set taking into consideration the three-year business plan agreed by the Board in May 2018 and analyst forecasts at the time. The Committee believes this range continues to be very stretching given expectations for growth in our major markets.

ROCE ('Return on Capital Employed') – 20% of the award

As the Rail divisions are not heavy users of the Company's capital and the Company will be relying on the Road divisions to drive improved ROCE performance, the Committee concluded that 'Road ROCE', in 2017 was a more appropriate measure for the LTIP than Group ROCE. All awards since 2017 have been on this basis.

The Road ROCE metric will be calculated by dividing operating profit less tax by relevant Capital Employed retranslated at constant currency where:

- Operating profit is the reported adjusted operating profit of the Group, as published in the Annual Report, excluding earnings derived from the Rail division
- Capital Employed is net assets, excluding net debt, derivatives and pension balances and also excluding items relating to the Rail division. The exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element. This approach to pensions is identical to the ROCE definition, which did include Rail, used for LTIP awards made in 2015 and 2016.

To ensure consistency with the assessment of EPS targets, when assessing ROCE performance, the base year ROCE (6.1%) will be restated on a constant currency basis. The 2017/18 adjusted operating profit will be restated at the effective foreign exchange rate for 2020/21 and the March 2018 Capital Employed will be restated at closing balance sheet rates as at March 2021.

In order to provide transparency for each LTIP award, the Committee will disclose sufficient information to reconcile performance against the ROCE target range at the beginning and the end of the performance period.

Directors' remuneration report continued

At the beginning of the performance period for awards made in 2018 (1 April 2018), LTIP Road ROCE was 6.1%. This was calculated as follows:

Reported ROCE 2017/18	9.5%
Remove Rail earnings and capital employed balances	(2.9)%
Remove pension balances	(0.5)%
LTIP Road ROCE	6.1%

The Committee believes that this method of calculation results in a ROCE definition that will ensure management are rewarded for improving the effective allocation of capital across the business and then generating a return from this investment.

Details of the ROCE targets for the 2018 LTIP are set out below:

ROCE (Growth from end of 2017/18) ¹	% of award which vests
< 30 basis points	0%
= 30 basis points	4%
≥ 150 basis points	20%

¹ Between threshold (30 bps) and maximum (150 bps), vesting will be on a straight-line basis.

Growth in Road ROCE of 150 bps for maximum vesting is in line with the targets set by the Committee for the 2017 LTIP awards. The performance required to achieve threshold vesting has been increased to 30 bps growth from 10 bps growth in 2017.

Relative TSR ('Total Shareholder Return') – 40% of the award

The relative nature of the metric, with TSR measured against a comparator group of 29 companies, creates an objective measure of long-term value delivery to shareholders and rewards executives for delivering performance which is better than that of competitors.

Relative TSR will be determined over a three-year performance period commencing on 1 April 2018 using a three-month average TSR at the beginning and end of the performance period by reference to the Company's positioning amongst a comparator group of companies.

The Committee believes that relative TSR is a suitable value metric, which takes into account performance of the Company's closest peers.

Details of the TSR targets for the 2018 LTIP are set out below:

TSR Ranking ¹	% of award which vests
Below median	0%
Median	8%
Upper quartile	40%

¹ Between median and the upper quartile of the peer group, vesting will be on a straight-line basis.

The comparator group for the benchmarking of remuneration and the relative TSR metric for awards granted in 2018 is set out below. This comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to the Company. In the event of one or more of the constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that will materially affect the calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

Aggreko	Electrocomponents	IWG	Stagecoach Group
Babcock International Group	Ferguson	Kier Group	Thomas Cook Group
Balfour Beatty	G4S	Mitie Group	Travis Perkins
Bunzl	Galliford Try	National Express	Wizz Air Holdings
Capita	Go-Ahead Group	Rentokil Initial	Wood Group (John)
Carnival	Grafton Group	Serco Group	
DCC	Hays	SIG	
easyJet	Interserve	Smith (DS)	

The comparator group is unchanged from that used in 2017, other than the removal of Carillion and GKN, following their delisting.

An LTIP award of 175% of salary was granted to Matthew Gregory on 5 July 2018. Following his appointment as Chief Executive, a further award was made to Matthew on 14 November 2018. This award was calculated to reflect the period during the year which he was eligible, as Chief Executive, under the Remuneration Policy, to an LTIP award of 200% of salary, taking into account his salary on promotion. Details of both awards are set out below:

Executive Director	Share price at date of grant ¹	Face value (% of base salary)	Number of shares awarded	Face value of award ²	% of award which vests at threshold	Performance period
Matthew Gregory – July 2018	84.08 pence	175%	909,550	£764,750	20%	1.4.18 – 31.3.21
Matthew Gregory – November 2018	82.58 pence	30.3% ³	232,998	£192,410	20%	1.4.18 – 31.3.21

- 1 Awards granted using the average five-day closing mid-market share price at the time of grant
- 2 The total face value of awards made to Matthew Gregory in 2018 is £957,160. This represents an award of 175% of Matthew's salary as CFO, of £437,000 (and therefore excludes the increase in pay agreed when he was appointed Interim COO from 1st June 2018) pro rated for the period from 1 April to 12 November 2018 (circa 62% of the year) plus an award of 200% of his salary as Chief Executive (£635,000) pro rated for the period from 13 November 2018 – 31 March 2019 (circa 38% of the year). In July 2018 Matthew was made an award of 175% of his salary at the time which had a face value of £764,750. The second award made in November 2018 represented the balance between £957,160 and £764,750.
- 3 The face value of the award made in November 2018 represented 30.3% of Matthew's salary at the time of grant of £635,000.

The awards are structured as nil-cost options, which may be exercised for up to 12 months following vesting. The awards are subject to clawback and malus, and a two-year post-vesting holding period.

Recruitment arrangements

On his appointment as Chief Executive on 13 November 2018, the following changes were made to Matthew Gregory's remuneration package:

- salary increased to £635,000
- pension allowance reduced from 20% of salary to 15% of salary
- maximum LTIP opportunity increased from 175% to 200% of salary
- shareholding requirement increased from 150% to 200% of salary

These arrangements are in accordance with our approved Remuneration Policy and provide a heavier weighting towards variable pay than the package for the previous Chief Executive – approximately a 30% reduction in fixed pay.

When setting the revised terms for Matthew, the Committee agreed that his pension allowance should be reduced to 15%, which is in line with the average company contribution to employee pensions in the UK. Matthew's salary will not be reviewed before 1 April 2020.

Matthew's maximum opportunity under the EABP remains at 150% of salary. His bonus for 2018/19 has been calculated based on his average salary during the year. His LTIP award made in June 2018 was calculated based on 175% of his salary as CFO (£437,000). On his appointment as Chief Executive, a further LTIP award was made in November 2018 to reflect the time during the year when Matthew was eligible for a maximum LTIP award of 200% of salary and his new salary of £635,000.

Ryan Mangold was appointed as Chief Financial Officer ('CFO') on 31 May 2019. Although this does not fall into the 2018/19 financial year, in the interests of transparency, details concerning his remuneration arrangements are provided here. This information will also be included in the 2020 Director's remuneration report. The Committee considered it necessary to attract and recruit a high calibre, highly experienced Chief Financial Officer to support the delivery of the strategy, which will require the execution of a complex portfolio rationalisation with discipline and pace. Ryan's recruitment package has been structured to support this objective.

His remuneration package as CFO is as follows:

- base salary of £450,000
- benefits in line with the Remuneration policy, including a company car allowance, private medical cover and life assurance
- a pension allowance of 15% of salary
- an EABP opportunity of 150% of salary
- a normal maximum LTIP opportunity of 175% salary
- a shareholding requirement of 150% of salary

Ryan will receive a 2019 LTIP award of 200% of base salary under the recruitment provisions of the Remuneration Policy. This enhanced award level is intended to create a strong and immediate alignment to delivery of the Company's new strategy, the commencement of which ties in directly with Ryan's appointment. The Committee was also mindful of the fact that there was no need for a buy-out of foregone awards and felt that the relatively modest additional value that this arrangement represents was therefore justified.

Directors' remuneration report continued

He will be eligible for consideration for a 2019/20 EABP on a full year basis (i.e. not subject to time pro-rating). The decision to award a full year bonus takes into account that Ryan will be in post for the great majority of the year (10 months) and also reflects the significant up-front investment of time which Ryan agreed to make ahead of his formal joining date. The Committee felt this initial investment was essential to ensure that Ryan was engaged in the launch and implementation of the new strategy, and as such was very much in the best interests of shareholders.

Payments to past Directors and payments for loss of office (audited)

Tim O'Toole stepped down from the Board on 31 May 2018. To assist with transition, he remained employed by the Group until 30 September 2018 and during this period his salary, pension and benefits continued to be paid as usual. Payment in lieu of Tim's salary and benefits for the unexpired period of his notice were then paid in monthly instalments, subject to mitigation. As at 31 March 2019, a maximum of two further monthly instalments were payable. In addition, the Company paid for Tim's legal advice in relation to his departure.

Amounts paid after Tim stepped down from the Board are set out below.

	Year	Salary £000s	Benefits ¹ £000s	Pension £000s	Payments in lieu of notice £000s	Total £000s
Tim O'Toole	2019	282	12	56	524	874

¹ Benefits include car allowance and medical insurance.

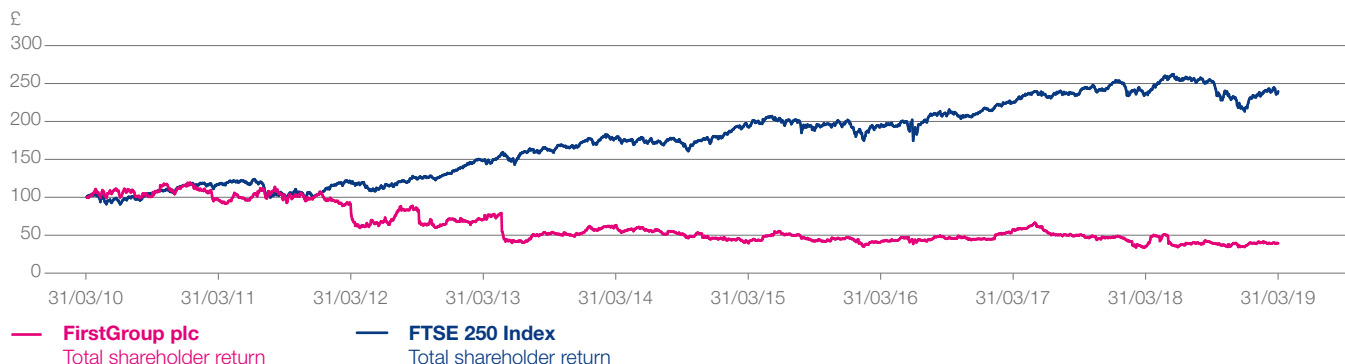
As reported last year, Tim did not receive an annual bonus for 2018 and he was not eligible to participate in the annual bonus plan for 2019.

On leaving employment, Tim's outstanding awards under the LTIP lapsed and no further awards were made in 2018. Tim had 599,482 unvested deferred bonus shares awarded in 2016 and 2017. The Remuneration Committee gave careful consideration to the treatment of these shares and determined that, as they related to past performance, they should vest on their normal vesting dates. The 516,356 shares awarded in 2017, due to vest in 2020, remain conditional on a determination by the Committee following the conclusion of appropriate investigations into the 2016 Croydon tram incident. If the Committee determine that any of these shares will vest, a full explanation will be provided in the 2020 Directors' Remuneration Report.

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past ten years compared to an equivalent investment in the FTSE 250. The FTSE 250 Index has been selected as it provides an established and broad-based index, of which the Company is a constituent.

Total shareholder return



Source: Thomson Reuters Datastream

TSR is measured according to a return index calculated by Datastream on the basis that all the Company's dividends are reinvested in the Company's shares. The return is the percentage increase in the Company's index over the ten-year period.

Remuneration of the Chief Executive

The table below shows the total remuneration figure for the highest paid Executive Director, the Chief Executive, during each of the past ten years. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus percentages show the payout for each year as a percentage of the maximum.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Tim O'Toole)	2019 (Wolfhart Hauser)	2019 (Matthew Gregory)
Total remuneration (£000s)	802	857 ¹	1,055	1,068	1,986	1,647	1,243	1,267	1,100	175 ⁵	266 ⁶	422 ⁷
Annual bonus (% of maximum potential)	—	43.6	— ²	— ²	59.1	57	15.9	— ³	— ⁴	—	n/a	33.4
LTIP vesting (% of maximum potential)	—	—	—	—	—	—	—	16.3	—	—	n/a	12.5

1 £503,000 relates to the remuneration of Sir Moir Lockhead, who resigned as Chief Executive in November 2010. From 1 November 2010 to 31 March 2011, Tim O'Toole received a remuneration of £357,000.

2 Tim O'Toole waived his bonus in 2012 and 2013.

3 A bonus was not paid to Tim O'Toole in 2017 and instead he received a conditional deferred share award.

4 No bonus was paid to Tim O'Toole in 2018.

5 Relates to the remuneration of Tim O'Toole to 31 May 2018. Tim O'Toole was not eligible for an annual bonus or LTIP awards.

6 Relates to the remuneration of Wolfhart Hauser for his period as Executive Chairman, 1 June to 12 November 2018. Wolfhart Hauser was not eligible for an annual bonus or LTIP awards.

7 Relates to the remuneration of Matthew Gregory as Chief Executive from 13 November 2018 to 31 March 2019.

Non-Executive Directors' (NED) and Chairman's fees (audited)

The Chairman's fee of £295,000 has been in place since 1 December 2017. This fee was set to reflect the demands of the role and the time commitment required of the Chairman.

During the period 31 May 2018 to 13 November 2018, Wolfhart Hauser took on the interim role of Executive Chairman, while a new Chief Executive was being recruited. To recognise the additional time commitment associated with this, the Committee agreed a temporary increase in fees of £300,000 p.a. to £595,000 p.a. Wolfhart used a significant portion of this increase in fees (after tax) to purchase FirstGroup plc shares and acquired 56,016 shares during his time as Executive Chairman. By the end of the year he owned 340,574 shares, an increase of 20% over the prior year.

On the appointment of Matthew Gregory as Chief Executive on 13 November 2018, Wolfhart Hauser's role returned to that of Chairman and his annual fee reverted to £295,000.

No changes were made to NED fees in 2018. These remained at £58,000 p.a. with additional fees of £12,000 payable to the Senior Independent Director and the Chairs of the Audit, Board Safety and Remuneration Committees.

Directors' remuneration report continued

The Remuneration Policy approved last year gave the flexibility for Non-Executive Directors to receive an allowance in the event that they are required to undertake intercontinental travel for the purposes of attending Board or Committee meetings or site visits. At this time, the revised policy has not been implemented, therefore no such allowances have been paid to any Directors in 2018/19.

	Fees		Benefits ¹		Totals	
	2019 £000s	2018 £000s	2019 £000s	2018 £000s	2019 £000s	2018 £000s
Non-Executive Director						
Wolfhart Hauser ²	429	285	1	–	430	285
Warwick Brady	58	58	–	–	58	58
Jimmy Groombridge ³	58	49	–	–	58	49
Steve Gunning ⁴	15	–	–	–	15	–
Drummond Hall	70	70	–	–	70	70
Martha Poulter	58	49	3	2	61	51
David Robbie	70	11	–	–	70	11
Imelda Walsh	70	70	–	–	70	70
Jim Winestock	70	70	8	5	78	75

1 The Company meets all reasonable travel, subsistence, accommodation and other expenses, including any tax where such expenses are deemed taxable, incurred by the NEDs and the Chairman in the course of performing their duties.

2 During the period 31 May 2018 to 13 November 2018, Wolfhart Hauser took on the interim role of Executive Chairman, while a new Chief Executive was being recruited. To recognise the additional time commitment associated with this, the Committee agreed a temporary increase in fees of £300,000 p.a. to £595,000 p.a. On the appointment of Matthew Gregory as Chief Executive on 13 November 2018, Wolfhart Hauser's role returned to that of Chairman and his annual fee reverted to £295,000.

3 In addition to his fee as Group Employee Director, Jimmy Groombridge received earnings from the Group as an employee amounting to £21,193 (2017/18: £21,251). As a participant in the BAYE he received 257 Matching Shares during the financial year. Based on the middle market closing price of a share on 29 March 2019 of 90.95 pence, the value of these were £234.

4 Steve Gunning was appointed on 1 January 2019.

Implementation of remuneration policy for 2019/20

Annual base salary

On his appointment as Chief Executive, it was agreed that Matthew Gregory's salary would not be reviewed before 1 April 2020. It therefore remains at £635,000 for 2019.

Ryan Mangold's salary on appointment as Chief Financial Officer will be £450,000 and will likewise not be reviewed before 1 April 2020.

2019/20 Executive Directors' annual bonus

For 2019/20 the EABP will aim to incentivise improved performance against a range of financial and non-financial metrics and will be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics. The financial targets will be set by the Committee based on a number of factors such as the Group's business plan, individual business unit level performance, consensus and expectations for 2019/20. The Committee will set targets which are stretching to ensure payouts only occur for strong performance over the financial year. The targets will be no less demanding than those set for the year 2018/19.

Specific targets will not be disclosed in advance as they would give a clear indication of the Group's business objectives, which are commercially sensitive. Where bonus targets are no longer commercially sensitive, typically following the end of the financial year, they will be disclosed in that year's Directors' remuneration report. Awards will be subject to an underlying performance override, enabling the Committee to scale back payouts to reflect the Group's overall performance, as well as malus and clawback. Half of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

The Committee has already demonstrated in assessing bonus outcomes in previous years, 2015, 2017, 2018 and again in 2019, that it is prepared to set aside the formulaic outcome and reduce awards or introduce a further condition, to ensure that business performance or the impact of a significant event is properly reflected.

The 2019/20 annual bonus maximum and threshold levels of bonus as a percentage of base salary will be as follows:

Executive Director	Maximum	Threshold
Matthew Gregory	150%	0%
Ryan Mangold	150%	0%

2019 Long-Term Incentive Awards

It is the Committee's intention to make awards under the LTIP this year and it is anticipated that the approach to be adopted regarding metrics will be similar to that of the 2018 LTIP, that is, 20% Road ROCE, 40% EPS and 40% relative TSR. The targets for these awards will be published in the 2019/20 Directors' remuneration report.

As explained in the Remuneration Committee Chair's letter, the performance measures relating to the 2019 LTIP awards will be set and evaluated on a pre-IFRS 16 basis. The introduction of the new accounting standard IFRS 16 will have major implications on the reporting of our financial results, the impact of which was not completely known at the time the targets for the 2019 LTIP were set. The Committee took the view that it was important to give clarity to participants at the outset, rather than seeking to subsequently restate the targets at a future date. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis will be included in the Directors' Remuneration Report for the year to 31 March 2022, in the section on LTIP vesting

Ryan Mangold will receive a 2019 LTIP award of 200% of base salary under the recruitment provisions of the Remuneration Policy.

Directors' interests in share awards (audited)

The outstanding LTIP, deferred share bonus and SAYE awards of Directors are set out in the table below. There have been no changes to the terms of any share awards granted to Directors.

			Number of awards held as at 1.4.18	Awards granted	Face value of awards (£) ¹	Awards vested ²	Awards lapsed during the year	Number ³ of awards held as at 31.3.19	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Director	Plan	Date of grant									
Matthew Gregory ⁴	Deferred bonus shares	28.6.16	81,399	–	75,375	–	–	81,399	nil	27.6.19	27.6.26
		16.6.17	162,187	–	227,225	–	–	162,187	nil	16.6.20	15.6.27
		19.6.18	–	86,958	73,219	–	–	86,958	nil	19.6.21	19.6.22
	LTIP	17.12.15	1,222,200	–	1,284,532	–	1,222,200	–	nil	1.4.18	1.4.19
		28.6.16	764,231	–	707,678	–	–	764,231	nil	1.4.19	1.4.20
		24.11.17	730,420	–	764,750	–	–	730,420	nil	1.4.20	1.4.21
		5.7.18	–	909,550	764,750	–	–	909,550	nil	1.4.21	1.4.22
		14.11.18	–	232,998	192,410	–	–	232,998	nil	1.4.21	1.4.22
Group Employee											
Director											
Jimmy Groombridge	SAYE	8.12.15	3,601	–	3,713	–	–	3,601	85	1.2.19	31.7.19
		12.12.16	5,436	–	5,566	–	–	5,436	86	1.2.20	31.7.20
		12.12.17	3,469	–	3,747	–	–	3,469	83	1.2.21	31.7.21
		6.12.18	–	4,114	2,880	–	–	4,114	70	1.2.22	31.7.22

1 The face value of LTIP and deferred bonus in the table above has been calculated by multiplying the maximum number of shares that could vest by the average closing mid-market share price for the five days preceding the grant date. For SAYE options the face value is calculated by multiplying the number of options by the closing share price on the date of grant.

2 LTIP awards vest on the date the Committee determines whether performance conditions have been met, or if on that date dealing restrictions apply, the first date after dealing restrictions cease to apply.

3 The table above shows the maximum number of shares that could be released if awards were to vest in full. In respect of LTIP and Deferred bonus awards, participants are entitled to receive dividends or dividend equivalent amounts once the share awards have vested.

4 Awards made to Matthew Gregory under the EABP and LTIP are subject to clawback and malus provisions, in line with best practice and investors' expectations.

Directors' remuneration report continued

Shareholding guidelines (audited)

Under the terms of the Remuneration Policy approved by shareholders at the 2018 AGM, Executive Directors are expected to build up a specified shareholding in the Company. This is to create greater alignment of the Executive Directors' interests with those of shareholders. The guidelines require Executive Directors to retain at least 75% of the shares, net of tax, vesting under a Group share incentive plan or otherwise acquire shares in the Company within a five-year period from their date of appointment, until a shareholding with a market value (calculated by reference to the year end share price) equal to 200% of base salary in the case of the Chief Executive and 150% of base salary in the case of other Executive Directors is achieved. The Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of an Executive Director.

The table below sets out the shareholdings of the Executive Directors and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2019 in the case of Matthew Gregory, and as at 31 May 2018 in the case of Tim O'Toole.

The table below shows that Matthew Gregory is making progress toward meeting the increased shareholding guideline for his role as Chief Executive, with a current shareholding of 69% of base salary. If the net value of the 95,528 shares due to vest under his 2016 LTIP award in June 2019 are included, this would increase to circa 77% of base salary. The table below uses the closing price of an ordinary share of the Company of 90.95 pence per share on 29 March 2019.

Executive Director	Ordinary shares beneficially owned at 1.4.18	Ordinary shares beneficially owned at 31.3.19 ²	Unvested deferred bonus share awards subject to continued employment ³	Unvested share awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary) ^{4,5}
Matthew Gregory ¹	308,399	308,399	330,544	2,637,199	–	200%	69%
Tim O'Toole	1,253,522	1,265,948	83,126	516,356	–	200%	n/a

1 Matthew Gregory has until 1 December 2020 to meet the shareholding guideline of 150% of base salary (set when he was CFO) and until 13 November 2023 to meet the CEO guideline of 200% of base salary.

2 The figure for Tim O' Toole is as at 31 May 2018, the date he stepped down from the Board.

3 The unvested deferred bonus share award shown for Tim O'Toole is not conditional on continued employment and will vest on 27 June 2019.

4 Based on the middle market closing price of an ordinary share of the Company of 90.95 pence per share on 29 March 2019. The range of the Company's share price for the year was 79.3 pence to 117.5 pence.

5 The percentage of basic salary shown in the table includes vested but unexercised awards and the after tax value of unvested deferred bonus share awards which are subject to continued employment.

Non-Executive Directors' interest in ordinary shares (audited)

The beneficial interests of the Non-Executive Directors who held office at 31 March 2019 and their connected persons in the shares of the Company as at that date and 1 April 2018 are shown below. Shares are held outright with no attaching performance conditions. Jimmy Groombridge holds his shares in the FirstGroup Share Incentive Plan ("SIP") trust.

	Ordinary shares beneficially owned at 1.4.18 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.19
Wolfhart Hauser	284,558	340,574
Warwick Brady	108,701	108,701
Jimmy Groombridge ¹	3,888	7,926
Steve Gunning ²	–	–
Drummond Hall	30,990	50,990
Imelda Walsh	19,429	19,429
Jim Winestock	64,743	64,743
Martha Poulter	60,000	60,000
David Robbie	30,000	60,000

1 Jimmy Groombridge participates in the Company's BAYE scheme. His shares are held in the SIP trust. As explained on page 81, if the Partnership Shares were removed from the SIP trust within three years, the corresponding Matching Shares would be forfeited. Jimmy Groombridge acquired 315 shares between 1 April 2019 and the date of approval of this report.

2 Steve Gunning was appointed to the Board on 1 January 2019.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed 10% of the Company's issued share capital for all share plans and 5% in respect of executive share plans in any ten-year rolling period. The Committee monitors dilution levels at least once a year. At 31 March 2019, less than 1% of the Company's issued share capital had been issued for the purpose of its share incentive plans over a ten-year period.

Employee Benefit Trust (EBT)

The FirstGroup EBT has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise or vesting of awards under the Group's share-based incentive plans. The trustee of the FirstGroup EBT has informed the Company that its intention is to abstain from voting at the Company's AGM in respect of the shares held in the trust, which are unallocated. As at 31 March 2019, 5,120,884 shares were held by the EBT to hedge outstanding awards of 29,938,092. This means that the EBT holds sufficient shares to satisfy 17% of outstanding awards.

Non-Executive Directors' dates of appointment

Non-Executive Directors have an agreement for service for an initial three-year term, which can be terminated by either party giving three months' notice. In line with the Code, all Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at each AGM. The table below sets out the appointment dates for those Non-Executive Directors who served during the year ending 31 March 2019. They will all, except for Drummond Hall, put themselves forward for election or re-election at the 2019 AGM. We have also included below the details of Julia Steyn's appointment.

Non-Executive Director	Date of appointment
Wolfhart Hauser	24 July 2018
Warwick Brady	18 August 2017
Jimmy Groombridge	26 May 2017
Steve Gunning	1 January 2019
Drummond Hall	18 August 2017
Martha Poulter	26 May 2017
David Robbie	2 February 2018
Julia Steyn	2 May 2019
Imelda Walsh	18 August 2017
Jim Winestock	24 July 2018

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, the Director is entitled to retain any fees received, unless the appointment is in connection with the business of the Group.

During the period until he stepped down from the Board on 31 May 2018, Tim O'Toole did not receive any remuneration for serving as an Independent Non-Executive Director of Edison International and Southern California Edison, or as a board member of the US National Safety Council.

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average UK employee (First Bus and First Rail but excluding Group). The figures for 2019 used to calculate the change in remuneration for the Chief Executive relate to the remuneration of Tim O'Toole to 31 May 2018, Wolfhart Hauser for the period 1 June to 12 November 2018 and Matthew Gregory from 13 November 2018 to 31 March 2019. The Committee has chosen UK employees as the comparator as it feels that this provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees and variations in wage practices in the US. However, the Committee will re-assess the comparator in 2019/20 to ensure it remains appropriate. For the benefits and bonus per employee, the figures are based on those employees eligible to participate in such schemes

	Base salary	Benefits	Annual bonus
Chief Executive	(23%) ¹	(73%) ²	— ³
UK employees ⁴	12.2%	24.7%	49.9%

1 The reduction in salary is due to the fee paid to Wolfhart Hauser during his time as Executive Chairman and the salary for Matthew Gregory on appointment as Chief Executive being lower than the salary received by Tim O'Toole during his time as Chief Executive.

2 Wolfhart Hauser received no taxable benefits during his time as Executive Chairman. The value of UK medical insurance provided to Matthew Gregory is lower than that of the US medical insurance provided to Tim O'Toole. As a result total benefits for 2019 were significantly lower than in 2018.

3 No annual bonus was paid to Tim O'Toole in 2018.

4 Pay increases for the majority of UK employees in First Bus and First Rail are collectively bargained with trade unions in individual operating companies in First Bus and First Rail. Some of these agreements are multi-year deals. The double digit increases in base salary, benefits and annual bonus reflect the inclusion of the SWR franchise in the figures for UK employees this year. On a like-for-like basis (i.e. excluding SWR employees) these figures would be 2.3%, 13.7% and 38.3% respectively.

Directors' remuneration report continued

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to adjusted operating profit and distributions to shareholders by way of dividend payments.

	2019 £m	2018 £m	% change
Adjusted operating profit ¹	333	317	5%
Distributions to shareholders	–	–	–
Total employee pay ²	3,355	3,162	6%

1 Group adjusted operating profit has been used as a comparison as it is a key financial metric which the Board considers when assessing Company performance.

2 Total employee pay is the total pay for all Group employees, including pension and social security costs. The average monthly number of employees in 2018/19 was 102,061 (2017/18: 100,046).

Role of the Remuneration Committee

The Committee is primarily responsible for determining the policy for executive director remuneration and setting the remuneration for the Chairman, the Executive Directors and senior management. The Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

The Committee's full terms of reference, which were reviewed and amended this year, are available on the Company's website. These have been updated in light of the new Code. The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures Executive Directors and members of senior management are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contribution towards the success of the Company. Senior managers are defined as the Executive Committee and other employees agreed between the Chair of the Committee, the Chairman and the Chief Executive. The members of the Executive Committee are shown on page 60.
- ensuring that the remuneration policy is appropriate and consistent with effective risk management
- within the agreed framework, setting and determining the total individual remuneration arrangements for Executive Directors and senior managers, giving due regard to individual and Company performance, and remuneration trends across the Group
- approving the design of, and determining the targets for, any performance-related plans and the total annual payments made under such plans to Executive Directors and senior managers
- determining the terms of employment and remuneration of each Executive Director and senior executive, including recruitment and termination arrangements

Membership and meeting attendance

The current members of the Committee, who are all independent Non-Executive Directors, are: Imelda Walsh, Chair; Drummond Hall, the Senior Independent Director, and David Robbie, who chairs the Audit Committee. Imelda Walsh has chaired a number of Remuneration Committees and so meets the requirements of the Code in terms of her experience. Drummond Hall will step down on 31 May 2019 and Julia Steyn will join the Committee upon Drummond's retirement.

Other attendees at the Committee meetings include the Chairman, the Chief Executive, the interim CFO, the Group Employee Director, the Group Corporate Services Director, the Group HR Director, the Group Head of Reward and PwC, the Committee's external adviser. The General Counsel & Company Secretary was secretary to the Committee until September 2018 and continues to attend Committee meetings. Since September 2018, the Deputy Company Secretary has been secretary to the Committee. Attendees are not involved in any decisions and are not present for any discussions regarding their own remuneration.

After each meeting, the Chair of the Committee presents a report on its activities to the Board.

The Committee met on eight occasions during the year with all of its members in attendance.

Committee activities

In line with its remit, amongst other matters, the Committee took the following actions during the year:

- reviewed and approved 2018/19 salaries for the Executive Directors, Executive Committee and other individuals within the Committee's remit
- assessed the level of achievement against objectives under the 2017/18 EABP and 2015 LTIP
- approved the metrics, definitions, weightings and targets for the 2018/19 EABP and 2018 LTIP awards
- approved the remuneration arrangements for Tim O'Toole on his departure from the Company
- approved the remuneration package for Matthew Gregory on his appointment as Chief Executive and the interim remuneration arrangements for Matthew Gregory and Wolfhart Hauser for their periods as COO and Executive Chairman respectively
- approved changes to the LTIP rules to explicitly include corporate failure and reputational damage as malus and clawback triggers
- reviewed and approved the 2018 Directors' remuneration report
- reviewed the 2018 Gender Pay Gap reporting and final figures ahead of publication
- reviewed its terms of reference to bring them in line with the revised UK Corporate Governance Code and associated guidance

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. Over the course of the year, the Committee was supported by PwC, who were appointed by the Committee in 2014. The Chair of the Committee agrees the protocols under which PwC provides advice.

PwC is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

During the year, PwC provided independent advice and commentary on a range of topics including Directors' remuneration reporting, discretionary share plans, corporate governance and executive remuneration trends and shareholder consultation. PwC fees for advice provided to the Committee were £97,050 (2018: £67,950), charged on a time-and-materials basis.

PwC also provided general consultancy services to FirstGroup during the year; however, the Committee is satisfied that this does not compromise the independence and objectivity of the advice it has received from PwC, which has no other connection with the Company.

As set out in the Audit Committee report, the external audit has been put out to tender at the beginning of 2019. The Remuneration Committee has been advised that, should PwC be appointed as auditors, it will be necessary to appoint new remuneration advisers as PwC would withdraw its Remuneration Committee-related services prior to the commencement of its role as auditors

Shareholder votes on remuneration matters

	2018 AGM Annual Remuneration Policy	2018 AGM Annual Report on Remuneration	2017 AGM Annual Report on Remuneration	2016 AGM Annual Report on Remuneration
Votes for	787,510,512 (84.52%)	870,429,586 (96.37%)	902,019,470 (91.32%)	799,235,216 (96.53%)
Votes against	144,272,299 (15.48%)	32,771,050 (3.63%)	85,771,076 (8.68%)	28,761,378 (3.47%)
Total votes cast	931,782,811	903,200,636	987,790,546	827,996,594
Votes withheld*	5,492,503	34,074,629	222,240	118,668,660

* Note: A 'Vote withheld' is not a vote in law and is not counted in the calculation of the votes 'For' and 'Against' a resolution.

Imelda Walsh

Chair, Remuneration Committee

Directors' report and additional disclosures

The Directors present their report on the affairs of the Group, together with the audited financial statements and the report of the auditor for the year ended 31 March 2019. Information required to be disclosed in the Directors' report may be found below and in the following sections of the Annual Report and Accounts, in accordance with the Companies Act 2006 (the '2006 Act') and Listing Rule 9.8.4R of the Financial Conduct Authority (the 'FCA'):

Information	Section	Page
Sustainability governance	Corporate Governance report	59
Greenhouse gas emissions	Key performance indicators	41
Likely future developments in the business	Chief Executive's report	4
Risk factors and principal risks; going concern and viability statements	Principal risks and uncertainties	42
Governance arrangements; human rights and anti-corruption and bribery matters	Our stakeholders	30
Long-term incentive schemes	Directors' remuneration report	76
Financial instruments and related market transactions	Financial statements	103

Directors

The Directors of the Company who served during the year, and those appointed after the end of the financial year, and their biographical details are shown on pages 52 to 54. Tim O'Toole stood down from the Board on 31 May 2018 and Drummond Hall will retire on 31 May 2019. Steve Gunning and Julia Steyn were appointed on 1 January and 2 May respectively and Ryan Mangold was appointed with effect from 31 May 2019.

Details of the Directors' interests in shares can be found in the Directors' remuneration report on pages 92 and 93.

During the year, no Director had any interest in any shares or debentures in the Company's subsidiaries, or any material interest in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles.

Directors' indemnities and liability insurance

FirstGroup maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to each of the Directors as well as the General Counsel & Company Secretary, the Director of Finance, the Group Financial Controller, the Group Treasury & Tax Director, the Chief Information Officer, the Greyhound President and an Officer of FGI Canada to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director (or Officer or Company Secretary as the case may be) of the Company or any of its associated companies. In the case of the Director of Finance, the Group Financial Controller, the Group Treasury & Tax Director, the Chief Information Officer, the Greyhound President and an Officer of FGI Canada the indemnities are limited to their actions as Directors of specific associated companies. Neither the indemnity nor insurance cover provides cover in the event that a Director (or Officer or Company Secretary as the case may be) is proved to have acted fraudulently or dishonestly. The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the 2006 Act and will continue in force for the benefit of Directors (or Officers or Company Secretary as the case may be) on an ongoing basis.

Audit information

The Directors who held office at 30 May 2019 confirm that so far as they are aware, there is no relevant audit information (being information needed by the auditor in connection with preparing their audit report), of which the Company's auditor is unaware, and each of the Directors has taken all the steps that they ought reasonably to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

Share capital

As at 31 March 2019, the Company's issued share capital was 1,213,878,659 ordinary shares of 5 pence, each credited as fully paid. The Company holds 157,229 ordinary shares in treasury, and the issued share capital of the Company which carries voting rights of one vote per share comprises 1,213,721,430 ordinary shares.

Further details of the Company's issued share capital are shown in note 27 to the Company's financial statements.

The Company's shares are listed on the London Stock Exchange.

Substantial shareholdings

As at 31 March 2019, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule ('DGTR') 5 of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares	% of total voting rights
Vidacos Nominees Ltd – HSBC Custody Nominees (Australia) Ltd	71,695,290	5.95
Schroders plc	64,283,712	5.33
Jupiter Asset Management Limited	60,603,024	5.03
West Face Capital, Inc	60,455,000	4.99
Vidacos Nominees Ltd	59,397,756	4.93
Coast Capital Management	49,934,190	4.12

Between 31 March 2019 and the date of this report, Coast Capital Management notified the Company that they had increased their holding to 118,585,445 ordinary shares which represent 9.77% of total voting rights. In addition, Jupiter Asset Management Limited notified the Company that their holding had been reduced to 60,568,279 ordinary shares which represent below 5% of total voting rights. We understand that West Face Capital, Inc has also reduced their holding from what they held at year end but no formal notification has been received.

Articles of Association

The description in this section summarises certain provisions of the Company's Articles and applicable Scottish law concerning companies. This summary is qualified in its entirety by reference to this Company's Articles and the 2006 Act. The Company's Articles may be amended by a special resolution of the Company's shareholders.

Shares

The rights attached to the ordinary shares of the Company are defined in the Company's Articles. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Voting rights

Shareholders are entitled to attend and vote at any general meeting of the Company. It is the Company's practice to hold a poll on every resolution at general meetings. Every member present in person or by proxy has, upon a poll, one vote for every share held. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Directors are not recommending the payment of a final dividend this year.

Transfer of shares

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the Company's Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights at any meeting of the Company.

Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 35 to the consolidated financial statements and on the Annual report on remuneration on page 81.

All of the Company's employee share plans contain provisions relating to change of control. On a change of control, options and awards granted to employees may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at the time.

Employee involvement and policies concerning disabled employees

For how we comply with Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410) in this respect, please see Our people section on page 33.

Purchase of own shares

At the AGM of the Company in 2018 authority was granted for the Company to purchase up to 10% of its ordinary shares. During the year no ordinary shares were purchased. Under the existing authority the Company may purchase up to 121,140,782 ordinary shares. This authority remains in place until the 2019 AGM, when the Company intends to seek a renewal.

Political donations

At the 2018 AGM, shareholders passed a resolution to authorise the Company and its subsidiaries to make political donations to political parties or independent election candidates, to other political organisations, or to incur political expenditure (as such terms are defined in sections 362 to 379 of the 2006 Act), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted at the 2018 AGM will expire, renewal of this authority will be sought at this year's AGM. Further details will be available in the Notice of AGM.

As a result of the broad definition used in the 2006 Act of matters constituting political donations, it is possible that normal business activities, which might not be thought to be political expenditure in the usual sense, could be covered. Accordingly, authority is being sought as a precaution to ensure that the Company's normal business activities do not infringe the 2006 Act, but it is not the policy of the Company to make donations to EU political organisations nor to incur other political expenditure in the EU.

In the US it is far more common for businesses to participate in the political process through a variety of methods. During the year the Group's US businesses incurred political expenditure in the US of \$14,000 (2018/19: \$18,948) in the support of their business goals. The Group has fully complied with jurisdictional reporting of these contributions.

Other than as explained above for our US businesses, no other political donations nor expenditure was incurred by the Company and its subsidiaries during 2018/19.

Change of control – significant agreements

Financing agreements

The Group has a £800m multi-currency revolving credit and guarantee facility between, amongst others, the Company and The Royal Bank of Scotland plc dated 7 November 2018. This refinanced the Group's existing revolving credit and guarantee facility. Following any change of control of the Company, individual lenders may negotiate with the Company with a view to resolving any concerns arising from such change of control. If the matter has not been resolved within 30 days, an individual bank may cancel its commitment and the Company must repay the relevant proportion of any drawdown.

The US\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022 issued by the Company may also be affected by a change of control of the Company. In respect of the £350m 8.750% bonds due 2021, the £200m 6.875% bonds due 2024 and the £325m 5.250% bonds due 2022, upon a change of control of the Company, provided that certain further thresholds in relation to the credit rating of the bonds are met, the bondholders have the option to require the Company to redeem the bonds. In respect of the US\$100m 4.17% notes due 2025, US\$175m 4.29% notes due 2028, upon a change of control, the Company must make an offer to noteholders to prepay the entire unpaid principal amount of the notes held by each bondholder (at par) together with interest accrued thereon.

First Rail

The Group's franchised passenger rail operators, First TransPennine Express Limited, First Greater Western Limited and First MTR South Western Trains Limited (jointly owned with MTR Corporation) are each party to a franchise agreement with the Secretary of State for Transport. These franchise agreements are subject to termination clauses which may apply on a change of control. First MTR South Western Trains Limited, First TransPennine Express Limited and First Greater Western Limited and the Group's non-franchised rail operator, Hull Trains Company Limited, each hold railway licences as required by the Railways Act 1993 (as amended); these licences may be revoked on three months' notice if a change of control occurs without the approval of the Office of Rail and Road. All of these operators also require and hold track access agreements with Network Rail Infrastructure Limited under

which they are permitted to access railway infrastructure. Failure by any of the operators to maintain its railway licence is a potential termination event under the terms of the track access agreements. The Group's railway operators also lease rolling stock from specialist rolling stock leasing companies such as Eversholt Rail Group, Rock Rail Limited, Beacon Rail Limited, Porterbrook Leasing Company Limited and Angel Trains Limited. A material number of the individual leasing agreements include change of control provisions. The Group is also involved from time to time in bidding processes for UK rail franchises and transport contracts further afield which customarily include change in circumstance provisions which would be triggered on a change of control and could result in termination or rejection from further participation in the relevant competitions.

Significant shareholders' agreements

The Group, through First Rail Holdings Limited, has shareholders' agreements governing its relationship with MTR Corporation in relation to the South Western rail franchise and with Trenitalia for the purposes of bidding for (and, if successful, operating) the West Coast Partnership franchise. As is customary, these agreements include provisions addressing change of control.

Post balance sheet events

There have been no material post balance sheet events as at the date of this report.

Branch disclosure

The Group has recently established a branch in France (First Travel Solutions Limited registered on 28 March 2019).

Non-financial reporting statement

The EU Non-Financial Reporting Directive applies to the Group for the first time this year and the tables shown overleaf summarise where you can find further information on each of the key areas of disclosure required.

Further disclosures, including our Group policies and non-financial targets and performance data, can be found on our website. A description of our Business Model is set out on page 12.

Management report

The Strategic and Directors' reports together are the management report for the purposes of the FCA's DGTR 4.1.5R.

The Strategic report was approved on behalf of the Board on 30 May 2019.

Michael Hampson

General Counsel & Company Secretary

30 May 2019

395 King Street, Aberdeen AB24 5RP

Non-financial reporting statement

Reporting requirement	Relevant section of this report
1. Description of our business model	Our strategy and business model – pages 12-13
2. The main trends and factors likely to affect the future development, performance and position of the Group's business	- Our markets – pages 10-11 - Business review – pages 14-24
3. Description of the principal risks and any adverse impacts of business activity	Principal risks and uncertainties – pages 42-50
4. Non-financial key performance indicators	- Gender diversity – page 34 - Punctuality – page 39 - Safety – page 39 - Customer and passenger satisfaction – page 40 - Community investment – page 41 - Greenhouse gas emissions – page 41

Reporting requirement	Policies, processes and standards which govern our approach*	Risk management	Embedding, due diligence, and outcomes of our approach, and additional information
5. Environmental matters	- Environmental Policy - Environmental Management Systems in every division, certified to ISO 14001 standard across UK businesses (with the exception of Hull Trains) - Certified ISO 50001 systems across First Rail	- Political and regulatory risk – page 44 - Competition and emerging technologies risk – page 45 - Compliance, litigation, claims, health and safety – page 47 - Disruption to infrastructure/operations risk – page 48	- Responsible partnerships with our customers and communities – Business review pages 15, 17, 19, 21, 24 - Performing sustainably – page 32 - Greenhouse gas emissions data, trend analysis and assurance – page 41 - Sustainable procurement – page 36 - Reducing the impacts of waste in First Rail – page 36
6. Employees	- HR Policy framework across the Group - Code of Ethics - Gifts and Hospitality Policy - Whistleblowing Policy and Procedure - Health and Safety Policy	- Labour costs, employee relations, recruitment and retention risk – page 48 - Compliance, litigation, claims, health and safety – page 47	- Employee engagement and representation – page 33 - Board level and divisional employee directors – page 33 - Investing in our employees and tackling skill shortages – page 33 - Diversity and inclusion – page 34 - Health and wellbeing – page 34 - Safety – page 37
7. Social and community matters	- Community engagement and community investment frameworks - Code of Ethics - Payroll Giving - Matched Giving Guidelines and Exclusion Policy - LBG impact measurement - Health and Safety Policy	Compliance, litigation, claims, health and safety – page 47	- Responsible partnerships with our customers and communities – Business review pages 15, 17, 19, 21, 24 - Our community engagement strategies – page 35 - Working with charities – page 35 - Our Community Rail Partnerships and local community investment – page 35 - Safety – page 37 - Accessible journeys – page 31 - Government engagement – page 32 - Performing sustainably – page 41
8. Human rights	- Code of Ethics - Supplier Code of Conduct - Code of Conduct on Anti-Slavery and Human Trafficking Prevention - Modern Slavery and Human Trafficking Statement 2018 - Health and Safety Policy	Compliance, litigation, claims, health and safety – page 47	- Engaging ethically – page 30 - Safety – page 37
9. Anti-corruption and anti-bribery	- Anti-Bribery Policy and steering committee - Conflicts of Interest Policy	Compliance, litigation, claims, health and safety – page 47	Engaging ethically – page 30

* Some policies, processes and standards shown here are not published externally

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with applicable UK Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the 2006 Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, and have adopted a control framework across the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each Director confirms to the best of their knowledge that:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic report and Governance section include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy

The Strategic report comprising pages 3 to 50, and the Governance section comprising pages 51 to 102, and including the sections of the Annual Report and Accounts referred to in these pages, have been approved by the Board and signed on its behalf by:

Matthew Gregory
Chief Executive
30 May 2019
395 King Street, Aberdeen AB24 5RP

Connecting people and communities



First Student steps in for vital school link

The William Floyd School District, one of the largest in Long Island, New York, was left without student transportation after a competitor defaulted on the contract just before the start of the school year. The district partnered with First Student as a replacement provider and the team put together a successful short notice start up package, including driver recruitment, to ensure that the vital school bus service was up and running for a safe and successful school year.



New fleets for our train passengers

In the next few years, the majority of First Rail's customers will travel on new trains which we are working hard to introduce. Each of our train operating companies is introducing new trains and refurbishing existing rolling stock. In addition to the long-distance and suburban trains already introduced on GWR, new trains for SWR, TPE and Hull Trains will increase capacity and improve the customer experience.

Financial statements

Financial statements

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Consolidated income statement

For the year ended 31 March

	Notes	2019 £m	2018 £m
Continuing Operations			
Revenue	3,5	7,126.9	6,398.4
Operating costs		(7,117.1)	(6,594.6)
Operating profit/(loss)	5,6	9.8	(196.2)
Investment income	8	2.7	1.3
Finance costs	8	(110.4)	(132.0)
Loss before tax		(97.9)	(326.9)
Tax	9	(10.1)	36.0
Loss for the year		(108.0)	(290.9)
Attributable to:			
Equity holders of the parent		(66.9)	(296.0)
Non-controlling interests		(41.1)	5.1
		(108.0)	(290.9)
Earnings per share			
Basic	10	(5.5)p	(24.6)p
Diluted	10	(5.5)p	(24.6)p
Adjusted results¹			
Adjusted operating profit	4	332.9	317.0
Adjusted profit before tax	4	226.3	197.0
Adjusted EPS	10	14.4p	12.3p
Adjusted diluted EPS	10	14.3p	12.1p

1 Adjusted for certain items as set out in note 4.

The accompanying notes form an integral part of this consolidated income statement.

Consolidated statement of comprehensive income

Year ended 31 March

	Note	2019 £m	2018 £m
Loss for the year		(108.0)	(290.9)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	36	(38.7)	26.6
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes		7.1	(6.2)
Deferred tax on defined benefit pension schemes due to US tax reform		–	(20.4)
		(31.6)	–
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	23.5	45.1
Deferred tax on derivative hedging instrument movements		(4.1)	(9.3)
Deferred tax on derivative hedging instruments due to US tax reform		–	(1.4)
Exchange differences on translation of foreign operations		160.8	(324.9)
		180.2	(290.5)
Other comprehensive income/(loss) for the year		148.6	(290.5)
Total comprehensive income/(loss) for the year		40.6	(581.4)
Attributable to:			
Equity holders of the parent		81.7	(586.5)
Non-controlling interests		(41.1)	5.1
		40.6	(581.4)

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet

As at 31 March

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	11	1,598.1	1,496.8
Other intangible assets	12	75.1	89.8
Property, plant and equipment	13	2,165.9	2,090.1
Deferred tax assets	25	40.6	37.7
Retirement benefit assets	36	69.2	32.5
Derivative financial instruments	24	20.5	25.0
Investments	14	34.1	31.0
		4,003.5	3,802.9
Current assets			
Inventories	16	60.2	56.0
Trade and other receivables	17	1,141.4	888.0
Current tax assets		3.4	2.9
Cash and cash equivalents	20	692.9	555.7
Assets held for sale	18	31.7	0.9
Derivative financial instruments	24	15.5	27.3
		1,945.1	1,530.8
Total assets		5,948.6	5,333.7
Current liabilities			
Trade and other payables	19	1,547.3	1,233.7
Tax liabilities – Current tax liabilities		3.9	3.8
– Other tax and social security		29.0	31.7
Borrowings	21	84.9	351.5
Derivative financial instruments	24	3.4	6.7
Provisions	26	265.9	203.7
		1,934.4	1,831.1
Net current assets/(liabilities)		10.7	(300.3)
Non-current liabilities			
Borrowings	21	1,564.1	1,339.6
Derivative financial instruments	24	1.9	3.0
Retirement benefit liabilities	36	376.4	306.2
Deferred tax liabilities	25	16.5	22.2
Provisions	26	532.0	341.0
		2,490.9	2,012.0
Total liabilities		4,425.3	3,843.1
Net assets		1,523.3	1,490.6
Equity			
Share capital	27	60.7	60.5
Share premium		684.0	681.4
Hedging reserve	28	17.5	16.5
Other reserves	28	4.6	4.6
Own shares	28	(4.7)	(6.3)
Translation reserve	29	544.3	383.5
Retained earnings		248.1	340.6
Equity attributable to equity holders of the parent		1,554.5	1,480.8
Non-controlling interests		(31.2)	9.8
Total equity		1,523.3	1,490.6

The accompanying notes form an integral part of this consolidated balance sheet.

Matthew Gregory
30 May 2019

Consolidated statement of changes in equity

Year ended 31 March

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Own shares £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2017	60.4	678.9	(17.9)	4.6	(1.2)	708.4	621.9	2,055.1	20.8	2,075.9
Loss for the year	—	—	—	—	—	—	(296.0)	(296.0)	5.1	(290.9)
Other comprehensive (loss)/income for the year	—	—	34.4	—	—	(324.9)	—	(290.5)	—	(290.5)
Total comprehensive (loss)/income for the year	—	—	34.4	—	—	(324.9)	(296.0)	(586.5)	5.1	(581.4)
Acquisition of non-controlling interests	—	—	—	—	—	—	13.8	13.8	(13.8)	—
Shares issued	0.1	2.5	—	—	—	—	—	2.6	—	2.6
Dividends paid/other	—	—	—	—	—	—	—	—	(2.3)	(2.3)
Movement in EBT and treasury shares	—	—	—	—	(5.1)	—	(8.0)	(13.1)	—	(13.1)
Share-based payments	—	—	—	—	—	—	8.9	8.9	—	8.9
Balance at 31 March 2018	60.5	681.4	16.5	4.6	(6.3)	383.5	340.6	1,480.8	9.8	1,490.6
Balance at 1 April 2018	60.5	681.4	16.5	4.6	(6.3)	383.5	340.6	1,480.8	9.8	1,490.6
Loss for the year	—	—	—	—	—	—	(66.9)	(66.9)	(41.1)	(108.0)
Other comprehensive income/(loss) for the year	—	—	19.4	—	—	160.8	(31.6)	148.6	—	148.6
Total comprehensive income/(loss) for the year	—	—	19.4	—	—	160.8	(98.5)	81.7	(41.1)	40.6
Shares issued	0.2	2.6	—	—	—	—	—	2.8	—	2.8
Derivative hedging instrument movements transferred to balance sheet (net of tax)	—	—	(18.4)	—	—	—	—	(18.4)	—	(18.4)
Dividends paid/other	—	—	—	—	—	—	—	—	0.1	0.1
Movement in EBT and treasury shares	—	—	—	—	1.6	—	(3.1)	(1.5)	—	(1.5)
Share-based payments	—	—	—	—	—	—	9.1	9.1	—	9.1
Balance at 31 March 2019	60.7	684.0	17.5	4.6	(4.7)	544.3	248.1	1,554.5	(31.2)	1,523.3

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated cash flow statement

Year ended 31 March

	Note	2019 £m	2018 £m
Net cash from operating activities	31	563.7	636.9
Investing activities			
Interest received		2.7	1.3
Proceeds from disposal of property, plant and equipment		63.5	11.4
Purchases of property, plant and equipment		(421.3)	(395.9)
Purchases of software		(8.9)	(26.8)
Acquisition of businesses		(2.3)	(2.9)
Net cash used in investing activities		(366.3)	(412.9)
Financing activities			
Acquisition of non-controlling interest		–	(13.8)
Dividends paid to non-controlling shareholders		–	(1.1)
Shares purchased by Employee Benefit Trust		–	(11.2)
Shares issued		2.1	2.1
Proceeds from senior unsecured loans		–	193.3
Repayment of bond		(250.0)	(300.0)
Repayment of senior unsecured loans		–	(76.5)
Drawdowns from bank facilities		255.0	197.0
Repayment of loan notes		(0.1)	–
Repayments under HP contracts and finance leases		(53.1)	(62.1)
Fees for finance facilities		(2.2)	(1.0)
Net cash flow used in financing activities		(48.3)	(73.3)
Net increase in cash and cash equivalents before foreign exchange movements		149.1	150.7
Cash and cash equivalents at beginning of year		555.7	400.9
Foreign exchange movements		(11.9)	4.1
Cash and cash equivalents at end of year per consolidated balance sheet	20	692.9	555.7

Cash and cash equivalents are included within current assets on the consolidated balance sheet.

Note to the consolidated cash flow statement – reconciliation of net cash flow to movement in net debt

	Note	2019 £m	2018 £m
Net increase in cash and cash equivalents in year		149.1	150.7
Decrease in debt and finance leases		48.2	48.3
Net cash flow		197.3	199.0
Foreign exchange movements		(28.3)	23.2
Other non-cash movements		(2.1)	(2.6)
Movement in net debt in year		166.9	219.6
Net debt at beginning of year		(1,070.3)	(1,289.9)
Net debt at end of year	32	(903.4)	(1,070.3)

Net cash flow is stated prior to cash flows in relation to debt and finance leases.

Net debt excludes all accrued interest.

The accompanying notes form an integral part of this consolidated cash flow statement.

1 General information

FirstGroup plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 395 King Street, Aberdeen, AB24 5RP. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 4 to 50.

These financial statements are presented in pounds Sterling. Foreign operations are included in accordance with the accounting policies set out in note 2.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs adopted and endorsed for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on a going concern basis, as described in the going concern statement within the Strategic report on page 50. The principal accounting policies adopted are set out below.

The financial statements for the year ended 31 March 2019, include the results and financial position of the First Rail business for the year ended 31 March 2019 and the results and financial position of all the other businesses for the 52 weeks ended 30 March 2019. The financial statements for the year ended 31 March 2018, include the results and financial position of the First Rail businesses for the year ended 31 March 2018 and the results and financial position of all the other businesses for the 53 weeks ended 31 March 2018.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has power over an investee entity, exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns.

Non-controlling interests in subsidiaries are identified separately from the Group's equity interest therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value, or at the non-controlling interests' proportionate share of their fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisitions method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, with the exception of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment and non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Goodwill and intangible assets

Goodwill arising on consolidation is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) which are tested for impairment annually, or more frequently where there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated to the goodwill of the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

The existing finite life intangible assets have a residual value of nil and are amortised on a straight-line basis over their useful economic lives as follows:

- Customer contracts – over the estimated life of the contract (9 to 10 years)
- Greyhound brand and trade name – over the estimated life of the brand (20 years)
- Franchise agreements – over the initial term of the franchise (2 to 10 years)
- Software – over the estimated life of the software (3 to 5 years)

Revenue recognition

Revenue principally comprises revenue from train passenger services, road passenger transport, and certain management and maintenance services in the UK and North America. Where appropriate, amounts are shown net of rebates and sales taxes. An explanation of the types of revenue are set out below:

Passenger revenues

Passenger revenues primarily relate to ticket sales through First Bus, First Rail and Greyhound. Passenger revenue is recognised at both a point in time and over time. Ticket sales for journeys of less than one week's duration are recognised on the first date of travel. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided.

Contract revenues

Contract revenues mainly relate to First Student school bus contracts and First Transit contracts in North America. Revenues are recognised as the services are provided over the length of the contract and based on a transactional price which is defined in the terms of the contract.

Charter/private hire

Charter and private hire predominantly relates to charter work in First Student for both school districts with extracurricular activities and third parties with general transportation needs. Revenue is recognised over the period in which the charter/private hire is provided to the customer.

Rail franchise subsidy receipts

Revenue in First Rail includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable are set out in the franchise agreement for each year of the franchise. The franchise agreement includes a minimum specification of passenger services to be provided, which is the key performance obligation. Franchise premium payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Revenue also includes amounts attributable to the Train Operating Companies (TOCs), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts. Revenue is recognised over time as the performance obligations are met.

Other revenues

Other revenues mainly relate to Greyhound Package Express, non-rail subsidies, revenue arising from ancillary services to other rail and road passenger service providers for maintenance, refuelling and other associated services and to sundry third parties for the use of space at terminals and on-board vehicles for other business activities, e.g. retail outlets, taxi ranks, catering and advertising. Other revenues are recognised at both a point in time and over time.

Interest income is recognised on an accruals basis.

2 Significant accounting policies continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and the rental charges are charged against income on a straight-line basis over the life of the lease.

Assets held under hire purchase contracts and finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised within other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised within other comprehensive income.

In order to hedge its exposure to certain foreign exchange risks, the Group holds currency swaps and borrowings in foreign currencies (see note 24 for details of the Group's policies in respect of foreign exchange risks).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the closing exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the average exchange rates used and the period end rate, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used by management in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items are significant, including restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse loss development factors on insurance provisions, onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. In addition, management assess divisional performance before other intangible asset amortisation charges, as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business. See note 4 for the reconciliation to non-GAAP measures and performance.

Subsequent revisions to adjusting items are also recognised as an adjusting item in future periods. In the current year non-GAAP adjusting items principally relate to other intangible asset amortisation charges, onerous contract provision, aged self-insurance claims, significant adverse loss development factors on insurance provisions, restructuring and reorganisation costs, gain on disposal of property and pension settlement losses including GMP equalisation. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges, onerous contract provision, impairment charges, aged self-insurance claims, restructuring and reorganisation costs, bond 'make whole' interest cost and the impact of the US tax reform.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial updates being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the consolidated statement of comprehensive income.

All past service costs are recognised immediately in the consolidated income statement.

Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement, these are recognised as a change in assumptions in other comprehensive income.

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any residual asset resulting from this calculation is limited to refunds economically available to the company, in the form of either a public sector payment or the present value of future service costs recognised via suspension of cash contributions.

Various TOCs in the First Rail business participate in the Railways Pension Scheme (RPS), which is an industry-wide defined benefit scheme. The Group is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Group's obligations to fund the scheme over the franchise term, subject to any changes in the schedule of contributions following a statutory valuation.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and includes an estimate of the tax which could be payable as a result of differing interpretation of tax laws.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised and is based on the estimated tax consequences of items that are subject to differing interpretations of tax laws. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt within other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 Significant accounting policies continued

Property, plant and equipment

Properties for provision of services or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Passenger carrying vehicles and other plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than freehold land, the land element of long leasehold properties or on assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	50 years straight-line
Long leasehold buildings	50 years straight-line
Short leasehold properties	period of lease
Passenger carrying vehicles	7 to 17 years straight-line
Other plant and equipment	3 to 25 years straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Capital grants

Capital grants relating to property, plant and equipment are held in other payables and released to the income statement over the expected useful lives of the assets concerned. Capital grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately except in the case of goodwill, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Where the purchase of inventory was the hedged item in a cash flow hedge relationship, the initial carrying amount of the recognised inventory is adjusted by the associated hedging gain or loss transferred from the hedging reserve (a basis adjustment).

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets can be measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income. The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Financial assets are classified into one of three primary categories:

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Financial assets at amortised cost

Financial assets at amortised costs are non-derivative financial assets held for collection of contractual cashflows where those cashflows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the Income Statement within finance costs. Transaction costs arising on initial recognition are expensed in the Income Statement.

Fair value through other comprehensive income

The Group does not have any financial assets held at fair value through other comprehensive income.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Financial liabilities

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Bonds and loan notes

These are measured either on an amortised cost basis or at fair value, if designated.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not hold or issue derivative financial instruments for trading purposes. The main derivative financial instruments used by the Group are interest rate swaps, fuel swaps, and cross currency interest rate swaps. Such instruments are initially recognised at fair value and subsequently remeasured to fair value at the reported balance sheet date. The fair values are calculated by reference to market exchange rates, interest rates and fuel prices at the period end, and supported by counterparty confirmations. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument.

Fair value hedging: The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Cash flow hedging: The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non financial item such as inventory, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included as a basis adjustment in the initial measurement of the cost of that item. This transfer does not affect other comprehensive income, however the hedging gains and losses that will subsequently be transferred as basis adjustments are categorised as amounts that may be reclassified subsequently to profit or loss, as such a reclassification may occur in the event that the hedged transaction is no longer expected to occur. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Net investment hedging: Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in the foreign currency translation reserve are included in the Group income statement on the disposal or partial disposal of the foreign operation.

2 Significant accounting policies continued

Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the amortisation of debt issuance fees in respect of the accounting period and reduced by repayments made in the period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Self-insurance

The Group's policy is to self-insure high frequency, low value claims within the businesses. In addition there are typically a smaller number of major claims during a financial year for which cover is obtained through third-party insurance policies subject to an insurance deductible. Provision is made under IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the estimated cost of settling uninsured claims for incidents occurring prior to the balance sheet date. The provision is discounted to appropriately reflect the timing of future cash claims settlements.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is adjusted for the effects of non-market-based vesting conditions.

Fair value is measured by use of a Black-Scholes or other appropriate valuation models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the changes arising from new standards and amendments to existing Standards which have been adopted in the current year.

IFRS 9 and IFRS 15 came into effect on 1 January 2018 and have been applied by the Group for the first time in the current year. The nature and effect of the changes from adopting these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in the current year, but their adoption has not had any significant impact on the amounts reported in these financial statements.

IFRS 9 Financial Instruments

This standard replaces IAS 39 with effect from accounting periods commencing 1 January 2018. The new standard covers three distinct areas: the classification and measurement of financial assets and liabilities; the impairment of financial assets; and new hedging requirements designed to give increased flexibility in relation to hedge effectiveness.

There are no changes in classification and measurement for the Group's financial assets or financial liabilities. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The new general hedge accounting requirements retain the three types of hedge accounting which were available under IAS 39: fair value hedges, cash flow hedges and net investment hedges. However, the effectiveness testing requirements have been simplified. The Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application of 1 April 2018. All existing hedging relationships are eligible, and continued to be effective, under IFRS 9. Further details on the application of IFRS 9 in relation to financial instruments can be found in note 24.

IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. The simplified approach has been applied to trade receivables to determine expected credit losses. The transitional increase/decrease in the impairment allowance as a result of this change in accounting policy is immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduced a new revenue recognition model that recognises revenue either at a point in time or over time. It is based on the principle that revenue is recognised when control of a good or service transfers to the customer and is based on the fulfilment of performance obligations.

The adoption of IFRS 15 has not had a material impact on Group revenue recognition, and there have been no adjustments required to opening retained earnings.

As the Group has the right to consideration corresponding directly with the value of performance completed to date, customer contract revenue is recognised consistent with the amount that the Group has a right to invoice. The Group is therefore exercising the practical expedient not to explain transaction prices allocated to unsatisfied performance obligations at the end of the reporting period.

The Group has applied the new rules prospectively from 1 April 2018, having performed a detailed assessment of the effects of applying the new standard. Note 5 sets out a numerical disaggregation of revenue in accordance with the disclosure requirements of the new standard. An explanation of the types of revenue included in the note is set out in Revenue Recognition on page 110.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 with effect from accounting periods commencing 1 January 2019. The new standard eliminates the operating lease classification and therefore on the balance sheet the lessees will be required to recognise an asset (the right to use the leased item) and lease liabilities for all leases unless they have a remaining term of less than twelve months or are of low value. On the income statement, the operating lease expense will be replaced by a combination of depreciation and interest.

The Group has performed a detailed impact assessment of IFRS 16. This assessment focused on the Group's existing lease portfolio, as well as considering wider contractual arrangements to determine if they constituted a lease under the definitions of the new standard.

As at 31 March 2019, the Group holds a significant number of operating leases that are expensed over the lease term. Management are finalising the assessment of the potential impact of this standard on the financial statements for the year ending 31 March 2020, and it is anticipated that the transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet.

As at the reporting date, the Group has non-cancellable operating lease commitments of £3.0bn. However, of these commitments, £1.0bn relates to track, station and depot access charges within the First Rail business which does not meet the definition of a lease under IFRS 16. This reflects the fact that either no identified asset exists or that the Group does not have the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use, or that Network Rail, not the Group, directs how and for what purpose the assets are used. Furthermore, the Group has entered into a number of leases where the commencement date falls after 1 April 2019. As such, lease commitments of £0.5bn have not been included in the IFRS 16 lease liability. Some leases include components which do not meet the definition of a lease under IFRS 16 as they relate to the ongoing maintenance of assets. As a result lease commitments of £0.2bn have not been included in the IFRS 16 lease liability.

In addition, approximately £12m of commitments relate to low value leases and £30m of commitments relate to leases where the lease term ends within 12 months from the date of initial application which the Group will elect to exempt and continue to expense through the income statement.

Based on the assessment performed to date, we anticipate that for the remaining lease commitments, discounted to present value, as at 1 April 2019 the Group expects to recognise right-of-use assets and lease liabilities of approximately £1.1bn, comprising approximately £0.8bn for First Rail and around £0.3bn for the Road divisions.

Our review of other contractual arrangements across the Group is substantially complete, and no further arrangements have been identified that meet the definition of a lease under IFRS 16.

IFRS 16 will be adopted on 1 April 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

The following amended standards and interpretations are not expected to have a significant impact on the Group's Consolidated Financial Statements:

IFRIC 23 uncertainty over tax treatments

Amendments to IFRS 9 – Prepayment features with negative compensation

Amendments to IAS 28 – Long-term interests in associates and joint ventures

Amendments to IAS 19 – Plan amendment, curtailment or settlement

Amendments to references to conceptual framework in IFRS standards

IFRS 17 insurance contracts

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No areas of critical accounting judgements or key sources of estimation uncertainty have been identified in relation to Brexit.

2 Significant accounting policies continued

i) Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Defined benefit pension arrangements

The Group currently sponsors five sections of the Railways Pension Scheme (RPS), relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator. RPS is a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The Group only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Group is responsible for the funding of these sections whilst it operates the relevant franchise.

At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date a franchise adjustment is recognised against the IAS 19 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

The Directors view this arrangement as analogous to the circumstances described in paragraphs 92-94 of IAS19 (Revised) with a third party taking on the obligation for future contributions. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the Income Statement, whilst changes in actuarial assumptions continue to be recognised through Other Comprehensive Income.

The Directors consider this to be the most appropriate interpretation of IAS19 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise. An alternative approach would involve not limiting the measurement of the service cost through the recognition of an income statement franchise adjustment, but recognising all changes in the franchise adjustment as a reimbursement right in OCI. For the year ended 31 March 2019 the impact of this alternative approach would be an increase in costs of £49.6m (2018: £39.0m) in the income statement and a credit to OCI of £65.9m (2018: £45.4m). In addition, the balance sheet would reflect a surplus of £48.7m (2018: £32.4m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, in the Directors' view contributions are shared with the next franchisee and therefore the treatment of the arrangement as contribution-sharing is considered the most appropriate.

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions following completion of their funding valuations, and more frequently only if appropriate to do so.

The Pension Regulator (TPR) has been in discussions with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. Whilst TPR believes that a higher level funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

The carrying amount of the Group's retirement benefit obligations at 31 March 2019 was a liability of £307.2m (2018: £273.7m). Further details and sensitivities are set out in note 36.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Impairment of assets in Greyhound CGU

Determining whether assets are impaired in Greyhound requires an estimation of the value in use based on future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. At the year end the value in use of Greyhound exceeded the carrying value of £295.4m by £85.2m. The Greyhound margin would need to fall by 0.8% or more or growth rates would need to fall below 1.5% for there to be an impairment on this CGU. An increase in the discount rate of 134 basis points or more would lead to the value in use of the CGU being less than the carrying value. A reduction in the margin of 1.0% in all years, including the terminal margin, would result in an impairment charge of approximately £32.5m. A reduction in the growth rate of 2.0% in all years, including the terminal growth rate, would result in an impairment charge of approximately £35.2m.

The Group prepares cash flow forecasts derived from the most recent budget for 2019/20 and Three Year Plan projections up to 2021/22 which take account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.8% (2018: 2.8%) for North America which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate of 8.3% (2018: 8.2%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Contract and franchise accounting

Estimates are made on an ongoing basis with regards to the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts. Regular forecasts are compiled on the outcome of these types of franchises and contracts, which require assessments and estimates relating to the expected levels of profitability and, in cases where options exist, the life of the contract or franchise.

The useful economic lives of assets are determined by reference to the length of a franchise and matched to the franchise end date. The residual value of assets is determined by their condition at the franchise end date and by the amount of maintenance that has been carried out during the period of operation.

In particular, First Rail has a number of contractual relationships including those with the DfT and Network Rail which given their complexity and duration can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time. Due to the complex nature of these matters there is a significant risk that a material change could be required to the carrying value of receivables and payables in respect of these items in the next financial year.

Onerous contracts

The Group has a number of contractual commitments most notably in respect of its rail franchises and First Student and First Transit businesses. IAS 37 requires a provision to be made for an onerous contract where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. In order to determine the amount of any contract provision it is necessary to forecast future financial performance and then apply an appropriate discount rate to determine a net present value. The estimation of both the forecasts and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed in the forecasts and there can be no absolute assurance that the assumptions used will hold true.

The TPE onerous contract provision is sensitive to a change in the assumptions used most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger revenue growth rate assumption would increase or decrease the onerous contract provision required by approximately £24m. The maximum unavoidable loss under the Franchise Agreement is £193.8m.

The SWR onerous contract provision is sensitive to a change in the assumptions used most notably to passenger revenue growth and amounts recoverable for strike amelioration. The onerous contract provision of £145.9m is the maximum unavoidable loss under the Franchise Agreement. These factors make it impractical to provide sensitivity analysis on one single measure and its impact on the onerous contract provision.

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided (including IBNR) is adjusted as required. Given the diversity of claim types, their size, the range of possible outcomes and the time involved in settling these claims, there is a significant risk that a material change could be required to the carrying value of claims provisions in the next financial year. These factors also make it impractical to provide sensitivity analysis on one single measure and its potential impact on overall insurance provisions. The Group's total self-insurance provisions as at the balance sheet date were £471.8m (2018: £368.8m) as set out in note 26. Of this £408.9m relates to North America where the actuarial range is £342.9m to £438.8m (2018: £313.6m and actuarial range £271.4m to £347.1m).

Uncertain tax positions

Uncertainties exist in relation to differing interpretations of complex tax law in the jurisdictions in which the Group operates. It may take several years to determine the final tax consequences of certain transactions in some jurisdictions. The tax liabilities and assets recognised by the Group are based on estimates made by management on the application of tax laws and management's estimate of the future amounts that will be agreed with tax authorities. Further details on the tax on profit on ordinary activities are set out in note 9.

There is a risk that the amounts eventually agreed with tax authorities may differ from the amounts recognised by the Group and would lead to future adjustments to tax assets and liabilities currently recognised, impacting future tax charges.

3 Revenue

	2019 £m	2018 £m
Services rendered	6,933.1	6,398.4
First Rail franchise subsidy receipts	193.8	–
Revenue	7,126.9	6,398.4

Disaggregated revenue by operating segment is set out in note 5.

4 Reconciliation to non-GAAP measures and performance

In measuring the Group and divisional adjusted operating performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year-on-year comparisons. The Group's adjusted performance is used to explain year-on-year changes when the effect of certain items are significant, including restructuring and reorganisation costs, material property gains or losses, aged legal and self-insurance claims, significant adverse development factors on insurance provisions, onerous contract provisions, impairment charges and pension settlement gains or losses including GMP equalisation. In addition, management assess divisional performance before other intangible asset amortisation charges as these are typically a result of Group decisions and therefore the divisions have little or no control over these charges. Management consider that this overall basis more appropriately reflects operating performance and provides a better understanding of the key performance indicators of the business.

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Reconciliation of operating profit/(loss) to adjusted operating profit		
Operating profit/(loss)	9.8	(196.2)
Adjustments for:		
Other intangible asset amortisation charges	29.9	70.9
Restructuring and reorganisation costs	24.1	26.0
North America insurance provisions	94.8	32.7
SWR onerous contract provision	145.9	–
Gain on disposal of property	(9.3)	–
Guaranteed minimum pensions charge	21.5	–
Loss on disposal/impairment charges	16.2	–
Greyhound impairment charges	–	277.3
TPE onerous contract provision	–	106.3
Total operating profit adjustments	323.1	513.2
Adjusted operating profit (note 5)	332.9	317.0

	31 March Year to 2019 £m	31 March Year to 2018 £m
Reconciliation of loss before tax to adjusted profit before tax and adjusted earnings		
Loss before tax	(97.9)	(326.9)
Operating profit adjustments (see table above)	323.1	513.2
Notional interest on TPE onerous contract provision	1.1	–
Bond 'make whole' interest cost	–	10.7
Adjusted profit before tax	226.3	197.0
Adjusted tax charge (see below)	(50.9)	(44.2)
Adjusted non-controlling interests ¹	(1.8)	(5.1)
Adjusted earnings	173.6	147.7

¹ Statutory non-controlling interests of £41.1m credit comprise a £1.8m charge in respect of the results for the year and a £42.9m credit on the SWR onerous contract provision.

	Year to 31 March 2019 £m	31 March Year to 2018 £m
Reconciliation of tax charge/(credit) to adjusted tax charge		
Tax charge/(credit) (note 9)	10.1	(36.0)
Tax effect of adjusting items (note 10)	40.8	55.6
Tax effect of US tax reform (note 9)	–	24.6
Adjusted tax charge	50.9	44.2

The adjusting items are as follows:

Other intangible asset amortisation charges

The amortisation charge for the year was £29.9m (2018: £70.9m) with the reduction due to a number of customer contract intangibles which have now been fully amortised.

Notes to the consolidated financial statements

continued

4 Reconciliation to non-GAAP measures and performance continued

Restructuring and reorganisation costs

During the year there was a charge of £24.1m for restructuring and reorganisation costs principally relating to Greyhound's accelerated withdrawal of services in Western Canada, net of a £8.8m gain on disposal relating to the initial property disposals completed in the region.

The £26.0m charge in 2018 was for the impairment of assets and reorganisation costs relating to the business turnarounds in First Bus (£20.6m) and costs related to contract losses and impairment of assets in First Transit (£5.4m).

North America insurance provisions

The legal climate in North America, particularly in the US, continues to deliver judgements which are unpredictable, increasingly in favour of plaintiffs and punitive in certain regions. This is a complex and judgemental area, and we have based our reserve on the levels recommended by our actuarial advisors.

Following adverse settlements and developments on a number of aged insurance and incurred but not received claims, and against a backdrop of a hardening of the wider motor claims environment and market, this has led to increasing specific case reserves and deterioration in long term development factors.

Once this trend was identified, we initiated an independent actuarial review of the expected risk position, including the claims handler's reserve position. This also confirmed a deterioration in the claims environment and market and therefore an increase in the expected level of settlements and loss factors. This revised position has resulted in a requirement to increase the provision, in respect of claims from prior years, to reflect the costs of meeting existing claims in the current environment.

This change in accounting estimate has resulted in the Group recording an adjusting charge of £94.8m (\$125.0m), to increase the self-insurance provisions to a position approximately at the mid-point of the increased actuarial assessments undertaken. The charge relates to First Student £47.3m (\$62.3m), First Transit £26.2m (\$34.5m) and Greyhound £21.3m (\$28.2m).

The charge to the income statement for the current financial year reflects this revised environment. For the 2019/20 financial year, the self-insurance charge is expected to increase in line with the level of revenue growth in the business, plus inflation.

The Group has a strong focus on safety and it is one of our five values, and risk mitigation in this area will continue to be an area of focus for the Group. It is expected that the majority of these claims will be settled within the next five years.

SWR onerous contract provision

Management have prepared updated financial forecasts for the SWR franchise until the initial franchise end date of 17 August 2024, which are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue protection mechanisms, as well as the impact of changes in timetables, capacity, aging infrastructure and rolling stock.

There is considerable uncertainty about the level of passenger revenue growth and future impact of the industrial action in addition to uncertainty as to the level of strike amelioration recoverable from the DfT, and we remain in negotiations with them.

Progress has been made and we continue to be engaged in discussions with the DfT to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Based on these forecasts the Group has concluded that it has an onerous contract, the value of which is estimated to be £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement. Accordingly, this amount has been charged to the income statement. FirstGroup's 70% share is therefore £102.1m.

Gain on disposal of property

During the year the sale of a Greyhound facility in Chicago was completed which resulted in a gain on sale of £9.3m (2018: £nil).

Guaranteed minimum pensions charge

A high court judgement in 2018 ruled that guaranteed minimum pensions should be equalised between male and female members. As a result of this there is an increase in liabilities for the First Bus and Group pension schemes.

Loss on disposal/impairment charges

During the year the FirstBus Queens Road depot and operations were agreed to be sold to Go-Ahead. This disposal along with asset impairments on the remaining Manchester depots to bring these to their likely recoverable amounts resulted in an overall charge of £16.2m.

Notional interest on TPE onerous contract provision

There was a charge of £1.1m (2018: £nil) in the year for notional interest on the unwinding of the TPE onerous contract provision.

4 Reconciliation to non-GAAP measures and performance continued

	Year to 31 March 2019			Year to 31 March 2018				% change
	Reported £m	SWR franchise £m	SWR Adjusted £m	Reported £m	Impact of 53rd Week £m	Effect of foreign exchange £m	Adjusted Constant Currency £m	
Reconciliation of underlying ¹ adjusted ²								
Revenue	7,126.9	(425.1)	6,701.8	6,398.4	(80.5)	24.8	6,342.7	+5.7%
Operating profit	332.9	8.9	341.8	317.0	(10.7)	3.1	309.4	+10.5%

	Year to 31 March 2018				
	Year to 31 March 2019 £m	Reported £m	Effect of foreign exchange £m	Constant Currency £m	% change
Reconciliation of constant currency ³					
Revenue	7,126.9	6,398.4	24.8	6,423.2	+11.0%
Operating profit	332.9	317.0	3.1	320.1	+4.0%
Adjusted profit before tax	226.3	197.0	3.1	200.1	+13.1%
Adjusted EPS	14.4p	12.3p	0.2p	12.5p	+15.2%
Net debt	903.4	1,070.3	20.9	1,091.2	(17.2%)

1 Growth excluding SWR franchise (which became part of First Rail in August 2017) and the 53rd week in the Road divisions in constant currency.

2 'Adjusted' figures throughout this document are before self-insurance reserve charge, the SWR onerous contract provision, restructuring and reorganisation costs, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

3 Changes 'in constant currency' throughout this document are based on retranslating 2018 foreign currency amounts at 2019 rates.

Notes to the consolidated financial statements

continued

5 Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, First Bus and First Rail. These divisions are managed separately in line with the differing services that they provide and the geographical markets which they operate in. The principal activities of these divisions are described in the Strategic report.

The segment results for the year to 31 March 2019 are as follows:

	First Student £m	First Transit £m	Greyhound ¹ £m	First Bus £m	First Rail £m	Group items ² £m	Total £m
Passenger revenue	–	–	571.3	796.3	2,300.0	–	3,667.6
Contract revenue	1,680.0	947.7	–	68.3	–	17.1	2,713.1
Charter/private hire	153.2	4.9	3.3	–	–	–	161.4
Rail franchise subsidy receipts	–	–	–	–	193.8	–	193.8
Other	12.7	123.2	70.5	11.5	172.9	0.2	391.0
Revenue	1,845.9	1,075.8	645.1	876.1	2,666.7	17.3	7,126.9
EBITDA³	352.3	71.4	38.6	119.7	127.4	(39.1)	670.3
Depreciation	(178.8)	(19.9)	(27.7)	(56.1)	(81.0)	(2.5)	(366.0)
Capital grant amortisation	–	–	0.5	2.2	25.9	–	28.6
Segment results	173.5	51.5	11.4	65.8	72.3	(41.6)	332.9
Other intangible asset amortisation charges	(10.9)	(2.2)	(12.0)	(0.7)	(3.5)	(0.6)	(29.9)
Other adjustments (note 4)	(47.3)	(26.2)	(33.2)	(37.7)	(145.9)	(2.9)	(293.2)
Operating profit/(loss)⁴	115.3	23.1	(33.8)	27.4	(77.1)	(45.1)	9.8
Investment income							2.7
Finance costs							(110.4)
Loss before tax							(97.9)
Tax							(10.1)
Loss after tax							(108.0)
	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ² £m	Total £m
Other information							
Capital additions	257.8	27.3	28.0	17.9	112.0	1.0	444.0

	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
Balance sheet⁵			
First Student	2,837.7	(461.5)	2,376.2
First Transit	596.8	(192.7)	404.1
Greyhound	337.1	(319.3)	17.8
First Bus	678.0	(354.6)	323.4
First Rail	625.4	(1,331.4)	(706.0)
	5,075.0	(2,659.5)	2,415.5
Group items ²	136.7	(120.1)	16.6
Net debt	692.9	(1,596.3)	(903.4)
Taxation	44.0	(49.4)	(5.4)
Total	5,948.6	(4,425.3)	1,523.3

1 Greyhound segment results contains £8.4m of property gains on the disposal of four properties.

2 Group items comprise Tram operations, central management and other items.

3 EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

4 Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

5 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

5 Business segments and geographical information continued

The segment results for the year to 31 March 2018 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items ¹ £m	Total £m
Passenger revenue	–	–	597.2	795.5	1,825.0	–	3,217.7
Contract revenue	1,604.0	943.7	–	67.3	–	16.2	2,631.2
Charter/private hire	154.6	4.5	5.4	3.2	–	–	167.7
Other	12.5	124.5	87.6	13.4	143.8	–	381.8
Revenue	1,771.1	1,072.7	690.2	879.4	1,968.8	16.2	6,398.4
EBITDA²	335.2	79.8	58.8	116.3	129.4	(28.9)	690.6
Depreciation	(178.7)	(21.6)	(33.3)	(66.1)	(87.6)	(2.3)	(389.6)
Capital grant amortisation	–	–	–	–	16.0	–	16.0
Segment results	156.5	58.2	25.5	50.2	57.8	(31.2)	317.0
Other intangible asset amortisation charges	(54.7)	(2.8)	(11.0)	(0.2)	(2.1)	(0.1)	(70.9)
Other adjustments (note 4)	(13.4)	(21.1)	(280.8)	(20.7)	(106.3)	–	(442.3)
Operating (loss)/profit³	88.4	34.3	(266.3)	29.3	(50.6)	(31.3)	(196.2)
Investment income							1.3
Finance costs							(132.0)
Loss before tax							(326.9)
Tax							36.0
Loss after tax							(290.9)
Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items¹ £m	Total £m
Capital additions	205.1	28.5	44.4	20.9	129.6	5.0	433.5
Balance sheet⁴					Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student					2,544.1	(376.2)	2,167.9
First Transit					539.4	(140.1)	399.3
Greyhound					365.9	(328.1)	37.8
First Bus					717.0	(296.8)	420.2
First Rail					454.8	(909.0)	(454.2)
					4,621.2	(2,050.2)	2,571.0
Group items ¹					116.2	(109.2)	7.0
Net debt					555.7	(1,626.0)	(1,070.3)
Taxation					40.6	(57.7)	(17.1)
Total					5,333.7	(3,843.1)	1,490.6

1 Group items comprise Tram operations, central management and other items.

2 EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

3 Although the segment results are used by management to measure performance, statutory operating (loss)/profit by operating division is also disclosed for completeness.

4 Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.

Notes to the consolidated financial statements

continued

5 Business segments and geographical information continued

Geographical information

The Group's operations are located predominantly in the United Kingdom, United States of America and Canada. The following table provides an analysis of the Group's revenue by geographical market:

Revenue	2019 £m	2018 £m
United Kingdom	3,560.1	2,864.4
United States of America	3,226.4	3,130.1
Canada	340.4	403.9
	7,126.9	6,398.4

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
United Kingdom	741.1	795.3	130.9	155.5	2,113.1	1,821.7
United States of America	2,813.1	2,620.6	262.3	256.8	3,410.2	3,124.2
Canada	319.0	291.8	50.8	21.2	381.3	347.2
Unallocated corporate items	–	–	–	–	44.0	40.6
	3,873.2	3,707.7	444.0	433.5	5,948.6	5,333.7

6 Operating profit/(loss)

Operating profit/(loss) has been arrived at after charging/(crediting):

	2019 £m	2018 £m
Depreciation of property, plant and equipment (note 13)	366.0	389.6
Operating lease charges (note 34)	971.9	522.6
Other intangible asset amortisation charges (note 12)	29.9	70.9
Capital grant amortisation	(28.6)	(16.0)
Cost of inventories recognised as an expense	575.0	575.1
Employee costs (note 7)	3,355.2	3,162.5
(Profit)/loss on disposal of property, plant and equipment	(23.5)	8.3
Impairment charges	13.0	284.8
SWR onerous contract provision	145.9	–
TPE onerous contract provision	(0.5)	106.3
North America insurance provisions (note 4)	94.8	32.7
Auditor's remuneration (see below)	2.9	2.3
Rail franchise payments	293.3	226.9
Other operating costs ¹	1,321.8	1,228.6
	7,117.1	6,594.6

¹ Includes £63.6m (2018: £63.5m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

6 Operating profit/(loss) continued

Amounts payable to Deloitte LLP and its associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2019 £m	2018 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	2.5	2.0
Total audit fees	2.6	2.1
Audit-related assurance services	0.3	0.2
Total non-audit fees	0.3	0.2

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Corporate governance report on pages 70 to 72. No services were provided pursuant to contingent fee arrangements.

Non-audit services principally reflect the review of the half yearly financial information, non-statutory audits and agreed upon assurance procedures.

7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2019 Number	2018 Number
Operational	96,182	94,225
Administration	5,879	5,821
	102,061	100,046

The aggregate remuneration (including Executive Directors) comprised:

	2019 £m	2018 £m
Wages and salaries	2,935.6	2,768.2
Social security costs	323.1	306.8
Pension costs (note 36)	96.5	87.5
	3,355.2	3,162.5

Wages and salaries include a charge in respect of share-based payments of £9.1m (2018: £8.9m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority are contained in the tables/notes within the Directors' remuneration report on pages 76 to 97. Directors' emoluments in aggregate were £2.0m (2018: £2.5m).

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8 Investment income and finance costs

	2019 £m	2018 £m
Investment income		
Bank interest receivable	(2.7)	(1.3)
Finance costs		
Bonds	59.9	84.3
Bank borrowings	14.0	8.8
Senior unsecured loan notes	8.9	1.3
Loan notes	1.1	1.1
Finance charges payable in respect of HP contracts and finance leases	2.7	4.6
Notional interest on long term provisions	14.6	11.0
Notional interest on pensions	8.1	10.2
Finance costs before adjustments	109.3	121.3
Notional interest on TPE onerous contract provision	1.1	–
Bond 'make whole' cost ¹	–	10.7
Total finance costs	110.4	132.0
Finance costs before adjustments	109.3	121.3
Investment income	(2.7)	(1.3)
Net finance cost before adjustments	106.6	120.0

1 The early redemption of the £300m bond in March last year resulted in a one-off £10.7m 'make whole' interest charge.

Finance costs are stated after charging fee expenses of £2.1m (2018: £2.7m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2019 or 31 March 2018.

9 Tax on loss on ordinary activities

	2019 £m	2018 £m
Current tax	8.1	8.9
Adjustments with respect to prior years	0.1	–
Total current tax charge	8.2	8.9
Origination and reversal of temporary differences	4.8	(14.1)
Adjustments with respect to prior years	(2.9)	(6.2)
Adjustments attributable to changes in tax rates and laws	–	(24.6)
Total deferred tax charge/(credit) (note 25)	1.9	(44.9)
Total tax charge/(credit)	10.1	(36.0)

The adjustments with respect to prior years includes the release of tax provisions.

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9 Tax on loss on ordinary activities continued

As the Group's parent company is domiciled and listed in the UK the Group uses the UK corporation tax rate to reconcile its effective tax rate. The tax charge/(credit) for the year can be reconciled to the UK corporation tax rate as follows:

	2019 £m	2019 %	2018 £m	2018 %
Loss before tax	(97.9)	100.0	(326.9)	100.0
Tax at the UK corporation tax rate of 19% (2018: 19%)	(18.6)	19.0	(62.1)	19.0
Non deductible expenditure	1.7	(1.7)	2.3	(0.7)
Non taxable income	(1.4)	1.4	–	–
Tax rates outside of the UK	(0.5)	0.5	2.5	(0.8)
Unrecognised losses	8.1	(8.3)	3.2	(1.0)
Reduction in tax provisions for uncertain tax positions relating to prior years	(2.5)	2.6	(3.2)	1.0
Other adjustments in relation to prior years	(0.3)	0.3	(3.0)	0.9
Unrecognised losses on SWR onerous contract provision	24.3	(24.8)	–	–
Goodwill impairment	–	–	49.5	(15.1)
Reduced deferred tax rates on current year temporary differences	(0.7)	0.7	(0.6)	0.2
US tax reform	–	–	(24.6)	7.5
Tax charge/(credit) and effective tax rate for the year	10.1	(10.3)	(36.0)	11.0

The SWR onerous contract provision has resulted in losses carried forward that have not been recognised because it is not probable that there will be sufficient profits available in the future that can be offset by these additional losses.

The Group recognises provisions for transactions and events in its open tax returns and its ongoing tax audits whose treatment for tax purposes is uncertain, in respect of multiple years. These uncertainties exist due to differing interpretations of local tax laws and decisions by tax authorities. When calculating the carrying amounts management make assumptions relating to the estimated tax which could be payable. The Group maintains engagement with tax authorities and engagement with peer groups that may have similar issues. We engage advisers to obtain opinion on tax legislation and we monitor proposed changes in legislation.

The reduction in tax provisions for uncertain tax positions relating to prior years arises from the closure of earlier tax years due to the passage of time and from the closure of tax audits. Should certain tax returns be closed from the passage of time in the next financial year then the amount required to be provided in deferred tax could reduce by up to £3m.

Future years' tax charges would be impacted if the final liability for currently open years is different from the amount currently provided for. The future tax charge may also be affected by the levels and mix of profits in the countries in which we operate including differing foreign exchange rates that apply to those profits. Changes to the prevailing tax rates and tax rules in any of the countries in which we operate may also impact future tax charges. The UK corporation tax rate is to reduce to 17% from 1 April 2020.

The goodwill impairment in the prior year attracted no tax benefit and the above reconciling item was calculated at the UK tax rate of 19%. The prior year saw the enactment of the US Tax Cuts and Jobs Act which included a reduction in the federal corporate income tax rate from 35% to 21%. As a result of these US tax law changes in the prior year there was a net tax credit of £24.6m in the income statement and charges to other comprehensive income of £20.4m in respect of pensions and £1.4m in respect of cash flow hedges.

In addition to the amount charged/(credited) to the income statement, deferred tax relating to actuarial (losses)/gains on defined benefit pension schemes £(7.1)m (2018: £6.2m) and cash flow hedges £4.1m (2018: £9.3m) have been charged/(credited) to comprehensive income together with a further £(4.7)m (2018: £nil) taken directly to equity on cash flow hedges. These amount to a total charge/(credit) of £(7.7)m (2018: £37.3m) recognised in other comprehensive income and equity. The prior year charge also included the charge in relation to the US Tax Cuts and Job Act of £21.8m.

Notes to the consolidated financial statements

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10 Earnings per share (EPS)

EPS is calculated by dividing the loss attributable to equity shareholders of £66.9m (2018: loss £296.0m) by the weighted average number of ordinary shares of 1,205.9m (2018: 1,205.1m). The number of ordinary shares used for the basic and diluted calculations are shown in the table below.

The difference in the number of shares between the basic calculation and the diluted calculation represents the weighted average number of potentially dilutive ordinary share options.

	2019 Number m	2018 Number m
Weighted average number of shares used in basic calculation	1,205.9	1,205.1
Executive share options	8.1	17.9
Weighted average number of shares used in the diluted calculation	1,214.0	1,223.0

The adjusted EPS is intended to highlight the recurring operating results of the Group before amortisation charges and certain other adjustments as set out in note 4. A reconciliation is set out below:

	2019		2018	
	£m	EPS (p)	£m	EPS (p)
Basic loss/EPS	(66.9)	(5.5)	(296.0)	(24.6)
Amortisation charges (note 12)	29.9	2.5	70.9	5.9
Notional interest on TPE onerous contract provision	1.1	0.1	—	—
Bond 'make whole' cost	—	—	10.7	0.9
Other adjustments (note 4)	293.2	24.3	442.3	36.7
Non-controlling interest share of the SWR onerous contract provision	(42.9)	(3.6)	—	—
Tax effect of above adjustments	(40.8)	(3.4)	(55.6)	(4.6)
Tax effect of change in US tax legislation	—	—	(24.6)	(2.0)
Adjusted profit/EPS	173.6	14.4	147.7	12.3
Diluted EPS			2019 pence	2018 pence
Diluted EPS			(5.5)	(24.6)
Adjusted diluted EPS			14.3	12.1

11 Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	1,761.4	1,960.1
Additions (note 30)	0.6	1.2
Foreign exchange movements	100.7	(199.9)
At 31 March	1,862.7	1,761.4
Accumulated impairment losses		
At 1 April	264.6	4.0
Impairment	—	260.6
At 31 March	264.6	264.6
Carrying amount		
At 31 March	1,598.1	1,496.8

11 Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2019 £m	2018 £m
Carrying amount		
First Student	1,218.5	1,137.6
First Transit	296.1	275.4
First Bus	77.9	78.2
First Rail	5.6	5.6
	1,598.1	1,496.8

Impairment testing

At the year end the carrying value of goodwill was reviewed for impairment in accordance with IAS 36 Impairment of Assets. For the purposes of this impairment review goodwill has been tested for impairment on the basis of discounted future cash flows arising in each relevant CGU.

The Group prepares cash flow forecasts derived from the most recent budget for 2019/20 and Three Year Plan projections up to 2021/22 which take account of both past performance and expectations for future developments. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2018: 2.5%) for the United Kingdom and 2.8% (2018: 2.8%) for North America which do not exceed the long term average growth rate for the market. Cash flows are discounted using a pre-tax discount rate of 7.8% (2018: 7.3%) for the United Kingdom CGUs and 8.3% (2018: 8.2%) for the North American CGUs to arrive at the value in use. The pre-tax discount rates applied are derived from a market participant's weighted average cost of capital. The assumptions used in the calculation of the Group's weighted average cost of capital are benchmarked to externally available data.

The Directors consider the assumptions to be reasonable based on the historic performance of each CGU and to be realistic in the light of economic and industry forecasts.

The calculation of value in use for each CGU is most sensitive to the principal assumptions of discount rate, growth rates and margins achievable. Sensitivity analysis has been performed on the calculations and confirms that no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amount in respect of the First Transit, First Student, First Bus and First Rail divisions.

The value in use of the Greyhound division exceeds its carrying amount of £295.4m (2018: £590.4m) by £85.2m (2018: £(277.3)m shortfall). Sensitivity analysis indicates that the Greyhound margin would need to fall by 0.8% or more or growth rates would need to fall below 1.5% for there to be an impairment on this CGU. An increase in the discount rate of 134 basis points or more would lead to the value in use of the CGU being less than the carrying value. A reduction in the margin of 1.0% in all years, including the terminal margin, would result in an impairment charge of approximately £32.5m. A reduction in the growth rate of 2.0% in all years, including the terminal growth rate, would result in an impairment charge of approximately £35.2m.

Following their review of goodwill, the Directors have concluded that there is no impairment of goodwill in any of the CGUs.

Notes to the consolidated financial statements

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12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Software £m	Total £m
Cost				
At 1 April 2017	491.0	74.7	42.9	608.6
Acquisitions (note 30)	0.7	–	–	0.7
Additions	–	–	26.8	26.8
Disposals	–	–	(1.9)	(1.9)
Foreign exchange movements	(52.0)	(7.8)	(4.7)	(64.5)
At 31 March 2018	439.7	66.9	63.1	569.7
Acquisitions (note 30)	0.7	–	–	0.7
Additions	–	–	8.9	8.9
Transfers	–	–	1.9	1.9
Disposals	–	–	(1.6)	(1.6)
Foreign exchange movements	31.0	4.6	3.9	39.5
At 31 March 2019	471.4	71.5	76.2	619.1
Accumulated amortisation and impairment				
At 1 April 2017	415.5	35.7	6.8	458.0
Charge for year	53.3	3.5	14.1	70.9
Disposals	–	–	(1.0)	(1.0)
Impairment	–	2.5	1.9	4.4
Foreign exchange movements	(47.1)	(3.9)	(1.4)	(52.4)
At 31 March 2018	421.7	37.8	20.4	479.9
Charge for year	8.6	3.2	18.1	29.9
Transfers	–	–	0.1	0.1
Foreign exchange movements	30.0	2.7	1.4	34.1
At 31 March 2019	460.3	43.7	40.0	544.0
Carrying amount				
At 31 March 2019	11.1	27.8	36.2	75.1
At 31 March 2018	18.0	29.1	42.7	89.8

Intangible assets include customer contracts, the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings and software. These are being amortised over their useful economic lives as shown in note 2 to the consolidated financial statements.

13 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2017	522.1	3,469.3	777.9	4,769.3
Acquisitions (note 30)	–	1.6	–	1.6
Additions in the year	11.1	243.5	150.5	405.1
Disposals	(6.8)	(42.4)	(113.0)	(162.2)
Reclassified as held for sale	–	(153.4)	–	(153.4)
Foreign exchange movements	(33.6)	(294.0)	(36.9)	(364.5)
At 31 March 2018	492.8	3,224.6	778.5	4,495.9
Acquisitions (note 30)	–	1.5	–	1.5
Additions in the year	13.8	283.2	136.0	433.0
Transfers	–	–	(1.9)	(1.9)
Disposals	(39.8)	(87.9)	(58.9)	(186.6)
Reclassified as held for sale	(22.4)	(202.1)	(8.8)	(233.3)
Foreign exchange movements	19.5	165.3	22.0	206.8
At 31 March 2019	463.9	3,384.6	866.9	4,715.4
Accumulated depreciation and impairment				
At 1 April 2017	100.1	1,789.6	603.1	2,492.8
Charge for year	11.8	243.5	134.3	389.6
Disposals	(2.9)	(40.4)	(110.7)	(154.0)
Impairment	1.2	17.1	1.5	19.8
Reclassified as held for sale	–	(146.2)	–	(146.2)
Foreign exchange movements	(7.7)	(159.3)	(29.2)	(196.2)
At 31 March 2018	102.5	1,704.3	599.0	2,405.8
Charge for year	15.4	235.8	114.8	366.0
Transfers	–	–	(0.1)	(0.1)
Disposals	(12.8)	(82.5)	(57.8)	(153.1)
Impairment ¹	–	10.7	2.3	13.0
Reclassified as held for sale	(8.8)	(176.0)	(7.9)	(192.7)
Foreign exchange movements	4.7	87.7	18.2	110.6
At 31 March 2019	101.0	1,780.0	668.5	2,549.5
Carrying amount				
At 31 March 2019	362.9	1,604.6	198.4	2,165.9
At 31 March 2018	390.3	1,520.3	179.5	2,090.1

1 The impairment charge of £13.0m in 2019 relates to assets associated with First Bus (£10.3m) and Greyhound (£2.7m).

An amount of £0.1m (2018: £0.1m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2019 the Group had entered into contractual capital commitments amounting to £196.7m (2018: £216.8m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway and South Western Railway franchises.

On adoption of IFRS 16, based on the assessment performed to date the Group expects to recognise right-of-use assets of approximately £1.1bn.

Notes to the consolidated financial statements

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13 Property, plant and equipment continued

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2019 £m	2018 £m
Passenger carrying vehicle fleet – cost	222.3	291.4
– depreciation	(109.7)	(138.0)
Carrying amount	112.6	153.4

The title to the assets under HP contracts and finance leases is held by the lenders.

14 Investments

	2019 £m	2018 £m
US deferred compensation plan assets	31.7	28.6
Other investments	2.4	2.4
	34.1	31.0

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given below.

A full list of subsidiaries, joint ventures and associates is disclosed in note 38.

UK local bus and coach operators	Rail companies	North American school bus operators
First Aberdeen Limited ¹	First Greater Western Limited	First Canada ULC ²
First Beeline Buses Limited	First TransPennine Express Limited	First Student, Inc ³
First Cymru Buses Limited	Hull Trains Company Limited	
First Eastern Counties Buses Limited	First MTR South Western Trains Limited (70%)	Transit contracting and fleet maintenance
First Essex Buses Limited		First Transit, Inc ³
First Glasgow (No. 1) Limited ¹		First Vehicle Services, Inc ³
First Glasgow (No. 2) Limited ¹		
First Hampshire and Dorset Limited		
First Manchester Limited		North American coach operators
First Midland Red Buses Limited		Americanos USA, LLC ³
First Potteries Limited		Greyhound Lines, Inc ³
First Scotland East Limited ¹		Greyhound Canada Transportation ULC ²
First West of England Limited		
First South West Limited		
First South Yorkshire Limited		
First West Yorkshire Limited		
First York Limited		
Leicester CityBus Limited (94%)		
Midland Bluebird Limited ¹		

All subsidiary undertakings are wholly owned by FirstGroup plc at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in United Kingdom and registered in England and Wales except those:

- 1 Registered in Scotland.
- 2 Registered in Canada.
- 3 Incorporated in the United States of America.

All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares, as well as 94% of its ordinary shares.

All of these subsidiary undertakings are owned via intermediate holding companies.

16 Inventories

	2019 £m	2018 £m
Spare parts and consumables	60.2	56.0

In the opinion of the Directors there is no material difference between the balance sheet value of inventories and their replacement cost. There was no material write-down of inventories during the current or prior year.

17 Trade and other receivables

Amounts due within one year	2019 £m	2018 £m
Trade receivables	617.9	482.2
Loss allowance	(3.6)	(4.3)
Trade receivables net	614.3	477.9
Other receivables	84.9	106.8
Amounts recoverable on contracts	43.3	–
Prepayments	164.0	103.7
Accrued income	234.9	199.6
	1,141.4	888.0

Loss allowance relates solely to credit loss allowances arising from contracts with customers.

Other receivables includes £46.3m (2018: £60.3m) of VAT receivables, £15.5m (2018: £10.3m) of receivables from government bodies for fuel duty rebates and £21.5m (2018: £15.5m) of insurance recoveries.

Accrued income principally comprises amounts relating to contracts with customers.

Credit risk

Credit risk is the risk that financial loss arises from failure by a customer or counterparty to meet its obligations under a contract.

Credit risk exists in relation to the Group's financial assets, which comprise trade and other receivables of £894.1m (2018: £698.2m), cash and cash equivalents of £692.9m (2018: £555.7m) and derivative financial instruments of £36.0m (2018: £52.3m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,623.0m (2018: £1,306.2m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £120.0m (2018: £73.0m) at the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The provision for doubtful receivables at the balance sheet date was £3.6m (2018: £4.3m).

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail and city councils in the UK and school bus boards and city municipal authorities in North America. The Group does not consider any of these counterparties to be a significant risk. Each division within the Group has a policy governing credit risk management on trade receivables.

The counterparties for bank balances and derivative financial instruments are mainly represented by lending banks and large banks with a minimum of 'A' credit ratings assigned by international credit rating agencies. These counterparties are subject to approval by the Board. Group treasury policy limits the maximum deposit with any one counterparty to £125m, and limits the maximum term to three months.

Impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables at each reporting date.

Provision matrices are used to measure expected losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns, such as geographical region, service type, and customer type and rating. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model in accordance with IAS 39. Trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

Trade receivables are written-off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

Notes to the consolidated financial statements

continued

17 Trade and other receivables continued

The gross carrying amount of trade receivables, for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

	Carrying amount £m	Current £m	Days past due			
			Less than 30 days £m	30 - 90 days £m	90 – 180 days £m	Over 180 days £m
Expected credit loss rate	0.6%	–	–	1.9%	0.8%	26.6%
Gross carrying amount of trade receivables	617.9	403.5	173.7	16.2	12.5	12.0
Loss allowance	3.6	–	–	0.3	0.1	3.2

The table above is an aggregation of different provision matrices for each of the customer segment groupings, as outlined above. The expected loss rate for each aging bucket is the weighted average loss rate across these groupings. The 'Current' and 'Less than 30 days' buckets consist primarily of receivables from groupings for which, based on historical losses and both the current and forecast economic conditions, the expected credit losses are negligible, resulting in the application of a 0% loss rate.

Movement in the loss allowance for trade receivables	2019 £m	2018 £m
At 1 April	4.3	4.2
Amounts written off during the year	(4.4)	(4.3)
Amounts recovered during the year	(0.4)	(0.6)
Increase in allowance recognised in the income statement	3.8	5.4
Foreign exchange movements	0.3	(0.4)
At 31 March	3.6	4.3

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2019 £m	2018 £m
Assets held for sale	31.7	0.9

Included in the above are £26.2m of assets associated with the First Bus Queens Road depot disposal and the remaining Manchester depots (see note 4).

The remainder of the balance primarily relates to certain North American properties and First Student yellow school buses which are surplus to requirements and are being actively marketed on the Internet. Gains or losses arising on the disposal of such assets are included in arriving at operating profit in the income statement. The Group expects to sell such yellow school buses within 12 months of them going onto the 'for sale' list. The value at each balance sheet date represents management's best estimate of their resale value less cost of disposal. There are no liabilities associated with these held for sale assets at the balance sheet date.

Movement in assets held for sale	£m
At 1 April 2018	0.9
Net book value of additions	40.6
Net book value of disposals	(9.9)
Foreign exchange movements	0.1
At 31 March 2019	31.7

19 Trade and other payables

	2019 £m	2018 £m
Amounts falling due within one year		
Trade payables	278.7	248.8
Other payables	299.8	230.2
Accruals	710.3	581.9
Deferred income	167.8	83.6
Season ticket deferred income	90.7	89.2
	1,547.3	1,233.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Deferred income and season ticket deferred income principally comprises amounts relating to contracts with customers.

Other payables includes £81.5m (2018: £70.9m) for the purchase of property, plant and equipment where increased payment terms have been agreed with the supplier due to the nature of the payable. Other payables also includes deferred capital grants from government or other public bodies of £116.4m (2018: £64.6m).

The average credit period taken for trade purchases is 31 days (2018: 29 days). The Group has controls in place to ensure that all payments are paid within the appropriate credit timeframe. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20 Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	692.9	555.7

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £525.6m (2018: £392.3m). The most significant ring-fenced cash balances are held by the Group's First Rail subsidiaries. Under the terms of the rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £0.9m (2018: £0.8m) are held outside the First Rail subsidiaries.

Notes to the consolidated financial statements continued

21 Borrowings

	2019 £m	2018 £m
On demand or within 1 year		
Finance leases (note 22)	41.5	47.1
Bond 6.125% (repayable 2019) ¹	–	261.3
Bond 8.75% (repayable 2021) ²	30.4	30.1
Bond 5.25% (repayable 2022) ²	5.8	5.8
Bond 6.875% (repayable 2024) ²	7.2	7.2
Total current liabilities	84.9	351.5
Within 1-2 years		
Finance leases (note 22)	18.1	39.5
Loan notes (note 23)	9.4	9.5
	27.5	49.0
Within 2-5 years		
Syndicated loan facilities	446.7	197.0
Finance leases (note 22)	0.2	18.0
Bond 8.75% (repayable 2021)	357.7	358.9
Bond 5.25% (repayable 2022)	322.1	321.6
	1,126.7	895.5
Over 5 years		
Finance leases (note 22)	0.1	0.1
Senior unsecured loan notes	210.0	195.2
Bond 6.875% (repayable 2024)	199.8	199.8
	409.9	395.1
Total non-current liabilities at amortised cost	1,564.1	1,339.6

1 The Bond 6.125% (repayable 2019) comparative of £261.3m includes £3.0m of accrued interest.

2 Relates to accrued interest.

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2019 Fair value £m	2018 Fair value £m
Bond 6.125% (repayable 2019)	250.0	Annually	January	–	262.2
Bond 8.75% (repayable 2021)	350.0	Annually	April	423.0	448.0
Bond 5.25% (repayable 2022)	325.0	Annually	November	355.0	373.4
Bond 6.875% (repayable 2024)	200.0	Annually	September	240.1	255.2
	\$m			£m	£m
Senior unsecured loan notes	275.0	Semi-annually	March & September	208.3	194.8

The fair value of the bonds and senior unsecured loan notes are inclusive of accrued interest. The fair values are calculated by discounting the future cash flow that will arise under the contracts.

There is no material difference between the fair value of the syndicated loan facilities and their carrying value due to their short term and floating rate nature.

21 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2019	Maturity	2018	Maturity
Bank overdraft	LIBOR + 1%	–	LIBOR + 1%	–
Syndicated loan facilities	LIBOR + 0.5%	November 2023	LIBOR + 0.5%	July 2021
Bond 2019 ¹	–	–	6.18%	January 2019
Bond 2021 ¹	8.87%	April 2021	8.87%	April 2021
Bond 2022	5.49%	November 2022	5.49%	November 2022
Bond 2024	6.95%	September 2024	6.95%	September 2024
Senior unsecured loan notes	4.37%	March 2025 / March 2028	4.37%	March 2025/ March 2028
HP contracts and finance leases	Average fixed rate of 4.2%	Various	LIBOR + 0.6% up to average fixed rate of 4.2%	Various
Loan notes	LIBOR + 1.0% up to total fixed rate of 11.0%	Various	LIBOR + 1.0% up to total fixed rate of 11.0%	Various

1 The 2019 and 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps.

Carrying amount of gross borrowings by currency	2019 £m	2018 £m
Pounds Sterling	1,078.1	1,392.4
US Dollar	516.4	291.7
Canadian Dollar	54.5	7.0
	1,649.0	1,691.1

Borrowing facilities

The Group had £353.3m (2018: £603.0m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £816.1m (2018: £815.7m) of which £800.0m (2018: £800.0m) was committed and £16.1m (2018: £15.7m) was uncommitted.

Capital management

We aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt:EBITDA of 1.3 times as at March 2019 (2018: 1.5 times).

Liquidity within the Group has remained strong. At year end there was £520.6m (2018: £766.4m) of committed headroom and free cash. Largely due to seasonality in the North American school bus business, committed headroom typically reduces during the financial year up to October and increases thereafter. The Group's Treasury policy requires a minimum of £150m of committed headroom at all times. The Group's net debt, excluding accrued bond interest at 31 March 2019, was £903.4m (2018: £1,070.3m) as set out on page 28 of the Financial review.

Notes to the consolidated financial statements

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22 HP contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	2019 Minimum payments £m	2019 Present value of payments £m	2018 Minimum payments £m	2018 Present value of payments £m
Due in less than one year	42.7	41.5	48.3	47.1
Due in more than one year but not more than two years	19.0	18.1	41.6	39.5
Due in more than two years but not more than five years	0.3	0.2	19.6	18.0
Due in more than five years	0.1	0.1	0.1	0.1
	62.1	59.9	109.6	104.7
Less future financing charges	(2.2)	–	(4.9)	–
	59.9	59.9	104.7	104.7

HP lease obligations

Pounds Sterling denominated fixed rate leases	2019	2018
Pounds Sterling fixed rate leases	–	£1.2m
Average remaining lives	–	1 years
Effective borrowing rate	–	3.68%
US Dollar denominated fixed rate leases	2019	2018
US Dollar fixed rate leases	£57.1m	£96.5m
Average remaining lives	1 year	2 years
Effective borrowing rate	2.69%	2.50%
Canadian Dollar denominated fixed rate leases	2019	2018
Canadian Dollar fixed rate leases	£2.8m	£7.0m
Average remaining lives	1 year	2 years
Effective borrowing rate	5.15%	4.27%

The Group considers there to be no material difference between the fair values of the Pounds Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £55.3m (2018: £93.8m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

23 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	2019 £m	2018 £m
Due in more than one year but not more than two years	9.4	9.5

The loan notes have been classified by reference to the earliest date on which the loan note holder can request redemption. Loan notes of £8.7m (2018: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.2% (2018: 10.1%) and an average remaining term of 1 year (2018: 2 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £10.4m (2018: £11.2m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Financial instruments

Derivative financial instruments

	2019 £m	2018 £m
Total derivatives		
Total non-current assets	20.5	25.0
Total current assets	15.5	27.3
Total assets	36.0	52.3
Total current liabilities	3.4	6.7
Total non-current liabilities	1.9	3.0
Total liabilities	5.3	9.7

Derivatives designated and effective as hedging instruments carried at fair value

Non-current assets		
Coupon swaps (fair value hedge)	16.2	17.6
Fuel derivatives (cash flow hedge)	2.7	7.4
Currency forwards (cash flow hedge)	1.6	–
	20.5	25.0
Current assets		
Coupon swaps (fair value hedge)	–	11.4
Fuel derivatives (cash flow hedge)	11.3	15.9
Currency forwards (cash flow hedge)	4.2	–
	15.5	27.3
Current liabilities		
Fuel derivatives (cash flow hedge)	3.4	1.4
Currency forwards (cash flow hedge)	–	5.3
	3.4	6.7
Non-current liabilities		
Currency forwards (cash flow hedge)	–	2.9
Fuel derivatives (cash flow hedge)	1.9	0.1
	1.9	3.0

The Group enters into derivative transactions under International Swaps and Derivatives Association Master Agreements that allow for the related amounts to be set-off in certain circumstances. The amounts set out as Fuel Derivatives and Currency forwards in the table above represent the derivative financial assets and liabilities of the Group that may be subject to the above arrangements and are presented on a gross basis. Derivative liabilities of £5.3m (2018: £1.5m) were subject to netting arrangements.

Total cash flow hedges are an asset of £14.5m (2018: £13.6m asset). Total fair value hedges are an asset of £16.2m (2018: £29.0m).

During the year £23.5m was credited to the hedging reserve in respect of cash flow hedges (2018: £33.7m credited).

The following profit/(losses) were transferred from equity into inventory as basis adjustments during the year:

	2019 £m	2018 £m
Operating profit/(losses)	23.1	(11.4)

Notes to the consolidated financial statements

continued

24 Financial instruments continued

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables):

	2019				
	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
	£m	£m	£m	£m	£m
Financial assets and derivatives					
Cash and cash equivalents	692.9	–	–	692.9	692.9
Trade and other receivables	–	894.1	–	894.1	894.1
Derivative financial instruments	–	36.0	–	36.0	36.0
Financial liabilities and derivatives					
Borrowings	446.7	1,294.9	–	1,741.6	1,649.0
Trade and other payables	–	1,430.9	–	1,430.9	1,430.9
Derivative financial instruments	–	5.3	–	5.3	5.3
					2018 ¹
	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
	£m	£m	£m	£m	£m
Financial assets and derivatives					
Cash and cash equivalents	555.7	–	–	555.7	555.7
Trade and other receivables	–	698.2	–	698.2	698.2
Derivative financial instruments	–	52.3	–	52.3	52.3
Financial liabilities and derivatives					
Borrowings	197.0	1,652.1	–	1,849.1	1,691.1
Trade and other payables	–	1,169.1	–	1,169.1	1,169.1
Derivative financial instruments	–	9.7	–	9.7	9.7

1 The 2018 comparatives have been restated to exclude non-financial instruments.

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between Level 1 and Level 2 during the current or prior year.

Financial assets/(liabilities)	Fair values at 31 March 2019 £m	Fair values at 31 March 2018 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Coupon swaps	16.2	29.0	Level 2	Discounted cash flow; future cash flows are estimated based on forward interest rates and contract interest rates and then discounted at a rate that reflects the credit risk of the various counterparties.
2) Fuel derivatives	8.7	21.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
3) Currency forwards	5.8	(8.2)	Level 2	Discounted cash flow; future cash flows are estimated based on forward foreign exchange rates and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.
4) Trade and other receivables	894.1	698.2	Level 2	Carried at amortised cost using the effective interest rate method.
5) Trade and other payables	1,430.9	1,169.1	Level 2	Initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.
6) Borrowings	1,741.6	1,849.1	Level 1&2	Measured either on an amortised cost basis or at fair value. The fair values are calculated by discounting the future cash flows that will arise under the contracts.

24 Financial instruments continued

The following table illustrates the carrying value of all financial assets and liabilities held by the Group.

	2019			
Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	Total £m
Financial assets and derivatives				
Cash and cash equivalents	692.9	–	–	692.9
Trade and other receivables	894.1	–	–	894.1
Derivative financial instruments	–	16.2	19.8	36.0
	1,587.0	16.2	19.8	1,623.0
Financial liabilities and derivatives				
Interest bearing loans and borrowings	1,649.0	–	–	1,649.0
Trade and other payables	1,430.9	–	–	1,430.9
Derivative financial instruments	–	–	5.3	5.3
	3,079.9	–	5.3	3,085.2
	2018 ¹			
Classification of financial instruments	Assets and liabilities at amortised costs £m	At fair value through profit and loss £m	Derivatives used for cash flow hedging £m	Total £m
Financial assets and derivatives				
Cash and cash equivalents	555.7	–	–	555.7
Trade and other receivables	698.2	–	–	698.2
Derivative financial instruments	–	29.0	23.3	52.3
	1,253.9	29.0	23.3	1,306.2
Financial liabilities and derivatives				
Interest bearing loans and borrowings	1,691.1	–	–	1,691.1
Trade and other payables	1,169.1	–	–	1,169.1
Derivative financial instruments	–	–	9.7	9.7
	2,860.2	–	9.7	2,869.9

1 The 2018 comparatives have been restated to exclude non-financial instruments.

Notes to the consolidated financial statements

continued

24 Financial instruments continued

	Cashflow hedges		Fair value hedges	Net investment hedges
	Commodity price risk	Foreign exchange price risk	Interest rate risk (2021 Bond)	Foreign exchange risk
As at 31 March 2019				
Nominal amount of hedging	3.2m bbls	\$187.8m	£350m	\$600m
< 1 year	2.1m bbls	\$123.3m	–	–
1 – 2 years	0.8m bbls	\$47.7m	–	–
2 – 5 years	0.3m bbls	\$16.8m	£350m	\$325m
> 5 years	–	–	–	\$275m
Average hedged rate	\$79.43/bbl	\$1.378	3m LIBOR +2.21%	\$1.3609
Maturity	April 19 to March 22	April 19 to March 22	April 21	N/A
Carrying amount of hedging instruments				
Assets - Derivatives (£m)	14.0	5.8	16.2	–
Liabilities - Derivatives (£m)	(5.3)	–	–	–
Liabilities - Borrowings (£m)	–	–	–	(459.3)
Carrying amount of hedged item				
Liabilities - Borrowings (£m)	N/A	N/A	(348.3)	N/A
Accumulated amount of fair value hedging adjustments included in carrying amount of hedged item				
Liabilities - Borrowings (£m)	N/A	N/A	(9.4)	N/A
Changes in fair value of hedged item used for calculating hedge effectiveness	(7.5)	(16.0)	1.1	(10.7)
Changes in fair value of hedging instrument used in calculating hedge effectiveness	7.5	16.0	(1.1)	10.7
Changes in fair value of hedging instrument accumulated in cash flow hedge reserve	6.3	4.6	N/A	N/A

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2019 £m	2018 £m
Losses on hedging instruments in fair value hedges	(9.6)	(21.6)
Gains on hedged item attributable to hedged risk fair value hedges	9.6	21.9
Change in the fair value of derivatives classified as held for trading	–	(0.4)
	–	(0.1)

Financial risk management

The Group is exposed to financial risks including liquidity risk, credit risk and certain market-based risks principally being the effects of changes in foreign exchange rates, interest rates and fuel prices. The Group manages these risks within the context of a set of formal policies established by the Board. Certain risk management responsibilities are formally delegated by the Board, principally to a sub-committee of the Board and to the Chief Financial Officer and to the Treasury Committee. The Treasury Committee comprises the Chief Financial Officer and certain senior finance employees and is responsible for approving hedging transactions permitted under Board approved policies, monitoring compliance against policy and recommending changes to existing policies.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities. The objective of the Group's liquidity risk management is to ensure sufficient committed liquidity resources exist. The Group has a diversified debt structure largely represented by medium term unsecured syndicated committed bank facilities, medium to long term unsecured bond debt and finance leases. It is a policy requirement that debt obligations must be addressed well in advance of their due dates.

Group treasury policy requires a minimum of £150m of committed liquidity headroom at all times within medium term bank facilities and such facilities must be renewed or replaced well before their expiry dates. At year end, the total amount of these facilities stood at £800.0m (2018: £800.0m), and committed headroom was £353.3m (2018: £603.0m), in addition to free cash balances of £167.3m (2018: £163.4m). The next material contractual expiry of revolver bank facilities is in November 2023. Largely due to the seasonality of the First Student school bus business, headroom tends to reduce from March to October and increases again by the following March.

The average duration of net debt (excluding ring-fenced cash) at 31 March 2019 was 4.3 years (2018: 4.1 years).

24 Financial instruments continued

The following tables detail the Group's expected maturity of payables for its borrowings, derivative financial instruments and trade and other payables. The amounts shown in these tables are prepared on an undiscounted cash flow basis and include future interest payments in the years in which they fall due for payment.

	2019				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings	565.6	97.4	808.4	451.7	1,923.1
Fuel derivatives	3.4	1.1	0.8	–	5.3
Currency forwards	–	–	–	–	–
Trade and other payables	1,430.9	–	–	–	1,430.9
	1,999.9	98.5	809.2	451.7	3,359.3
	2018¹				
	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Borrowings	585.3	111.3	881.6	457.2	2,035.4
Fuel derivatives	1.4	–	–	–	1.4
Currency forwards	5.3	2.4	0.5	–	8.2
Trade and other payables	1,169.1	–	–	–	1,169.1
	1,761.1	113.7	882.1	457.2	3,214.1

¹ The 2018 comparatives have been restated to include Borrowings which include lease liabilities. Derivative assets that were previously disclosed are no longer included in the above disclosure. The restatement has no impact on the consolidated income statement or consolidated balance sheet.

No derivative financial instruments had collateral requirements or were due on demand in any of the years. Derivative financial instruments are net settled.

Currency risk

Currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds Sterling due to movements in exchange rates.

The Group's principal operations outside the UK are in the US and Canada, with the US being the most significant. Consequently, the principal currency risk relates to movements in the US Dollar to pounds Sterling.

'Certain' and 'highly probable' foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group is also exposed to currency risk relating to its UK fuel costs which are denominated in USD. This is hedged through entering a series of average rate forward contracts on a similar profile to our fuel hedging program. The currency derivatives are utilised as cash flow hedging instruments in aggregate exposure hedges under IFRS 9, with the combination fuel purchase and associated fuel derivative representing the aggregate-exposure hedged item. Forward currency risk is designated in the cash flow hedges, however valuation movements arising from changes in currency-basis spreads are excluded from the relationships as costs of hedging. These costs of hedging are recorded in a separate component of equity until the hedged fuel inventory is recognised, at which time they are removed from that separate component of equity and included as part of the basis adjustment to the initial cost of the inventory. At both transition date and the balance sheet date the value to be recorded in a separate component of equity was immaterial, and as such no separate reserve has been shown within the primary financial statements. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the Company does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant. US dollar debt balances are designated as a net investment hedge of US investments.

IFRS 7 requires the Group to show the impact on profit after tax and hedging reserve on financial instruments from a movement in exchange rates. The following analysis details the Group's sensitivity to a 10% strengthening in pounds Sterling against the US Dollar. The analysis has been prepared based on the change taking place at the beginning of the financial year and being held constant throughout the reporting period. A positive number indicates an increase in earnings or equity where pounds Sterling strengthens against the US Dollar.

	2019 £m	2018 £m
Impact on profit after tax	0.5	0.7
Impact on hedging reserve	(1.0)	(0.8)

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24 Financial instruments continued

Interest rate risk

The Group has variable rate debt and cash and therefore net income is exposed to the effects of changes to interest rates. The Group treasury policy objective is to maintain fixed interest rates at a minimum of 50% of on-balance sheet net debt over the medium term, so that volatility is substantially reduced year-on-year to EPS. The policy objective is primarily achieved through fixed rate debt. The main floating rate benchmarks on variable rate debt are US Dollar LIBOR and pounds Sterling LIBOR.

At 31 March 2019, 89% (2018: 78%) of net debt was fixed. This fixed rate protection had an average duration of 5.0 years (2018: 5.7 years).

Interest rate risk within operating leases is hedged 100% by agreeing fixed rentals with the lessors prior to inception of the lease contracts.

Fair value changes in the £350.0m 2021 Sterling bonds relating to the LIBOR element are hedged with coupon swaps. These swaps offset the fair value movements in the bond in the income statement and have the same term as the bonds.

The following sensitivity analysis details the Group's sensitivity to a 100 basis points (1%) increase in interest rates throughout the reporting period with all other variables held constant.

	2019 £m	2018 £m
Impact on profit after tax	(1.4)	(1.8)

Interest rate hedges

The following table details the notional amounts of interest rate swap contracts designated as a cash flow or fair value hedge which were outstanding at the reporting date, the average fixed rate payable or receivable under these swaps and their fair value. The average interest rate is based on the outstanding balances at the reporting date. The fair value of interest rate swaps is determined by discounting the future cash flows.

The interest rate swaps settle on a quarterly or semi-annual basis. The differences between the fixed and floating rates are settled on a net basis.

	Average fixed rate		Notional principal amount		Fair value asset	
Fair value hedges	2019 %	2018 %	2019 £m	2018 £m	2019 £m	2018 £m
Less than one year	—	6.13	—	250	—	8.4
One to two years	—	—	—	—	—	—
Two to five years	2.21	2.21	350	350	9.4	10.5

Fuel price risk

The Group consumes approximately 2.9m bbls of diesel fuel each year for which it is at risk. The Group purchases its fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and is therefore exposed to changes in diesel prices. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection in the medium term, so that the businesses affected are protected from any sudden and significant increases and have time to prepare for potentially higher costs, whilst retaining some access for potentially lower costs over the medium term. To achieve this the Group operates a progressive hedging policy. The policy hedge target levels differ by division but are monitored monthly and appropriate actions taken to maintain satisfactory hedge levels. Gasoil derivatives are used to hedge UK exposure and Nymex Heating Oil derivatives used to hedge North American exposure. Risk component hedging has been adopted under IFRS 9, meaning that the hedged price risk component of the purchased diesel matches that of the underlying derivative commodity. The hedged risk component is considered to be separately identifiable and reliably measurable. Gasoil and Nymex Heating Oil are considered to be risk components of the fuel grade ultimately purchased and there is a very strong correlation between the movements in the prices of the derivative underlying and the purchased fuel. Variances in pricing of the derivative commodities and the purchased fuel are primarily driven by further refinement of the fuel or the associated transportation costs which were excluded from the hedge relationship. Currently the Group is hedged 84% to March 2020 and 45% to March 2021 for UK diesel price risk exposure and 52% to March 2020 and 22% to March 2021 for US diesel price risk exposure.

The Group has entered into swaps for periods from April 2019 to March 2022 with the majority of these swaps relating to the year to 31 March 2020. The swaps give rise to monthly cash flow exchanges with counterparties to offset the underlying settlement of floating price costs, except where they have a deferred start date. Gains or losses on fuel derivatives are recycled from equity into inventory on qualifying hedges to achieve fixed rate fuel costs within operating results.

The following analysis details the Group's sensitivity on profit after tax and equity if the price of diesel fuel had been \$10 per barrel higher at the year end:

	2019 £m	2018 £m
Impact on profit after tax	(3.8)	(3.4)
Impact on hedging reserve	18.2	21.5

Volume at risk for the year to 31 March 2020 is 2.9m (year to 31 March 2019: 3.2m) barrels for which 73% is hedged to diesel price risk.

25 Deferred tax

The major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior reporting periods are as follows:

	Accelerated tax depreciation £m	Retirement benefit schemes £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 April 2017	218.0	(85.9)	82.2	(215.8)	(1.5)
(Credit)/charge to income statement	(19.9)	(1.0)	2.7	(26.7)	(44.9)
Charge to other comprehensive income	–	26.6	10.7	–	37.3
Foreign exchange and other movements	(23.7)	6.5	(9.7)	20.5	(6.4)
At 31 March 2018	174.4	(53.8)	85.9	(222.0)	(15.5)
Charge/(credit) to income statement	2.8	3.5	10.3	(14.7)	1.9
Credit to other comprehensive income and equity	–	(7.1)	(0.6)	–	(7.7)
Foreign exchange and other movements	11.7	(2.6)	7.1	(19.0)	(2.8)
At 31 March 2019	188.9	(60.0)	102.7	(255.7)	(24.1)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 £m	2018 £m
Deferred tax assets	(40.6)	(37.7)
Deferred tax liabilities	16.5	22.2
	(24.1)	(15.5)

The deferred tax asset relates to the UK and is recognised despite there being a loss in the current and prior year caused respectively by the SWR and TPE onerous contract provisions because the remainder of the Group in the UK is profitable. However additional carried forward losses of £128.0m created by the SWR provision are not recognised because it is not probable that there will be sufficient profits that can be offset by these additional losses.

No deferred tax has been recognised on deductible temporary differences of £46.7m (2018: £52.5m) and tax losses of £299.3m (2018: £141.9m). The earliest period in which some of the unrecognised assets will expire is year ended 31 March 2027.

No deferred tax asset has been recognised in respect of £2.9m (2018: £2.4m) of capital losses.

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26 Provisions

	2019 £m	2018 £m
Insurance claims	292.7	231.7
Legal and other	35.5	28.1
TPE onerous contract	76.6	79.2
SWR onerous contract	125.5	–
Pensions	1.7	2.0
Non-current liabilities	532.0	341.0

	Insurance claims £m	Legal and other £m	TPE onerous contract £m	SWR onerous contract £m	Pensions £m	Total £m
At 1 April 2018	368.8	67.6	106.3	–	2.0	544.7
Charged to the income statement	278.5	39.1	–	145.9	–	463.5
Utilised in the year	(210.0)	(40.5)	(0.5)	–	(0.3)	(251.3)
Notional interest	11.0	3.6	1.1	–	–	15.7
Foreign exchange movements	23.5	1.8	–	–	–	25.3
At 31 March 2019	471.8	71.6	106.9	145.9	1.7	797.9

Current liabilities	179.1	36.1	30.3	20.4	–	265.9
Non-current liabilities	292.7	35.5	76.6	125.5	1.7	532.0
At 31 March 2019	471.8	71.6	106.9	145.9	1.7	797.9

Current liabilities	137.1	39.5	27.1	–	–	203.7
Non-current liabilities	231.7	28.1	79.2	–	2.0	341.0
At 31 March 2018	368.8	67.6	106.3	–	2.0	544.7

The insurance claims provision arises from estimated exposures for incidents occurring prior to the balance sheet date. It is anticipated that the majority of such claims will be settled within the next five years although certain liabilities in respect of lifetime obligations of £27.9m (2018: £22.2m) can extend for up to 30 years. The utilisation of £210.0m (2018: £192.7m) represents payments made against the current liability of the preceding year as well as the settlement of certain large aged claims.

The insurance claims provisions contains £21.5m (2018: £15.5m) which is recoverable from insurance companies and is included within other receivables in note 17.

Legal and other provisions relate to estimated exposures for cases filed or thought highly likely to be filed for incidents that occurred prior to the balance sheet date. It is anticipated that most of these items will be settled within 10 years. Also included are provisions in respect of costs anticipated on the exit of surplus properties which are expected to be settled over the remaining terms of the respective leases and dilapidation, other provisions in respect of contractual obligations under rail franchises and restructuring costs. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The onerous contract provision in respect of TPE has been calculated based on updated financial forecasts for this franchise until the initial end date of 31 March 2025. The updated forecasts are based on a number of assumptions, most significantly passenger revenue growth. These are based on economic and other exogenous factors as well as changes in timetables, capacity and rolling stock. Whilst the onerous contract provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The TPE onerous contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth and the outcome of commercial negotiation with industry bodies. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required by approximately £24m. The provisions are expected to be fully utilised within six years.

The onerous contract provision in respect of SWR has been calculated based on updated financial forecasts for this franchise until the initial franchise end date of 17 August 2024. The updated forecasts are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue mechanisms, as well as the impact of changes in timetables, capacity and rolling stock. In addition, the effects of infrastructure performance and the ongoing effect from industrial action during the year continue. There is considerable uncertainty about the future impact of the industrial action and the level of strike amelioration recoverable from the DfT, and we remain in discussions with the DfT. Whilst the onerous contract provision is based on management's current best estimate, there can be no certainty that actual results will be consistent with those forecast. The SWR onerous contract is sensitive to the underlying assumptions, most notably to passenger revenue growth and to the extent or timing of impacts from strikes and the recovery of amelioration from the DfT. The £145.9m provision comprises £87.4m parent company support, £15.0m performance bond, £30.0m agreed funding commitments and £13.5m of retained earnings which represents the maximum exposure. These factors make it impractical to provide a sensitivity analysis on one single measure and its impact on the onerous contract provision. The provision is expected to be fully utilised within six years although the timing is highly sensitive to the underlying assumptions.

The pensions provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over approximately five years.

27 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
1,213.9m (2018: 1,210.8m) ordinary shares of 5p each	60.7	60.5

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 3.1m shares were issued to satisfy principally SAYE exercises.

28 Reserves

The hedging reserve records the movement on designated hedging items.

The share premium account represents the premium on shares issued since 1999 and arose principally on the rights issue on the Ryder acquisition in 1999 and the share placings in 2007 and 2008. The reserve is non-distributable.

The own shares reserve represents the cost of shares in FirstGroup plc purchased in the market and either held as treasury shares or held in trust to satisfy the exercise of share options.

Hedging reserve

The movements in the hedging reserve were as follows:

	2019 £m	2018 £m
Balance at 1 April	16.5	(17.9)
Transfer to hedging reserve through consolidated statement of comprehensive income		
Fuel derivatives	7.5	46.5
Currency forwards	16.0	(12.8)
	23.5	33.7
Transfer from hedging reserve through consolidated statement of comprehensive income:		
Fuel derivatives	–	7.4
Currency forwards	–	4.0
	–	11.4
Tax on derivative hedging instrument movements through statement of comprehensive income	(4.1)	(10.7)
Transfer from hedging reserve to the balance sheet:		
Fuel derivatives	(20.8)	–
Currency forwards	(2.3)	–
	(23.1)	–
Tax on derivative hedging instrument movements to the balance sheet	4.7	–
Balance at 31 March	17.5	16.5

Own shares

The number of own shares held by the Group at the end of the year was 5,310,593 (2018: 7,653,968) FirstGroup plc ordinary shares of 5p each. Of these, 5,120,844 (2018: 7,464,219) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2018: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2018: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2019 was £4.8m (2018: £6.3m).

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
Other reserves			
At 31 March 2019 and 31 March 2018	1.9	2.7	4.6

There have been no movements on the capital redemption reserve or capital reserve during the year ended 31 March 2019. The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled. The capital reserve arose on acquisitions in 2000. Neither reserve is distributable.

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29 Translation reserve

	2019 £m	2018 £m
At 1 April	383.5	708.4
Movement for the financial year	160.8	(324.9)
At 31 March	544.3	383.5

The translation reserve records exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries offset by movements on loans used to hedge the net investment in those foreign subsidiaries. The movement in the year includes £(10.7)m (2018: £5.1m) in relation to movements on loans used to hedge the net investment in foreign subsidiaries. The cumulative movement on loans used to hedge the net investment in foreign subsidiaries is £(471.4)m (2018: £(460.7)m).

30 Acquisition of businesses and subsidiary undertakings

	2019 £m	2018 £m
Provisional fair value of net assets acquired:		
Property, plant and equipment	1.5	1.6
Other intangible assets	0.7	0.7
Other liabilities	(0.2)	(0.3)
	2.0	2.0
Goodwill	0.6	1.2
Satisfied by cash paid and payable	2.6	3.2

On 1 August 2018, the Group completed the acquisition of CG Pearson Bus Lines, an Ontario-based provider of school and charter transportation services. The £2.6m consideration represent £2.3m cash paid in the period and £0.3m of deferred consideration.

The business acquired during the year contributed £1.6m (2018: £3.2m) to Group revenue and £0.5m (2018: £0.3m) to Group operating loss from date of acquisition to 31 March 2019.

If the acquisitions of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £2.2m (2018: £4.8m) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £0.7m (2018: £0.5m).

31 Net cash from operating activities

	2019 £m	2018 £m
Operating profit/(loss)	9.8	(196.2)
Adjustments for:		
Depreciation charges	366.0	389.6
Capital grant amortisation	(28.6)	(16.0)
Amortisation charges	29.9	70.9
Impairment charges	13.0	284.8
Share-based payments	9.1	8.9
(Profit)/loss on disposal of property, plant and equipment	(23.5)	8.3
Operating cash flows before working capital and pensions	375.7	550.3
(Increase)/decrease in inventories	(2.0)	4.6
Increase in receivables	(209.4)	(168.7)
Increase in payables and provisions due within one year	332.5	341.7
SWR onerous contract provision	145.9	–
TPE onerous contract provision	(0.5)	106.3
Increase/(decrease) in other provisions	37.3	(10.5)
Defined benefit pension payments in excess of income statement charge	(24.3)	(47.9)
Cash generated by operations	655.2	775.8
Tax paid	(7.5)	(12.2)
Interest paid	(81.3)	(122.1)
Interest element of HP contracts and finance leases	(2.7)	(4.6)
Net cash from operating activities¹	563.7	636.9

¹ Net cash from operating activities is stated after an inflow of £40.0m (2018: inflow of £4.0m) in relation to financial derivative settlements.

32 Analysis of changes in net debt

	At 1 April 2018 £m	Cash flow £m	Foreign Exchange Movements £m	Other £m	At 31 March 2019 £m
Components of financing activities:					
Bank loans	(197.0)	(255.0)	5.4	(0.1)	(446.7)
Bonds	(1,138.6)	250.0	–	8.9	(879.7)
Fair value of interest rate coupon swaps	19.0	–	–	(9.6)	9.4
Senior unsecured loan notes	(195.2)	–	(14.8)	–	(210.0)
Finance lease obligations	(104.7)	53.1	(7.0)	(1.3)	(59.9)
Other debt	(9.5)	0.1	–	–	(9.4)
Total components of financing activities	(1,626.0)	48.2	(16.4)	(2.1)	(1,596.3)
Cash	163.4	15.8	(11.9)	–	167.3
Ring-fenced cash	392.3	133.3	–	–	525.6
Cash and cash equivalents	555.7	149.1	(11.9)	–	692.9
Net debt	(1,070.3)	197.3	(28.3)	(2.1)	(903.4)
	At 1 April 2017 £m	Cash flow £m	Foreign Exchange Movements £m	Other £m	At 31 March 2018 £m
Components of financing activities:					
Bank loans	–	(197.0)	–	–	(197.0)
Bonds	(1,458.5)	300.0	–	19.9	(1,138.6)
Fair value of interest rate coupon swaps	40.9	–	–	(21.9)	19.0
Senior unsecured loan notes	(80.0)	(116.8)	0.6	1.0	(195.2)
Finance lease obligations	(183.7)	62.1	15.5	1.4	(104.7)
Other debt	(9.5)	–	3.0	(3.0)	(9.5)
Total components of financing activities	(1,690.8)	48.3	19.1	(2.6)	(1,626.0)
Cash	141.1	18.2	4.1	–	163.4
Ring-fenced cash	259.8	132.5	–	–	392.3
Cash and cash equivalents	400.9	150.7	4.1	–	555.7
Net debt	(1,289.9)	199.0	23.2	(2.6)	(1,070.3)

All values above exclude accrued interest and derivative valuations are presented as the clean values.

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33 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £806.5m (2018: £783.1m) and letters of credit for £369.2m (2018: £327.7m). The performance bonds relate to the North American businesses of £570.8m (2018: £544.6m) and the First Rail franchise operations of £235.7m (2018: £238.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £30.0m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, HP contracts, finance leases, operating leases and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

The Group is party to legal proceedings and claims which arise in the normal course of business, including but not limited to employment and safety claims. The Group takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

The Group's operations are required to comply with a wide range of regulations, including environmental and emissions regulations. Failure to comply with a particular regulation could result in a fine or penalty being imposed on that business, as well as potential ancillary claims rooted in non-compliance.

Investigations into the Croydon tram incident in November 2016 are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Company, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently anticipated to take place in early 2020 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.

On 26 February 2019, class action proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the class action, is scheduled to take place in November 2019. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or timing of such damages and costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

34 Operating lease arrangements

	2019 £m	2018 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	24.5	23.7
Track and station access	269.6	154.4
Hire of rolling stock	591.1	255.3
Other assets	86.7	89.2
	971.9	522.6

At the balance sheet dates, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £m	2018 £m
Within one year	1,054.4	955.6
In the second to fifth years inclusive	1,690.7	2,158.7
After five years	207.7	507.8
	2,952.8	3,622.1

Included in the above commitments are contracts held by the First Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £997.0m (2018: £1,027.6m). They also have contracts under which they lease rolling stock of £1,571.5m (2018: £2,223.6m).

35 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £9.1m (2018: £8.9m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2014 Options Number	SAYE Dec 2015 Options Number	SAYE Dec 2016 Options Number	SAYE Dec 2017 Options Number	SAYE Dec 2018 Options Number
Outstanding at the beginning of the year	3,975,222	5,879,409	6,706,329	9,755,113	–
Awarded during the year	–	–	–	–	9,989,051
Exercised during the year	(622,682)	(1,696,268)	(19,455)	(3,565)	–
Lapsed during the year	(3,346,421)	(882,278)	(938,031)	(1,149,731)	(145,528)
Outstanding at the end of the year	6,119	3,300,863	5,748,843	8,601,817	9,843,523
Exercisable at the end of the year	6,119	3,300,863	–	–	–
Weighted average exercise price (pence)	97.0	85.0	86.0	83.0	70.0
Weighted average share price at date of exercise (pence)	110.4	93.2	95.3	93.9	N/A

(b) Deferred bonus shares (DBS)

DBS awards vest over a three year period following the financial year that they relate to and are typically settled by equity.

	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number
Outstanding at the beginning of the year	1,574	27,996	27,493	55,122	88,490	118,992
Exercised during the year	(1,574)	(27,996)	(3,274)	(5,218)	(11,596)	(25,147)
Outstanding at the end of the year	–	–	24,219	49,904	76,894	93,845
Exercisable at the end of the year	–	–	24,219	49,904	76,894	93,845
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	85.6	102.1	101.0	93.0	102.9	96.9

	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number	DBS 2017 Options Number	DBS 2018 Options Number
Outstanding at the beginning of the year	406,558	362,215	2,298,179	1,534,578	2,099,093	–
Granted during the year	–	–	–	–	–	861,747
Lapsed during the year	–	–	(13,700)	(102,410)	(130,116)	(57,054)
Exercised during the year	(125,872)	(138,350)	(1,648,415)	(106,467)	(196,472)	–
Outstanding at the end of the year	280,686	223,865	636,064	1,325,701	1,772,505	804,693
Exercisable at the end of the year	280,686	223,865	636,064	–	73,868	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	99.9	98.7	94.0	81.5	83.4	N/A

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35 Share-based payments continued

(c) Buy As You Earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2019 there were 5,871 (2018: 6,263) participants in the BAYE scheme who have cumulatively purchased 21,698,965 (2018: 18,817,893) shares with the Company contributing 7,125,644 (2018: 6,218,455) matching shares on a cumulative basis.

(d) Long-Term Incentive Plan (LTIP)

LTIP awards have TSR, ROCE and EPS targets and vest over a three year period following the financial year that they relate to and, where an award exceeds a performance target, are typically settled by equity.

	LTIP 2014 Options Number	LTIP 2015 Options Number	LTIP 2016 Options Number	LTIP 2017 Options Number	LTIP 2018 Options Number
Outstanding at the beginning of the year	4,046	3,332,468	3,545,805	6,965,893	–
Granted during the year	–	–	–	–	7,850,345
Lapsed during the year	(4,046)	(3,332,468)	(1,148,449)	(1,269,197)	–
Outstanding at the end of the year	–	–	2,397,356	5,696,696	7,850,345
Exercisable at the end of the year	–	–	–	–	–
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

The DIP was a one-off award which vests over the period 16 December 2015 to 16 June 2019 and are typically settled by equity.

	DIP Options Number
Outstanding at the beginning of the year	1,100,644
Lapsed during the year	(75,143)
Exercised during the year	(432,997)
Outstanding at the end of the year	592,504
Exercisable at the end of the year	97,336
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	86.5

(f) Executive Share Plan (ESP)

ESP awards vest over a three year period following the financial year that they relate to and are typically settled by equity.

	ESP 2015 Options Number	ESP 2016 Options Number	ESP 2017 Options Number	ESP 2018 Options Number
Outstanding at the beginning of the year	659,240	1,239,588	3,244,123	–
Granted during the year	–	–	–	4,880,936
Lapsed during the year	(3,744)	(35,841)	–	(246,777)
Exercised during the year	(304,773)	(537,943)	(781,994)	–
Outstanding at the end of the year	350,723	665,804	2,462,129	4,634,159
Exercisable at the end of the year	350,723	273,485	404,451	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	86.6	90.7	87.5	N/A

35 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes model except for the TSR element of the LTIPs which were measured using a Monte Carlo model. The inputs into the models were as follows:

	2019	2018
Weighted average share price at grant date (pence)		
– DBS	84.2	140.1
– SAYE December 2017	–	108.0
– SAYE December 2018	86.4	–
– LTIP	84.1	104.7
– ESP	84.2	104.7
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– SAYE December 2017	–	83.0
– SAYE December 2018	70.0	–
– LTIP	–	–
– ESP	–	–
Expected volatility (%)		
– DBS	N/A	N/A
– SAYE December 2017	–	35
– SAYE December 2018	31	–
– LTIP	31	32
– ESP	N/A	N/A
Expected life (years)		
– DBS	3.0	3.0
– SAYE schemes	3.0	3.0
– LTIP	2.75	2.35
– ESP	3.0	3.0
Rate of interest (%)		
– DBS	N/A	N/A
– SAYE December 2017	–	0.5
– SAYE December 2018	0.75	–
– LTIP	–	–
– ESP	–	–
Expected dividend yield (%)		
– DBS	–	–
– SAYE December 2017	–	–
– SAYE December 2018	–	–
– LTIP	–	–
– ESP	–	–

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% per annum pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

	2019 pence	2018 pence
Weighted average fair value of options at grant date		
– DBS	84.2	140.1
– SAYE December 2017	–	38.0
– SAYE December 2018	27.0	–
– LTIP	84.1	70.7
– ESP	84.2	104.7

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36 Retirement benefit schemes

Non-Rail

Defined contribution plans

Payments to defined contribution plans are charged as an expense as they fall due. There is no further obligation to pay contributions into a defined contribution plan once the contributions specified in the plan rules have been paid. The main defined contribution arrangements are summarised below. The total expense recognised in the consolidated income statement of £38.0m (2018: £23.9m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

UK

The Group operates defined contribution plans for all Group and First Bus employees who have joined a pension arrangement since April 2013. They receive a company match to their contributions, which varies by salary and/or service.

North America

Employees in the US have been able to join a defined contribution arrangement for many years. They receive a company match which varies by employment status.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern plan, whilst managers and supervisors join the Supervisory plan. They receive a company contribution dependent on their personal contribution and the plan they are in.

Defined benefit plans

The Group sponsors 10 funded defined benefit plans across its non-rail operations, covering approximately 50,000 former and current employees. All of the Group's defined benefit arrangements are closed to new entrants. The main defined benefit plans are summarised below. Overall, the duration of the company's obligations is approximately 19 years although the durations of the individual schemes tend to vary with the UK exposures tending to be of longer duration and the North American exposures tending to be of shorter durations.

UK

The majority of defined benefit provision is through trust-based schemes. The assets of the trust-based schemes are invested separately from those of the Group, and the schemes are run independently of the Group by trustee boards. There is a requirement for the trustee boards to have some member representation, with the other trustee directors being company appointed. The Trustee is responsible for the investment policy in respect of the assets of the fund, although the employer must be consulted on this, and typically has some input into the investment decisions.

Triennial valuations assess the cost of future service and the funding position. The employer and Trustee are required to agree on assumptions for the valuations and to agree the contributions that result from these. Deficit recovery contributions may be required in addition to future service contributions. In agreeing contribution rates, reference must be made to the affordability of contributions by the employer.

Surplus after benefits have been paid/secured, can be repaid to the employer.

On 26 October 2018, the High Court issued a ruling requiring all occupational pension schemes to equalise Guaranteed Minimum Pension benefits ('GMP' – effectively a substitute for certain State pension benefits payable through contracted-out occupational pension arrangements) between men and women. The Group is required to reflect an estimated cost of equalisation through our Income Statement as a past service charge. This has resulted in an estimated £23m cost across all affected schemes. The actual cost will only be known once the exercise has been completed; the Group expects any subsequent changes to be recognised in Other Comprehensive Income. This issue is not unique to the company and the Group expects similar treatment to be applied by any entities with GMP exposures.

The First Bus Pension Scheme

This provides pension benefits to employees in First Bus. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section. The scheme closed to defined benefit accrual on 5 April 2018.

A smaller Group scheme provides defined benefit pensions to Group employees. This scheme closed to defined benefit accrual on 5 April 2018.

The rules governing both these schemes grant the employer influence over the allocation of any residual surplus once the beneficiaries' rights have been secured. Accordingly, the net surplus/deficit is recognised in full for these schemes.

Local Government Pension Schemes

The Group participates in three Local Government Pension Schemes (LGPS), one in England and two in Scotland, which provide salary related benefits. These differ from trust-based schemes in that their benefits and governance are prescribed by specific legislation, and they are administered by local authorities. New members have not been admitted to the LGPS for several years, although benefit accrual continues for existing members.

Contribution rates are agreed for the three-year period until the next valuation. The balance sheet position in respect of the LGPS funds is restricted per the requirements of IFRIC14. During the year, the LGPS regulations changed, effectively creating a constructive obligation from the fund to pay assets in excess of the fund's cessation charge to the employer when a cessation event is triggered. This has resulted in additional surplus being recognisable in the Strathclyde Fund compared to the previous year end, although the funding of the other LGPS arrangements is such that no equivalent adjustment is required.

36 Retirement benefit schemes continued

North America

US

The Group operates two defined benefit arrangements in the US although benefit accrual ceased some years ago. The plans are valued annually, when the funding position and minimum and maximum contributions are established. Deficits are paid off as required by legislation.

Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All the plans are closed to new members, although benefit accrual continues for existing members.

The plans are valued annually, when the cost of future service and the funding position are identified. Future service costs are shared between the members and the Company, with deficit contributions being met entirely by the Company.

Valuations

At their last valuations, the defined benefit schemes had funding levels between 71% and 114% (2018: 71% and 108%). The market value of the assets at 31 March 2019 for all non-rail operation defined benefit schemes totalled £3,161m (2018: £3,077m).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors five sections of the RPS, relating to its franchising obligations for its TOCs, and a further section for Hull Trains, its Open Access operator.

The RPS is governed by the Railways Pension Trustee Company Limited, and is subject to regulation from the Pensions Regulator and relevant UK legislation.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members.

For the TOC sections, under the franchising obligations, the employer's responsibility is to pay the contributions requested by the Trustee, whilst it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The latest triennial statutory valuation of the various Rail Pension Scheme sections in which the Group is involved, carried out with an effective date of 31 December 2013 (31 December 2016 for Hull Trains) and the IAS19 actuarial valuations are carried out for different purposes and may result in materially different outcomes. There are ongoing funding deficits across the RPS scheme sections in which FirstGroup plc participates and the IAS19 valuation is set out in the disclosures below.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered by IAS 19 'Employee Benefits (Revised)'. The contributions currently committed to being paid to each TOC section are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised) and the Group does not account for uncommitted contributions towards the sections' current or expected future deficits. Therefore, the Group does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the Group is not currently committed to fund the deficit.

Movements in the franchise adjustment in a period arise from and are accounted for as follows:

Any service cost for the period for which the contribution schedule requires no contributions from the entity are reflected as a franchise adjustment to the service cost in the income statement, which is considered to be in line with paragraphs 92-94 of IAS19 (Revised).

Under circumstances where contributions are renegotiated, such as following a statutory valuation, any adjustment necessary to reflect an obligation to fund past service cost will be recognised in the Income Statement.

At the previous year-end, we noted that The Pensions Regulator (TPR) had been in discussion with the Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

TPR and the Department for Transport (DfT) had requested that the Rail Delivery Group (RDG) co-ordinate the Train Operators' involvement in an industry-wide review of Scheme funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current franchise agreements will allow the Scheme to continue with its current funding strategy in the short-term. Nevertheless, TPR believes that a higher level of funding is required in the longer-term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPR's key objectives whilst maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members, is achievable.

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36 Retirement benefit schemes continued

Valuation assumptions

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	First Bus 2019 %	First Rail 2019 %	North America 2019 %	First Bus 2018 %	First Rail 2018 %	North America 2018 %
Key assumptions used:						
Discount rate	2.40	2.40	3.50	2.70	2.70	3.70
Expected rate of salary increases	2.15	3.40	2.50	2.05	3.30	2.50
Inflation – CPI	2.15	2.15	2.00	2.05	2.05	2.00
Future pension increases	2.15	2.15	–	2.05	2.05	–
Post retirement mortality (life expectancy in years) ¹						
Current pensioners at 65:	19.1	21.1	18.2	19.8	20.6	18.1
Future pensioners at 65 aged 45 now:	20.6	22.3	19.4	21.3	21.9	19.3

1 Life expectancies are weighted averages, reflecting the different underlying plans.

The Group reviews its longevity assumptions for each scheme following completion of funding valuations. The assumptions adopted reflect recent scheme experience and views on future longevity which may include industry specific adjustment where appropriate. The Group obtains specialist actuarial advice before agreeing longevity assumptions.

Sensitivity of retirement benefit obligations to changes in assumptions

The method used to derive the sensitivities is the same as that used to calculate the main disclosures. The exception is longevity where we have instead applied a general rule that one year's extra life expectancy adds c.4% to the defined benefit obligation (with resultant impacts on rail and irrecoverable surplus adjustments). This is consistent with the method applied to deriving last year's sensitivities.

A 0.1% movement in the discount rate would impact the 2018/19 balance sheet position by approximately £28m. A 0.1% movement in the inflation rate would impact the 2018/19 balance sheet position by approximately £23m. A one year movement in life expectancy would impact the balance sheet position by approximately £94m.

Management considers that, while greater variation might also be reasonably possible, the figures provide a suitable indication of the potential impact of each 0.1% change in the financial assumptions and one year change in the mortality assumption.

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Year to 31 March 2019					
Current service cost	(12.5)	(9.1)	(21.6)	(87.7)	(109.3)
Impact of franchise adjustment on operating cost	–	–	–	50.8	50.8
Past service loss including curtailments and settlements	(22.3)	(2.0)	(24.3)	(1.8)	(26.1)
Net interest cost	(2.4)	(5.6)	(8.0)	(16.8)	(24.8)
Impact of franchise adjustment on net interest cost	–	–	–	16.7	16.7
	(37.2)	(16.7)	(53.9)	(38.8)	(92.7)
Year to 31 March 2018					
Current service cost	(21.5)	(10.0)	(31.5)	(72.5)	(104.0)
Impact of franchise adjustment on operating cost	–	–	–	40.7	40.7
Past service loss including curtailments and settlements	–	(0.3)	(0.3)	–	(0.3)
Net interest cost	(3.0)	(7.1)	(10.1)	(11.4)	(21.5)
Impact of franchise adjustment on net interest cost	–	–	–	11.4	11.4
	(24.5)	(17.4)	(41.9)	(31.8)	(73.7)

36 Retirement benefit schemes continued

Net interest comprises:

	2019 £m	2018 £m
Interest cost (table (c))	(137.6)	(131.6)
Interest income on assets (table (d))	117.1	114.8
Interest on irrecoverable surplus (table (h))	(4.3)	(4.7)
	(24.8)	(21.5)

During the year £24.6m (2018: £17.8m) of gross administrative expenses were incurred. Net administration expenses were £20.1m (2018: £15.4m).

(b) Balance sheet

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes are as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 31 March 2019					
Fair value of schemes' assets	2,693.4	468.0	3,161.4	2,077.9	5,239.3
Present value of defined benefit obligations	(2,644.9)	(632.4)	(3,277.3)	(3,451.2)	(6,728.5)
(Deficit)/surplus before adjustments	48.5	(164.4)	(115.9)	(1,373.3)	(1,489.2)
Adjustment for irrecoverable surplus ¹ (table (h))	(188.2)	–	(188.2)	–	(188.2)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	820.9	820.9
Adjustment for employee share of RPS deficits (40%)	–	–	–	549.3	549.3
Deficit in schemes	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)
Liability recognised in the balance sheet	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	69.2	–	69.2	–	69.2
Non-current liabilities	(208.9)	(164.4)	(373.3)	(3.1)	(376.4)
	(139.7)	(164.4)	(304.1)	(3.1)	(307.2)
At 31 March 2018					
Fair value of schemes' assets	2,622.6	454.8	3,077.4	1,866.0	4,943.4
Present value of defined benefit obligations	(2,570.6)	(617.5)	(3,188.1)	(2,951.1)	(6,139.2)
(Deficit)/surplus before adjustments	52.0	(162.7)	(110.7)	(1,085.1)	(1,195.8)
Adjustment for irrecoverable surplus ¹ (table (h))	(160.4)	–	(160.4)	–	(160.4)
First Rail franchise adjustment (table (f)) (60%)	–	–	–	648.4	648.4
Adjustment for employee share of RPS deficits (40%)	–	–	–	434.1	434.1
Deficit in schemes	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)
Liability recognised in the balance sheet	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	32.5	–	32.5	–	32.5
Non-current liabilities	(140.9)	(162.7)	(303.6)	(2.6)	(306.2)
	(108.4)	(162.7)	(271.1)	(2.6)	(273.7)

¹ The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

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36 Retirement benefit schemes continued

(c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	2,570.6	617.5	3,188.1	2,951.1	6,139.2
Current service cost	12.5	9.1	21.6	87.7	109.3
Past service costs and curtailments	22.3	(1.3)	21.0	1.8	22.8
Effect of settlements	–	(22.5)	(22.5)	–	(22.5)
Interest cost	68.0	22.7	90.7	46.9	137.6
Employee share of change in DBO (not attributable to franchise adjustment)	1.0	1.0	2.0	91.0	93.0
Experience loss/(gain) on DBO	(19.6)	21.5	1.9	10.7	12.6
Loss/(gain) on change of assumptions (demographic)	(33.7)	(0.7)	(34.4)	58.1	23.7
Loss on change of assumptions (financial)	147.2	12.2	159.4	286.9	446.3
Benefit payments	(123.4)	(64.2)	(187.6)	(83.0)	(270.6)
Currency loss	–	37.1	37.1	–	37.1
At 31 March 2019	2,644.9	632.4	3,277.3	3,451.2	6,728.5
	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	2,586.6	725.4	3,312.0	1,519.9	4,831.9
New SWR franchise	–	–	–	1,246.4	1,246.4
Current service cost	21.5	10.0	31.5	72.5	104.0
Effect of settlements	–	(4.5)	(4.5)	–	(4.5)
Interest cost	70.8	24.1	94.9	36.7	131.6
Employee share of change in DBO (not attributable to franchise adjustment)	10.8	1.1	11.9	68.8	80.7
Experience (gain)/loss on DBO	(33.8)	(3.0)	(36.8)	27.3	(9.5)
Gain on change of assumptions (demographic)	(17.1)	(3.0)	(20.1)	–	(20.1)
Loss/(gain) on change of assumptions (financial)	52.2	(0.5)	51.7	31.8	83.5
Benefit payments	(120.4)	(63.3)	(183.7)	(52.3)	(236.0)
Currency gain	–	(68.8)	(68.8)	–	(68.8)
At 31 March 2018	2,570.6	617.5	3,188.1	2,951.1	6,139.2

During the year, there was a restructuring of the Group's Greyhound business in Canada which resulted in a settlement charge. Only a proportion of the benefit payments expected in respect of this settlement had been made at the year-end date. The income statement and closing DBO reflect the amounts settled and the change in IAS19 obligation already experienced. We anticipate that both assets and DBO will be reduced by future lump sum payments of £20.8m.

36 Retirement benefit schemes continued

(d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2018	2,622.6	454.8	3,077.4	1,866.0	4,943.4
Settlement impact on assets	–	(25.9)	(25.9)	–	(25.9)
Interest income on assets	69.9	17.1	87.0	30.1	117.1
Company contributions	43.1	27.2	70.3	38.6	108.9
Employee contributions	1.0	1.0	2.0	25.2	27.2
Employee share of return on assets	–	–	–	20.1	20.1
Actuarial gain on assets	80.3	31.7	112.0	181.0	293.0
Benefit paid from schemes	(116.3)	(57.9)	(174.2)	(72.0)	(246.2)
Employer administration expenses	(7.2)	(6.3)	(13.5)	(11.1)	(24.6)
Currency gain	–	26.3	26.3	–	26.3
At 31 March 2019	2,693.4	468.0	3,161.4	2,077.9	5,239.3
	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2017	2,614.5	508.7	3,123.2	1,018.0	4,141.2
New SWR franchise	–	–	–	854.7	854.7
Settlement impact on assets	–	(4.8)	(4.8)	–	(4.8)
Interest income on assets	72.5	17.0	89.5	25.3	114.8
Company contributions	62.4	17.6	80.0	31.5	111.5
Employee contributions	10.8	1.1	11.9	20.7	32.6
Employee share of return on assets	–	–	–	16.9	16.9
Actuarial (loss)/gain on assets	(17.1)	26.8	9.7	(48.9)	(39.2)
Benefit paid from schemes	(115.1)	(56.8)	(171.9)	(46.2)	(218.1)
Employer administration expenses	(5.4)	(6.4)	(11.8)	(6.0)	(17.8)
Currency loss	–	(48.4)	(48.4)	–	(48.4)
At 31 March 2018	2,622.6	454.8	3,077.4	1,866.0	4,943.4

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36 Retirement benefit schemes continued

(e) Asset allocation

The vast majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the schemes' assets at the balance sheet dates were as follows:

At 31 March 2019	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	567.4	156.8	724.2	–	724.2
Private equity	56.8	–	56.8	182.7	239.5
Fixed income/liability driven	1,635.7	183.0	1,818.7	1.7	1,820.4
Other return seeking assets	286.4	36.7	323.1	1,856.9	2,180.0
Real estate	57.1	78.5	135.6	29.0	164.6
Cash and cash equivalents	90.0	13.0	103.0	7.6	110.6
	2,693.4	468.0	3,161.4	2,077.9	5,239.3

The table above includes a cash holding of £80m that is a component of an investment designed to provide exposure to the equity market. The portfolio will therefore benefit from equity market investment that is £80m higher than shown under equities above.

At 31 March 2018	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	890.4	167.9	1,058.3	–	1,058.3
Private equity	90.3	–	90.3	164.6	254.9
Fixed income/liability driven	1,265.8	167.0	1,432.8	1.1	1,433.9
Other return seeking assets	279.8	41.4	321.2	1,660.0	1,981.2
Real estate	85.7	63.3	149.0	40.3	189.3
Cash and cash equivalents	10.6	15.2	25.8	–	25.8
	2,622.6	454.8	3,077.4	1,866.0	4,943.4

The assets held by the pension scheme are not used by the Group and as such are transferable without detriment to the Group's ongoing business operations.

(f) Accounting for First Rail pension arrangements

In relation to the defined benefit pension arrangements it sponsors for employees of the rail franchises it operates, FirstGroup's obligations differ from its obligations to its other pension schemes. These are shared cost arrangements. All the costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, at the end of the franchise, any deficit or surplus in the scheme passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder. FirstGroup's obligations are thus limited to its contributions payable to the schemes during the period over which it operates the franchise.

The disclosed information has been set out to illustrate the effect of this on the costs borne by FirstGroup. In particular, 40% of the costs, gains or losses and any deficit are attributed to the members. In addition, the total surplus or deficit is adjusted by way of a 'franchise adjustment' which includes an assessment of the changes that will arise from contracted future contributions and which is the portion of the deficit or surplus projected to exist at the end of the franchise which the Group will not be required to fund or benefit from. The remaining balance sheet items and gains or losses relate to Hull Trains which is operated under direct access, rather than franchise.

36 Retirement benefit schemes continued

Reconciliation of Rail franchises:

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2018	1,866.0	(2,951.1)	434.1	648.4	(2.6)
Income statement					
Operating					
– Service cost	–	(135.1)	54.0	49.0	(32.1)
– Admin cost	–	(11.0)	4.4	–	(6.6)
– Past service costs and curtailments	–	(3.1)	1.3	1.8	–
Total operating	–	(149.2)	59.7	50.8	(38.7)
Financing	50.1	(78.2)	11.2	16.8	(0.1)
Total income statement	50.1	(227.4)	70.9	67.6	(38.8)
Amounts paid to/(from) scheme					
Employer contributions	38.6	–	(15.4)	15.3	38.5
Employee contributions	25.2	–	(10.1)	(15.0)	0.1
Benefit paid	(83.0)	83.0	–	–	–
Total	(19.2)	83.0	(25.5)	0.3	38.6
Expected closing position	1,896.9	(3,095.5)	479.5	716.3	(2.8)
Change in financial assumptions	–	(286.9)	114.7	171.7	(0.5)
Change in demographic assumptions	–	(58.1)	23.3	34.8	–
Return on assets in excess of discount rate	181.0	–	(72.5)	(108.3)	0.2
Experience	–	(10.7)	4.3	6.4	–
Total	181.0	(355.7)	69.8	104.6	(0.3)
At 31 March 2019	2,077.9	(3,451.2)	549.3	820.9	(3.1)

	Assets £m	Liabilities £m	Adjustment for employee share of RPS deficits (40%) £m	Franchise adjustment £m	Net £m
At 1 April 2017	1,018.0	(1,519.9)	200.8	299.1	(2.0)
New SWR franchise	854.7	(1,246.4)	156.7	235.0	–
Income statement					
Operating					
– Service cost	–	(110.8)	44.3	40.7	(25.8)
– Admin cost	–	(6.0)	–	–	(6.0)
Total operating	–	(116.8)	44.3	40.7	(31.8)
Financing	42.2	(61.2)	7.6	11.4	–
Total income statement	42.2	(178.0)	51.9	52.1	(31.8)
Amounts paid to/(from) scheme					
Employer contributions	31.5	–	(12.6)	12.5	31.4
Employee contributions	20.8	–	(8.3)	(12.3)	0.2
Benefit paid	(52.3)	52.3	–	–	–
Total	–	52.3	(20.9)	0.2	31.6
Expected closing position	1,914.9	(2,892.0)	388.5	586.4	(2.2)
Change in financial assumptions	–	(31.8)	12.7	18.8	(0.3)
Return on assets in excess of discount rate	(48.9)	–	19.6	29.2	(0.1)
Experience	–	(27.3)	13.3	14.0	–
Total	(48.9)	(59.1)	45.6	62.0	(0.4)
At 31 March 2018	1,866.0	(2,951.1)	434.1	648.4	(2.6)

Notes to the consolidated financial statements

continued

36 Retirement benefit schemes continued

(g) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2019 £m	2018 £m
Actuarial loss on DBO	(482.6)	(53.9)
Actuarial gain/(loss) on assets	293.0	(39.2)
Actuarial gain on franchise adjustment	174.4	107.7
Adjustment for irrecoverable surplus	(23.5)	12.0
Actuarial (losses)/gains on defined benefit schemes	(38.7)	26.6

(h) Adjustment for First Bus irrecoverable surplus

Movements in the adjustment for the First Bus irrecoverable surplus were as follows:

	2019 £m	2018 £m
At 1 April	(160.4)	(167.7)
Interest on irrecoverable surplus	(4.3)	(4.7)
Actuarial (loss)/gain on irrecoverable surplus	(23.5)	12.0
At 31 March	(188.2)	(160.4)

Cash contributions

As at 31 March 2019 the Group is committed to make deficit recovery payments with a net present value of £204m (2018: £207m), over the period to July 2035, in respect of the First Bus Pension Scheme. The net present value reflects the current value of deficit recovery payments that would be required to meet the actuarial deficit in full, discounted at 7.3% per annum. The IAS 19 deficit of the scheme at 31 March 2019 is £208.4m (2018: £140.8m). Management consider that, were a pension asset to arise in respect of this scheme, this would be fully recoverable through actions within the Group's control, in line with the rules of the scheme.

The estimated amounts of employer contributions expected to be paid to the defined benefit schemes during the financial year to 31 March 2020 is £94m (year to 31 March 2019: £96m).

Risks associated with defined benefit plans:

Generally the number of employees in defined benefit plans is reducing rapidly, as these plans are largely closed to new entrants, and in most cases to future accrual. Consequently, the number of defined contribution members is increasing.

The First Bus Pension Scheme and the FirstGroup Pension Scheme both closed to future accrual on 5 April 2018. This change will serve to limit the risks associated with defined benefit pension provision by the Group.

Despite remaining open to new entrants and future accrual, the risks posed by the RPS are limited, as under the franchise arrangements, the First Rail TOCs are not responsible for any residual deficit at the end of a franchise. As such, there is only short term cash flow risk within this business.

36 Retirement benefit schemes continued

The key risks relating to the defined benefit pension arrangements and the steps taken by the Group to mitigate them are as follows:

Risk	Description	Mitigation
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. Most of the defined benefit arrangements hold a significant proportion of return-seeking assets (equities, diversified growth funds and global absolute return funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.	Asset liability modelling has been undertaken to ensure that any risks taken are expected to be rewarded and, in relation to the Company's largest pension exposures further work is being undertaken to ensure that the investment strategy remains the most appropriate.
Inflation risk	A significant proportion of the UK benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.	The business has certain inflation linking in its revenue streams that helps to offset this risk. In addition, the investment strategy reviews have led to increased inflation hedging, mainly through swaps or holding Index Linked Gilts in the UK schemes.
Uncertainty over level of future contributions	Contributions to defined benefit schemes can be unpredictable and volatile as a result of changes in the funding level revealed at each valuation.	The Group engages with the Trustees and Administering Authorities to consider how contribution requirements can be made more stable. The level of volatility and the Group's ability to control contribution levels varies between arrangements.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	Linking retirement age to State Pension Age (as in The First Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
Legislative risk	Future legislative changes are uncertain. In the past these have led to increases in obligations, through introducing pension increases, and vesting of deferred pensions, or reduced investment return through the ability to reclaim Advance Corporation Tax.	The Group receives professional advice on the impact of legislative changes.

37 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, which comprise the plc Board who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Directors' remuneration report on pages 76 to 97.

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Basic salaries ¹	0.8	1.6
Performance-related bonuses	0.1	0.1
Benefits in kind	0.0	0.1
Fees	0.9	0.7
Share-based payment	0.2	1.1
	2.0	3.6

¹ Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

Notes to the consolidated financial statements

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38 Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 March 2019 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited, Heol Gwyrasydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Bolton Coachways & Travel Limited, Wallshaw Street, Oldham, OL1 3TR

Bristol Bus Station Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Butler Woodhouse Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited (03128545)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CCB TV Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest Limited (02844270)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest London Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

CentreWest ESOP Trustee (UK) Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Chester City Transport Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

East Coast Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

East West Rail Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Eastern Scottish Omnibuses Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

FB Canada Holdings Limited (SC356482)⁴, 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited (SC356484)⁴, 395 King Street, Aberdeen, AB24 5RP

FG Properties Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FGI Canada Holdings Limited (SC356485)⁴, 395 King Street, Aberdeen, AB24 5RP

First Aberdeen Limited, 395 King Street, Aberdeen, AB24 5RP

First Ashton Limited, Wallshaw Street, Oldham, OL1 3TR

First Beeline Buses Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Bus Central Services Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Caledonian Sleeper Limited, 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Capital East Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First CentreWest Buses Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First City Line Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Customer Contact Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Cymru Buses Limited, Heol Gwyrasydd, Penlan, Swansea, West Glamorgan, SA5 7BN

First Dublin Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First East Anglia Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Eastern Counties Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Essex Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First European Holdings Limited (05113697)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Games Transport Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Glasgow Limited¹, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.1) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Glasgow (No.2) Limited, 100 Cathcart Road, Glasgow, G42 7BH

First Great Western Link Limited³, 15 Canada Square, Canary Wharf, London, E14 5GL

First Great Western Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Great Western Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Greater Western Limited, Milford House 1 Milford Street, Swindon, Wiltshire, SN1 1HL

First Hampshire & Dorset Limited, Bus Depot, Empress Road, Southampton, Hampshire, SO14 0JW

First Information Services Limited (SC288178)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited (08743641)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First International No.1 Limited (08746564)⁴, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Manchester Limited, Wallshaw Street, Oldham, OL1 3TR

First Merging Pension Schemes Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Metro Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Midland Red Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First North West (Schools) Limited, Wallshaw Street, Oldham, OL1 3TR

First North West Limited (02862042)⁴, Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited, 21 Arthur Street, Belfast, BT1 4GA

First Pioneer Bus Limited, Wallshaw Street, Oldham, OL1 3TR

First Potteries Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Provincial Buses Limited, Empress Road, Southampton, Hampshire, SO14 0JW

First Rail Holdings Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Rail Support Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

First Scotland East Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

First ScotRail Limited, 395 King Street, Aberdeen, AB24 5RP

First ScotRail Railways Limited, 395 King Street, Aberdeen, AB24 5RP

First Shared Services Limited, 395 King Street, Aberdeen, AB24 5RP

First South West Limited, Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

First Student UK Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

38 Information about related undertakings continued

First Thameslink Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trains Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First TransPennine Express Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Travel Solutions Limited, Unit 20 Time Technology Park, Blackburn Road, Burnley, BB12 7TG

First Wessex National Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West of England Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First West Coast Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First West Yorkshire Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

First York Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

FirstBus (North) Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus (South) Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Group Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstBus Investments Limited (02205797)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup American Investments (SC330038)⁴, 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited (03486937)^{1&4}, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Construction Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup Holdings Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup (QUEST) Trustees Limited¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

FirstGroup US Finance Limited (SC330060)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings (SC330054)⁴, 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

G.E. Mair Hire Services Limited, 395 King Street, Aberdeen, AB24 5RP

G.A.G. Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Railways Group Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GB Railways Limited, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

GMBN Employees' Share Scheme Trustee Limited, Bus Depot, Wallshaw Street, Oldham, Lancashire, OL1 3TR

Great Western Holdings Limited¹, Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited³, 15 Canada Square, Canary Wharf, London, E14 5GL

Great Western Trustees Limited, Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Greyhound Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

GRT Bus Group Limited (SC114203)^{1&4}, 395 King Street, Aberdeen, AB24 5RP

Gurna Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Halesworth Transit Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Hampshire Books Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Hull Trains Company Limited, 4th Floor Europa House, 184 Ferensway, Hull, HU1 3UT

Indexbegin Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

KCB Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Central Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kelvin Scottish Omnibuses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Kirkpatrick of Deeside Limited, 395 King Street, Aberdeen, AB24 5RP

Lynton Bus and Coach Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Lynton Company Services Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Mainline ESOP Trustees (No 1) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline ESOP Trustees (No 2) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Partnership Limited¹, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Mainline Employees' Shareholding Trustees Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Midland Bluebird Limited, Carmuir House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

North Devon Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Northampton Transport Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Portsmouth Transit Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Quickstep Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Reiver Ventures Properties Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reynard Buses Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Holdings Limited (02272577)⁴, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Travel Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

S Turner & Sons Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Scott's Hospitality Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Sheafline (S.U.T.) Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield & District Traction Company Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Sheffield United Transport Limited, Olive Grove, Sheffield, South Yorkshire, S2 3GA

Skillplace Training Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

Smiths of Portland Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

SMT Omnibuses Limited, Carmuir House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Southampton CityBus Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Southampton City Transport Company Limited, Empress Road, Southampton, Hampshire, SO14 0JW

Sovereign Quay Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited¹, Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylor's Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

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38 Information about related undertakings continued

The FirstGroup Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

The First UK Bus Pension Scheme Trustee Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Totaljourney Limited¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Truronian Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Wessex of Bristol Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

West Dorset Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

Western National Holdings Limited, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

ATE Management of Duluth, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Atlantic Greyhound Lines of Virginia, Inc., 350 N. St. Paul Street, Dallas, Texas 75201

Berkshire Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Central Mass Transit Management Co, Inc., 287 Grove St, Worcester, Massachusetts 01606

Central Virginia Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Champion City Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Durham City Transit Company, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First DG, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup Investment Corporation, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Mile Square Transportation LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student Management Services LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Student, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail Services of TX, LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Vehicle Services, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America Holdings, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup America, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

FirstGroup International, Inc., 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

Franklin Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

GLI Corporate Risk Solutions, Inc., 350 N. St. Paul Street, Dallas, Texas 75201

Greyhound Lines, Inc., 350 N. St. Paul Street, Dallas, Texas 75201

H.N.S. Management Company, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw International Finance, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Medical Holdings, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Holdings, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Transportation, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Laidlaw Two, Inc., Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801

Laredo Transit Management, Inc., 2221 E Lamar Blvd, Suite 500, Arlington, Texas 76007

LSX Delivery, LLC, 350 N. St. Paul Street, Dallas, Texas 75201

Merrimack Valley Area Transportation, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

MidSouth Transportation Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

National Insurance and Indemnity Corporation, 30 Main Street, Suite 330, Burlington, Vermont 05401

On Time Delivery Service, Inc., 350 N. St. Paul Street, Dallas, Texas 75201

Paratransit Brokerage Services TM, Inc., 287 Grove Street, Worcester, Massachusetts 01606

Paratransit Management of Berkshire, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Paratransit Management of Brockton, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Ride Services, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Transport LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Shuttle Services M.I.A., Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

South Coast Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Southwestern Virginia Transit Management, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Special Transportation Services, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Springfield Area Transit Company, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SuTran, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Abilene, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ada County, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Alexandria, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Ashville, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Canyon County, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Central Maryland, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Clinton County, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Denton, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Dutchess County, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Mobile, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Montgomery, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Racine, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Richland, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Rocky Mount, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Sherman, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Spartanburg, Inc., 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

38 Information about related undertakings continued

Transit Management of St Joseph, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transit Management of Wilmington, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Valley Area Transit Company, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Valley Garage Co. 350 N. St. Paul Street, Dallas, Texas 75201

Valley Transit Co, Inc. 350 N. St. Paul Street, Dallas, Texas 75201

Subsidiaries – not wholly owned but incorporated in the United States of America

DG 21 LLC (51%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

SYPS LLC (87.5%), 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Transportation Realty Income Partners Limited Partnership (50%), 600 Vine Street Suite 1400, Cincinnati, Ohio 45202

Subsidiary – wholly owned and incorporated in US Virgin Islands

Primaïsla, Inc. 1 Estate Hope, St. Croix

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited. 25-28 North Wall Quay, Dublin

FirstGroup Treasury Finance (Ireland) DAC³, Airport Business Park, Dublin Airport, Dublin

Last Passive Limited, 25–28 North Wall Quay, Dublin

Subsidiary – wholly owned and incorporated in India

Transit Operations India Private Limited, Lentin Chambers, 2nd Floor, Dalal Street, Fort Mumbai 400023

Subsidiary – wholly owned and incorporated in Panama

First Transit de Panama, Inc. Morgan & Morgan, Costa del Este, MMG Tower, 23rd Floor, Panama City

Subsidiaries – wholly owned and incorporated in Canada

Autobus Transco (1988) Limited, Blake, Cassels & Graydon LLP, 1 Place Ville Marie, Suite 3000, Montreal, Quebec

FC Investment Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

FirstCanada ULC, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Holdings Limited, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

GCT Investment Limited Partnership, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, Alberta, T2P 4J8

Gray Coach Travel, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Greyhound Canada Transportation ULC, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bental Centre, Vancouver, British Columbia V7X 1L3

Greyhound Courier Express Limited, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bental Centre, Vancouver, British Columbia V7X 1L3

Manhattan Equipment Supply Company Limited, 1111 International Blvd, Suite 700, Burlington, Ontario L7L 6W1

Subsidiary not wholly owned but incorporated in Canada

FirstCanada Transportation BC Limited (49%), Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bental Centre, Vancouver, British Columbia V7X 1L3

GACCTO Limited (50%), 130 King Street West, #1600, Toronto, Ontario M5X 1J5

Subsidiaries – wholly owned and incorporated in Puerto Rico

First Transit of Puerto Rico, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

First Transit Rail of Puerto Rico, Inc. 361 San Francisco Street, San Juan

Subsidiary – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S.A. de R.L. de C.V. 350 N. St. Paul Street, Dallas, Texas 75201

Subsidiaries not wholly owned but incorporated in the United Kingdom

Careroute Limited (80%), Empress Road, Southampton, Hampshire, SO14 0JW

First/Keolis Holdings Limited (55%)¹, 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Holdings Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First/Keolis TransPennine Limited (55%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First MTR South Western Trains Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia East Midlands Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

First Trenitalia West Coast Rail Limited (70%), 4th Floor Capital House, 25 Chapel Street, London, NW1 5DH

PTI Website Limited (20%)¹, 8th Floor The Point, 37 North Wharf Road, London, W2 1AF

Leicester CityBus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester CityBus Limited (94%)², Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Limited (50%), J24 Hinkley Point C, Park and Ride, Huntworth Business Park, Bridgwater, TA6 6TS

- 1 Directly owned by FirstGroup plc.
- 2 All shares held in subsidiary undertakings are ordinary shares, with the exception of Leicester CityBus Limited where the Group owns 100% of its redeemable cumulative preference shares and 94% of its ordinary shares.
- 3 In liquidation.
- 4 For the year ending 31 March 2019 these subsidiaries are exempt from audit of individual accounts under S479A of the UK Companies Act 2006.

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of FirstGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 38 of the Consolidated financial statements and 1 to 10 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of FirstGroup plc

continued

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Accounting for rail franchise contracts, including the forecast profitability of the SouthWestern Railway ("SWR") and TransPennine Express ("TPE") franchises; - Forecast margin and long term growth rate used in the impairment testing of the Greyhound cash generating unit; - Valuation of significant claims and the estimate of incurred but not reported claims in the North American self-insurance provision; - Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities; and - Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit.
Materiality	The materiality that we used for the Group financial statements was £7.5 million which was determined on the basis of 3.7% of profit before tax adjusted for intangible amortisation, guaranteed minimum pensions charge, material gains and losses on property disposals, the SWR onerous contract provision charge and the North American insurance reserves charge recorded as an adjusting item.
Scoping	We performed full scope audit procedures at each of the five operating divisions as well as certain Group central functions. These components account for over 95% of the Group's net assets, revenue, and operating profit.
Significant changes in our approach	Our audit approach for the current year included the following changes, as compared to our audit of the prior year: - The key audit matter relating to accounting for the rail franchise contracts no longer includes the forecast profitability of the Great Western Railway ("GWR") and the recognition of certain performance related amounts receivable under the franchise contracts as the level of judgement involved in the accounting for these areas has reduced during the year; - The forecast profitability of the SWR franchise is included within the scope of the key audit matter relating to accounting for the rail franchise contacts following challenging trading conditions; and - The carrying value of Student goodwill is not a key audit matter this year due to continued improved performance.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement on page 50 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's and company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 42-48 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on pages 49-50 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 49-50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for rail franchise contracts, including the forecast profitability of the SouthWestern Railway (“SWR”) and TransPennine Express (“TPE”) franchises

Key audit matter description



The Group operates a number of complex rail franchise contracts. Judgement is required in the evaluation of the overall profitability of the franchise contracts and whether they are onerous and, as such, require provision for future losses.

SWR franchise profitability

This judgement includes consideration of the key assumptions regarding industrial action, franchise agreement mechanisms relating to Central London Employment and delays to timetable changes. Assessing the impact of each of these assumptions on future profitability, and the outcome of negotiations with the Department for Transport (DfT), requires management judgement. The Group considers it has an onerous contract, the value of which is estimated to be £145.9m, which is the maximum unavoidable loss under the Franchise Agreement.

TPE franchise profitability

This judgement includes consideration of the key assumptions regarding passenger revenue growth, costs the impact of delays to planned timetable changes assumed in the bid model and the valuation of franchise change amounts under discussion with the DfT. Assessing the impact of each of these assumptions on the assessment of the onerous contract provision requires management judgement. A provision of £106.9 million (2018: £106.3m) is held in relation to the estimated value of the future unavoidable losses under the contract.

Management has highlighted onerous contracts as a key source of estimation uncertainty in note 2 to the consolidated financial statements and the Audit Committee has identified this as a Significant Issue or Judgement on page 73 of their report.

How the scope of our audit responded to the key audit matter



- The audit procedures we performed in respect of the key audit matter included:
- Assessing the process undertaken by Management in estimating the forecast profitability and evaluating the design and implementation of key controls;
 - understanding the key drivers forming the basis of the franchise profitability forecasts;
 - reviewing and challenging Management’s key assumptions including consideration of the entitlement to receive any franchise change amounts and the valuation thereof by reference to relevant supporting evidence and sensitising the impact of Management’s key assumptions on Management’s assessment of the profitability of the two contracts;
 - meeting with representatives of the DfT to understand the latest position regarding ongoing contractual discussions;
 - recalculating the relevant forecasts;
 - assessing and challenging Management’s expected range of possible outcomes; and
 - reviewing the related financial statement disclosures including the disclosure of the SWR onerous contract provision as an adjusting item.

Key observations



The results of our procedures were satisfactory and we concur with the judgements made and that the resulting onerous contract provisions are within a range of reasonable outcomes.

Forecast margin and long term growth rate used in the impairment testing of the Greyhound cash generating unit

Key audit matter description



The assessment of impairment of the Group's cash generating units ("CGUs"), as described in note 2, involves judgement in relation to forecasting future cash flows. At the planning stage of our audit we identified the CGU most sensitive to variation in future cash flows to be Greyhound CGU.

In the prior year, an impairment loss of £277.3 million was recognised. £260.6 million of the impairment loss of was first allocated to Goodwill, which was fully written down, and the remaining impairment loss of £16.7 million was allocated to the other tangible and intangible assets of the CGU on a pro rata basis according to the carrying amount of each asset in the CGU.

In the current year, Management has identified an impairment indicator for the Greyhound CGU and therefore determined the recoverable amount. We focused on the forecast margin and long term growth rate within Management's discounted cash flow model given these are the areas where the most significant judgement is required.

Management has highlighted impairment of assets in the Greyhound CGU as a key source of estimation uncertainty in note 2.

The Audit Committee report on page 73 refers to the carrying value of the Greyhound CGU as one of the significant issues and judgements considered by the Audit Committee.

How the scope of our audit responded to the key audit matter



The audit procedures we performed in respect of this key audit matter included:

- gaining an understanding of Group and Greyhound Management's process for developing their impairment models and assessing the design and implementation of key controls;
- agreeing the underlying forecasts to the Board approved adjusted three year plan;
- meeting with Greyhound Divisional Management team to understand and challenge the forecasts;
- challenging the underlying assumptions within the cash flow projections impacting the forecast margin including estimates around passenger revenue growth and cost assumptions at Greyhound;
- assessing cash flow projections with reference to historical trading performance and forecasting accuracy;
- considering and assessing the impact of contradictory evidence in relation to the expected performance of the CGU;
- considering the reasonableness of, and recalculating, the sensitivity assessment applied by Management;
- performing further independent sensitivity analysis on the impairment model; and
- considering the appropriateness of the related disclosures.

Key observations



Management have updated their assumptions regarding the value in use of Greyhound which we consider are reasonable but contain a degree of optimism. We concur with Management's conclusion that no impairment is required.

We consider the disclosure in the judgements and estimates section of note 2 provided concerning the impairment of assets in the Greyhound CGU together with the reasonable possible change sensitivity provided in note 11 to be proportionate to the estimate of the provision.

Valuation of significant claims and the estimate of IBNR claims in the North American self-insurance provision

Key audit matter description



The underlying calculation of the North American self-insurance reserves is subject to judgement based on the volume and severity of claims. We have identified a key audit matter in relation to the valuation of the individually material claims within the North American self-insurance provision and the estimated value of incurred but not reported ("IBNR") claims.

Management has highlighted self-insurance provisioning as a key source of estimation uncertainty in the notes to the consolidated financial statements and note that the provision of £408.9 million (2018: £313.6 million) is within the range calculated by their actuaries of £342.9 million to £438.8 million (2018: £271.4 million to £347.1 million). The provision has primarily increased following adverse settlements, developments on a number of aged insurance claims, and deterioration in long-term development factors.

The Audit Committee report on page 73 refers to North America self-insurance provisions as one of the significant issues and judgements considered by the Audit Committee. The provision is disclosed in note 26 to the consolidated financial statements.

How the scope of our audit responded to the key audit matter



The audit procedures we performed in respect of this key audit matter included:

- gaining an understanding of Management's process for developing the North American self-insurance reserves, including how Management ensures the completeness of IBNR claims, and assessing the design and implementation of key controls;
- meeting with the Management and their external actuary to challenge key assumptions;
- working with our actuarial specialists in North America to develop independently an actuarial calculation and comparing the provision recorded to the actuarial range calculated by Management and their external actuary, considering the methodologies employed and comparing assumptions used to the Group's historical experience;
- considering the deterioration of loss development factors during the year;
- engaging a specialist Insurance partner on the Group Audit Team in order to review and assess the procedures performed by the component auditor and our oversight of those procedures; and
- assessing the related financial statement disclosures including consideration of £94.8 million as an adjusted item.

Key observations



We are satisfied that the assumptions used the valuation of the North American self-insurance reserve is within our range of estimate and the related disclosures are reasonable.

Inflation, discount rate and mortality assumptions used in the valuation of pension scheme liabilities (£6,729 million)

Key audit matter description



The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The valuation of gross pension liabilities, as disclosed in note 36 is materially sensitive to changes in the underlying assumptions adopted in respect of the discount, inflation, and mortality rates.

Judgement is also involved in assessing the impact of the High Court ruling relating to the guaranteed minimum pension equalisation (£21.5m income statement charge). The funding of The Railways Pension scheme is under review by the pension scheme trustees and the impact of the outcome of this review on future employer contributions is uncertain.

The Audit Committee report on page 73 refers to pension liability assumptions as one of the significant issues and judgements considered by the Audit Committee.

Management has historically highlighted defined benefit pension arrangements as a key source of estimation uncertainty in the note 2 to the consolidated financial statements.

How the scope of our audit responded to the key audit matter



The audit procedures we performed in respect of this key audit matter included:

- gaining an understanding of Management's process for determining the underlying assumptions and assessing the design and implementation of key controls;
- working with our actuarial specialists to test the estimates determined by Management and its external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience and to listed and industry benchmarks;
- performing enquiries to understand the latest position regarding the future funding of The Railways Pension Scheme; and
- assessing the impact of the GMP equalisation ruling on the pension liability.

Key observations



We are satisfied that the assumptions applied in respect of the valuation of the pension liabilities are reasonable and that the valuation of the pension scheme liabilities is reasonable. We consider the disclosure around the sensitivity of the liabilities to reasonably possible change to be proportionate to the level of judgement.

Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit

Key audit matter description



As described in the Significant accounting policies in note 2 revenue transactions across the Group are predominantly high volume and low value. In some instances, revenue recorded may be subject to manual adjustments to reflect the timing and valuation of revenue recognised, for example where amounts are unbilled at the year end.

The accuracy of recording any such material manual adjustments to revenue represents a key risk of material misstatement to revenue due to the potential for fraud. This includes manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.

The key audit matter applies to the First Student and First Transit divisions, due to the judgement required in assessing the level of unbilled revenue accrued on contracts in those divisions at year end.

The Audit Committee report on page 73 refers to Revenue recognition as one of the significant issues and judgements considered by the Audit Committee.

How the scope of our audit responded to the key audit matter



The audit procedures we performed in respect of this risk included:

- gaining an understanding of Management's process for ensuring the accuracy of manual adjustments to revenue and assessing the design and implementation of key controls;
- understanding the judgements taken by Management in determining material manual adjustments at First Student and First Transit, their accuracy and the associated accrued income;
- recalculating the accuracy of material accrued income balances and reviewing supporting documentation on a sample basis; and
- auditing revenue related journal entries by selecting items that demonstrated characteristics of being manual in nature by agreeing them to supporting documentation to determine the rationale for the entries.

Key observations



The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.

Independent auditor's report to the members of FirstGroup plc

continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£7.5 million (2018: £7.5 million)	£6.0 million (2018: £6.0 million)
Basis for determining materiality	We determined materiality for the Group to be £7.5 million (2018: £7.5 million), which is 3.7% of loss before tax of £97.9 million adjusted for intangible amortisation of £29.9 million, guaranteed minimum pensions charge of £21.5 million, net material gains and losses on property disposals of £6.9 million, SWR onerous contract provision charge of £145.9 million and the North American insurance reserve charge recorded of £94.8 million. In the prior year our materiality represented 5.4% of the adjusted profit measure, which excluded intangible amortisation, bond make-whole payments, impairment and TPE onerous contract provision.	Parent Company materiality represents less than 1% of net assets (2018: less than 1%).
Rationale for the benchmark applied	We consider a profit measure the most appropriate basis for determining materiality as this is the measure on which business performance is analysed. The exclusion of intangible amortisation, guaranteed minimum pensions charge, net material gains and losses on property disposals, the SWR onerous contract provision charge and the North American insurance reserves charge is consistent with the key measure used by the Group for internal and external reporting and market analysts.	The Parent Company is a holding company which does not generate revenue and therefore a revenue or profit benchmark would not be relevant. Net assets was considered the most relevant benchmark for the nature of the Parent Company.



* Benchmark profit measure is calculated as the loss before tax adjusted for intangible amortisation, guaranteed minimum pensions charge, net material gains and losses on property disposals, the SWR onerous contract provision charge, and the North American insurance reserves charge.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £375,000 (2018: £375,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls over key audit areas, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focused our Group audit scope primarily on the FirstGroup America component (FirstStudent, FirstTransit, Greyhound and the North American self-insurance captive entity), the three significant Train Operating Companies (GWR, TPE and SWR), the First Bus Division as well as certain Group central functions.

The locations subject to full audit procedures represent the principal business units and account for over 95% of the Group's net assets, revenue and operating profit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at locations subject to full audit procedures was executed at levels of component materiality of between £3.0 million and £6.4 million applicable to each individual location.

At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The Group audit team have directed and supervised the work of the component audit teams during the course of the year. We included all component teams in our team briefing, discussed their risk assessment and remained in contact throughout the audit process. The Senior Statutory Auditor met all component teams and held meetings with Management at all components to discuss the work performed. In relation to the current year the Senior Statutory Auditor of the Group audit team visited the FirstGroup America component team in January 2019 and May 2019. Other senior members of the Group audit team also visited the FirstGroup America component in October 2018 and March 2019. The Group audit team have reviewed documentation of the findings from the component audit teams' work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of FirstGroup plc

continued

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of Management, internal audit, internal legal counsel and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation and tax legislation. In addition, compliance with terms of the Group's Rail franchise agreements and bank covenants had a fundamental effect on the operations of the Group.

Audit response to risks identified

As a result of performing the above, we identified the following key audit matters:

- Accounting for rail franchises, including the forecast profitability of the SouthWestern Railway ("SWR") and TransPennine Express ("TPE") franchises;
- Forecast margin and long term growth rate used in the impairment testing of Greyhound cash generating unit;
- Valuation of significant claims and the estimate of IBNR claims in the North American self-insurance provision; and
- Accuracy of material manual adjustments to revenue recognition processes at First Student and First Transit.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of Management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed on 2 March 1999 to audit the financial statements for the year ending 31 March 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 March 1999 to 31 March 2019. The year ending 31 March 2020 is expected to be the final year of our audit appointment.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Mullins, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
30 May 2019

Group financial summary

Unaudited

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Consolidated income statement					
Group revenue	7,126.9	6,398.4	5,653.3	5,218.1	6,050.7
Operating profit before amortisation charges and other adjustments	332.9	317.0	339.0	300.7	303.6
Amortisation charges	(29.9)	(70.9)	(60.2)	(51.9)	(54.3)
Other adjustments	(293.2)	(442.3)	4.8	(2.5)	(3.5)
Operating profit/(loss)	9.8	(196.2)	283.6	246.3	245.8
Net finance cost	(107.7)	(130.7)	(132.0)	(132.4)	(139.7)
Ineffectiveness on financial derivatives	–	–	1.0	(0.4)	(0.3)
(Loss)/profit before tax	(97.9)	(326.9)	152.6	113.5	105.8
Tax	(10.1)	36.0	(36.5)	(17.1)	(20.3)
(Loss)/profit for the year	(108.0)	(290.9)	116.1	96.4	85.5
EBITDA	670.3	690.6	686.6	615.9	624.4
Earnings per share					
	pence	pence	pence	pence	pence
Adjusted	14.4	12.3	12.4	10.3	9.8
Basic	(5.5)	(24.6)	9.3	7.5	6.2
Consolidated balance sheet					
	£m	£m	£m	£m	£m
Non-current assets	4,003.5	3,802.9	4,524.9	4,201.3	4,025.1
Net current assets/(liabilities)	10.7	(300.3)	(153.0)	(239.3)	(160.9)
Non-current liabilities	(1,958.9)	(1,671.0)	(2,011.8)	(2,066.5)	(2,141.3)
Provisions	(532.0)	(341.0)	(284.2)	(262.3)	(236.7)
Net assets	1,523.3	1,490.6	2,075.9	1,633.2	1,486.2
Share data					
Number of shares in issue (excluding treasury shares and shares in trusts)	millions	millions	millions	millions	millions
At year end	1,213.9	1,210.8	1,207.7	1,204.3	1,203.7
Average	1,205.9	1,205.1	1,204.8	1,204.0	1,204.0
Share price					
	pence	pence	pence	pence	pence
At year end	91	82	132	97	91
High	117	153	133	128	140
Low	79	77	89	81	91
Market capitalisation					
	£m	£m	£m	£m	£m
At year end	1,105	993	1,594	1,168	1,095

Company balance sheet

As at 31 March

	Note	2019 £m	Restated 2018 £m
Fixed assets			
Investments	3	1,954.7	2,073.8
Current assets			
Cash and cash equivalents		32.6	63.9
Derivative financial instruments – due within one year	4	7.9	17.7
– due after more than one year	4	18.6	20.7
Debtors – due within one year	5	2,043.7	2,013.4
– due after more than one year	5	0.8	1.0
		2,103.6	2,116.7
Current liabilities			
Creditors – amounts falling due within one year	7	(336.0)	(577.1)
Derivative financial instruments	4	(1.4)	(5.4)
		(337.4)	(582.5)
Net current assets		1,766.2	1,534.2
Total assets less current liabilities		3,720.9	3,608.0
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	(1,619.8)	(1,346.2)
Derivative financial instruments	4	(0.7)	(2.9)
Net assets		2,100.4	2,258.9
Capital and reserves			
Called up share capital	8	60.7	60.5
Share premium		684.0	681.4
Other reserves		262.1	262.1
Own shares	9	(4.7)	(6.3)
Profit and loss account		1,098.3	1,261.2
Shareholders' funds		2,100.4	2,258.9

The 2018 balance sheet has been restated as set out in note 1.

Matthew Gregory

30 May 2019

Company number SC157176

Statement of changes in equity

As at 31 March

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2017	60.4	678.9	(1.5)	7.5	166.4	93.8	1.9	1,576.7	2,584.1
Opening balance restatement	–	–	–	–	–	–	–	(132.4)	(132.4)
Balance at 1 April 2017 (restated)¹	60.4	678.9	(1.5)	7.5	166.4	93.8	1.9	1,444.3	2,451.7
Loss for the year (restated) ¹	–	–	–	–	–	–	–	(184.2)	(184.2)
Other comprehensive loss for the year	–	–	–	(7.5)	–	–	–	–	(7.5)
Total comprehensive loss for the year	–	–	–	(7.5)	–	–	–	(184.2)	(191.7)
Shares issued	0.1	2.5	–	–	–	–	–	–	2.6
Movement in EBT and treasury shares	–	–	(4.8)	–	–	–	–	(7.8)	(12.6)
Share-based payments	–	–	–	–	–	–	–	8.9	8.9
Balance at 31 March 2018 (restated)¹	60.5	681.4	(6.3)	–	166.4	93.8	1.9	1,261.2	2,258.9
Change in accounting policies ²	–	–	–	–	–	–	–	(3.6)	(3.6)
Balance at 31 March 2018	60.5	681.4	(6.3)	–	166.4	93.8	1.9	1,257.6	2,255.3
Loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Other comprehensive loss for the year	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	–	(165.5)	(165.5)
Shares issued	0.2	2.6	–	–	–	–	–	–	2.8
Movement in EBT and treasury shares	–	–	1.6	–	–	–	–	(2.9)	(1.3)
Share-based payments	–	–	–	–	–	–	–	9.1	9.1
Balance at 31 March 2019	60.7	684.0	(4.7)	–	166.4	93.8	1.9	1,098.3	2,100.4

1 The retained earnings as at 1 April 2017 have been restated as set out in note 1.

2 Opening balances have been restated for the adoption of IFRS 9 'Financial Instruments'.

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments and on a going concern basis as described in the going concern statement within the Strategic report on page 50.

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions.

The financial statements for the year ended 31 March 2019, include the results and financial position of the Company for the year ended 31 March 2019. The financial statements for the year ended 31 March 2018 include the results and financial position of the Company for the 53 weeks ended 31 March 2018.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

Opening balance and prior year restatement

During the year, the Company identified that the investment and loan balance with FirstGroup Holdings Limited should have been impaired under IAS 36 and 39 at 31 March 2018 and 31 March 2017 because the best estimate of cash recoveries from the borrower was lower than the carrying amount of the receivable and the recoverable amount of the investment was determined to be £nil. Accordingly, the 31 March 2018 and 31 March 2017 comparatives have been restated, reducing the carrying value of investments by £25.8m and receivables by £106.6m. Note 3: Investments in subsidiary undertakings and Note 5: Trade and other receivables have been restated accordingly.

During the year, the Company identified that a liability should have been recorded in respect of an onerous contract provision relating to TPE of £100.8m. Accordingly, the 31 March 2018 comparatives have been restated, increasing the amounts due to subsidiary undertakings due within one year by £27.1m and amounts due to subsidiary undertakings due after more than one year by £73.7m. Note 7: Creditors has been restated accordingly.

Key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Investment in subsidiaries

Estimation is required in relation to the recoverability of the investments and are sensitive to changes in cash flow forecasts supporting the recoverable amount. There is a significant risk that material adjustment to the carrying amounts of the investments and receivables could be required within the next financial year. The carrying value of investments at 31 March 2019 is £1,954.7m (2018: £2,073.8m).

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a loss for the financial year ended 31 March 2019 of £165.5m (2018: restated £184.2m loss).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 of the Group accounts. The Company had no employees in the current or preceding financial year.

3 Investments in subsidiary undertakings

	Unlisted subsidiary undertakings £m
Cost	
At 1 April 2018	2,115.5
Additions	61.1
At 31 March 2019	2,176.6
Provision for impairment	
At 1 April 2018	(15.9)
Opening balance restatement ¹	(25.8)
At 1 April 2018 (restated)	(41.7)
Impairment	(180.2)
At 31 March 2019	(221.9)
Carrying amount	
At 31 March 2019	1,954.7
At 31 March 2018 (restated)	2,073.8

¹ The provision for impairment as at 1 April 2018 has been restated as set out in note 1.

The additions in the year principally relate to investment in FirstBus (North) Limited and FirstBus (South) Limited.

The provision for impairment during the year relates to investments in First Rail and FirstGroup Holdings Limited for which the recoverable amount is £nil and therefore the carrying amount of the investments have been impaired.

A full list of subsidiaries and investments can be found in note 38 to the Group accounts.

4 Derivative financial instruments

	2019 £m	2018 £m
Total derivatives		
Total assets – due after more than one year	18.6	20.7
Total assets – due within one year	7.9	17.7
Total assets	26.5	38.4
Total creditors – amounts falling due within one year	1.4	5.4
Total creditors – amounts falling due after more than one year	0.7	2.9
Total creditors	2.1	8.3
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	16.2	17.6
Current assets		
Coupon swaps (fair value hedge)	–	11.4
Total assets	16.2	29.0
Derivatives classified as held for trading		
Non-current assets		
Currency forwards	1.6	–
Fuel derivatives	0.8	3.1
	2.4	3.1
Current assets		
Currency forwards	4.2	–
Fuel derivatives	3.7	6.3
	7.9	6.3
Total assets	10.3	9.4
Current liabilities		
Currency forwards	–	5.3
Fuel derivatives	1.4	0.1
	1.4	5.4
Non-current liabilities		
Fuel derivatives	0.7	–
Currency forwards	–	2.9
	0.7	2.9
Total liabilities	2.1	8.3

Full details of the Group's financial risk management objectives and procedures can be found in note 24 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

5 Trade and other receivables

	2019 £m	Restated 2018 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	2,047.3	2,013.4
Loss allowance	(3.6)	–
Net amounts due from subsidiary undertakings	2,043.7	2,013.4
Amounts due after more than one year		
Deferred tax asset (note 6)	0.8	1.0

6 Deferred tax

The major deferred tax liability/(assets) recognised by the Company and the movements thereon during the current and prior reporting periods are as follows:

	Other temporary differences £m
At 1 April 2018	(1.0)
Charge to income statement	0.2
At 31 March 2019	(0.8)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 £m	2018 £m
Deferred tax asset due after more than one year	(0.8)	(1.0)

7 Creditors

	2019 £m	Restated 2018 £m
Amounts falling due within one year		
£250.0m Sterling bond – 6.125% 2019	–	261.3
£350.0m Sterling bond – 8.750% 2021	30.4	30.1
£325.0m Sterling bond – 5.250% 2022	5.8	5.8
£200.0m Sterling bond – 6.875% 2024	7.2	7.2
Amounts due to subsidiary undertakings	283.9	264.2
Accruals and deferred income	8.7	8.5
	336.0	577.1
Amounts falling due after more than one year		
Syndicated loan facilities	446.7	197.0
£350.0m Sterling bond – 8.750% 2021	357.7	358.9
£325.0m Sterling bond – 5.250% 2022	322.1	321.6
£200.0m Sterling bond – 6.875% 2024	199.8	199.8
Senior unsecured loan notes	210.0	195.2
Amounts due to subsidiary undertakings	83.5	73.7
	1,619.8	1,346.2

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2019 £m	2018 £m
Facilities maturing:		
Due in more than two years	353.3	603.0

Details of the Company's borrowing facilities are given in note 21 to the Group accounts.

Included within amounts due to subsidiary undertakings are liabilities for onerous contracts in respect of TPE £84.4m (2018 as restated: £100.8m) and SWR £43.7m (2018: £nil). This liability is required to reflect the undrawn portion of PCS and the performance bonds. In the case of TPE, this is restricted to the value of the onerous contract provision (less amounts already drawn under PCS).

8 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
1,213.9m (2018: 1,210.8m) ordinary shares of 5p each	60.7	60.5

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,208.6m (2018: 1,203.1m). At the end of the period 5.3m shares (2018: 7.7m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2018	(6.3)
Movement in EBT, QUEST and treasury shares during the year	1.6
At 31 March 2019	(4.7)

The number of own shares held by the Group at the end of the year was 5,310,593 (2018: 7,653,968) FirstGroup plc ordinary shares of 5p each. Of these, 5,120,844 (2018: 7,464,219) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2018: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2018: 157,229) were held as treasury shares. Both trusts and treasury shares have waived the rights to dividend income from the FirstGroup plc ordinary shares. The market value of the shares at 31 March 2019 was £4.8m (2018: £6.3m).

10 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £806.5m (2018: £783.1m) and letters of credit for £369.2m (2018: £327.7m). The performance bonds relate to the North American businesses of £570.8m (2018: £544.6m) and the First Rail franchise operations of £235.7m (2018: £238.5m). The letters of credit relate substantially to insurance arrangements in the UK and North America. The parent company has committed further support facilities of up to £30.0m to First Rail Train Operating Companies.

The Company is party to certain unsecured guarantees granted to banks for overdraft and cash management facilities provided to itself and subsidiary undertakings. The Company has given certain unsecured guarantees for the liabilities of its subsidiary undertakings arising under certain loan notes, hire purchase contracts, finance leases, operating leases, supply contracts and certain pension scheme arrangements. It also provides unsecured cross guarantees to certain subsidiary undertakings as required by VAT legislation. First Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the First Bus Pension Scheme.

In its normal course of business First Rail has ongoing contractual negotiations with governmental and other organisations.

Investigations into the Croydon tram incident in November 2016 are ongoing and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Company, under a contract with a TfL subsidiary. TOL provides the drivers and management to operate the tram services, whereas the infrastructure and trams are owned and maintained by a TfL subsidiary. Management continue to monitor developments. To date, no proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

On 14 November 2017, Reading Borough Council served First Greater Western Limited (GWR), a subsidiary of the Group, and Network Rail Infrastructure Limited (a third party) with a noise abatement notice in respect of the operations at the Reading railway depot. The serving of the notice has been appealed and the related court hearing is currently anticipated to take place in early 2020 (unless the matter is settled between the parties before that date). It is not possible at this stage to quantify the implications for the GWR operations, if any, if they are not ultimately successful with respect to this appeal.

On 26 February 2019, class action proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against First MTR South Western Trains Limited (SWR). Equivalent claims have been brought against Stagecoach South Western Trains Limited and London & South Eastern Railway. It is alleged that SWR and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the class action, is scheduled to take place in November 2019. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or timing of such damages and costs, which may arise from the proceedings.

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

Annual General Meeting (AGM) and electronic voting

Since the Company has been required to convene a General Meeting, it will be necessary to hold this year's AGM at a later date.

The Notice of AGM (Notice) and Form of Proxy will be sent out in due course. You should be able to request both documents from the Company's Registrar, Equiniti.

The Notice will also be made available on the Company's website (www.firstgroupplc.com).

Shareholders will be able submit proxies for the 2019 AGM electronically by logging on to www.sharevote.co.uk.

Website and shareholder communications

A wide range of information on FirstGroup is available at the Company's website including:

- financial information – annual and half-yearly reports as well as trading updates
- share price information – current trading details and historical charts
- shareholder information – AGM results, details of the Company's advisers and frequently asked questions
- news releases – current and historical

FirstGroup uses its website as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping FirstGroup to reduce its costs and its impact on the environment. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting Equiniti.

Shareholders can sign up for electronic communications online by registering with Shareview, the internet-based platform provided by Equiniti. In addition to enabling shareholders to register to receive communications by email, Shareview provides a facility for shareholders to manage their shareholding online by allowing them to:

- receive trading updates by email
- view their shareholdings
- update their records, including change of address
- view payment and tax information
- vote in advance of company general meetings

To find out more information about the services offered by Shareview, please visit www.shareview.co.uk.

Shareholder enquiries

The Company's share register is maintained by Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed below:

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing, West Sussex
BN99 6DA
Tel: 0371 384 2046*
(or from overseas on Tel: +44 (0)121 415 7050)
Online: help.shareview.co.uk (from here, you will be able to email Equiniti securely with your enquiry).

* Telephone lines are open from 8.30am to 5.30pm, Monday to Friday.

If you receive more than one copy of the Company's mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name, please contact Equiniti to request that the accounts are combined. There is no charge for this service.

Equiniti also offers a postal dealing facility for buying and selling FirstGroup plc ordinary shares; please write to them at the address shown above or telephone 0371 384 2248. They also offer a telephone and Internet dealing service which provides a simple and convenient way of dealing in FirstGroup shares. For telephone dealing call 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday, and for Internet dealing log on to www.shareview.co.uk/dealing

ShareGift

If shareholders have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate these to ShareGift, a registered charity, which provides a free service to enable you to dispose charitably of such shares. More information on this service can be found at www.sharegift.org or by calling +44 (0)20 7930 3737. A ShareGift transfer form can also be obtained from Equiniti.

FirstGroup's policy on discounts for shareholders

Shareholders are reminded that it is not the Group's policy to offer travel or other discounts to shareholders. FirstGroup is focused on overall returns which are of benefit to all shareholders.

Unsolicited advice on the Company's shares

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas-based 'brokers' who target US or UK shareholders, offering to sell them what often turn out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal only with financial services firms that are authorised by the Financial Conduct Authority (FCA). You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you do deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/consumers/scams/report-scam or call 0800 111 6768.

Half-yearly results

The half-yearly results, normally announced to the market in November, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy.

Analysis of shareholders at 31 March 2019

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
By category of shareholders				
Individual	30,116	97.14	47,639,884	3.92
Institutional	888	2.86	1,166,238,775	96.08
Total	31,004	100.00	1,213,878,659	100.00
By size of holding				
1-1,000	22,352	72.09	5,395,058	0.45
1,001-5,000	6,200	20.00	14,849,576	1.22
5,001-10,000	1,349	4.35	9,461,712	0.78
10,001-100,000	808	2.61	18,952,950	1.56
Over 100,000	295	0.95	1,165,219,363	95.99
Total	31,004	100.00	1,213,878,659	100.00

Financial calendar

AGM	July 2019
Half-yearly results	November 2019

Contact information

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Registered in Scotland
Registered number: SC157176

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London E14 5JP

Auditor

Deloitte LLP
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London EC4A 3BZ

Cautionary comment concerning forward-looking statements

This Annual Report and Accounts includes forward-looking statements with respect to the business, strategy and plans of FirstGroup and its current goals, assumptions and expectations relating to its future financial condition, performance and results. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'aim', 'outlook', 'believe', 'plan', 'seek', 'continue', 'potential', 'reasonably possible' or similar expressions are intended to identify forward-looking statements.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of FirstGroup to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance, and shareholders are cautioned not to place undue reliance on them. Forward-looking statements speak only as of the date they are made and except as required by the UK Listing Rules and applicable law, FirstGroup does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report and Accounts.

Set out below is a guide to commonly used financial, industry and Group related terms in the Annual Report and Accounts. These are not precise definitions and are included to provide readers with a guide to the general meaning of the terms.

AGM Annual General Meeting ASE National Institute for Automotive Service Excellence, a US non-profit organisation promoting excellence in vehicle repair. BAYE Buy As You Earn The Board The Board of Directors of the Company CAF Construcciones y Auxiliar de Ferrocarriles, a Spanish train manufacturer CGU Cash Generating Unit CO₂(e) Carbon dioxide equivalent, allowing other greenhouse gas emissions to be expressed in terms of carbon dioxide based on their relative global warming potential. Usually expressed as per kilometre or per passenger kilometre Company FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP CPI Consumer price index, an inflation measure that excludes certain housing-related costs Defra Department for Environment, Food and Rural Affairs (UK Government) DfT Department for Transport Dividend Amount payable per ordinary share on an interim and final basis EABP Executive Annual Bonus Plan EBITDA Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation EBT Employee benefit trust EPA United States Environmental Protection Agency	EPS Earnings per share GHG Greenhouse gas emissions GPS Global positioning system Group FirstGroup plc and its subsidiaries GWR Great Western Railway franchise IAS International Accounting Standards IFRS International Financial Reporting Standards KPIs Key performance indicators, financial and non-financial metrics used to define and measure progress towards our strategic objectives LBG London Benchmarking Group, an organisation that has created a framework for measuring community impact LGPS Local Government Pension Scheme Like-for-like revenue Revenue adjusted for changes in the composition of a divisional portfolio, holiday timing, 53rd week, severe weather and other factors, for example engineering possessions in First Rail, that distort the year-on-year trends in our passenger revenue businesses Local authority Local government organisations in the UK, including unitary, metropolitan, district and county councils LTIP Long-Term Incentive Plan Net cash flow 'Net cash inflow' is described in the table shown on page 27 of the financial review Net debt The value of Group external borrowings excluding the fair value adjustment for coupon swaps designated against certain bonds, excluding accrued interest, less cash balances Network Rail Owner and operator of Britain's rail infrastructure	NOx A generic term for the nitrogen oxides that are most relevant for air pollution Ordinary shares FirstGroup plc ordinary shares of 5p each PLC Public limited company PPM The rail industry's Public Performance Measure reflects punctuality and reliability. Trains are deemed punctual if they arrive at their destination, having made all timetabled stops, within five minutes of scheduled time for London and South East and regional/commuter services and ten minutes for long distance trains RDG Rail Delivery Group Road divisions References to the 'Road' divisions combine First Student, First Transit, Greyhound, First Bus and Group items ROCE Return on capital employed is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all year end assets and liabilities excluding debt items SAV Shared Automated Vehicles are low-speed driverless vehicles that are shared between multiple users SAYE Save As You Earn SWR South Western Railway franchise TfL Transport for London, the local government organisation responsible for most aspects of London's transport system TOC Train operating company TPE TransPennine Express rail franchise TSR Total shareholder return, the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
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