FirstGroup plc
Annual Report and Accounts
2017

FirstGroup plc is a leading transport operator in the UK and North America. With £5.7 billion in revenue and more than 100,000 employees, we transported around two billion passengers last year.

Our vision is to provide solutions for an increasingly congested world... keeping people moving and communities prospering.

Each of our five divisions is a leader in its field: in North America, First Student is the largest provider of student transportation with a fleet of around 44,000 yellow school buses, First Transit is one of the largest providers of outsourced transit management and contracting services, while Greyhound is the only nationwide operator of scheduled intercity coaches. In the UK, First Bus is one of Britain's largest bus operators, transporting 1.6 million passengers a day, and we are one of the country's most experienced rail operators, carrying around 130 million passengers last year.

At the start of each of the three sections of the Annual Report and Accounts, we show some of the successes we have had in the year in helping customers to make informed choices, improving local environmental performance and enhancing the customer experience.

Contents

Financial summary of the year

- Significant improvement in operating results and substantial cash generation delivered as planned
- Contract portfolio enhanced with South Western rail award and other wins across the Group
- +8.3% Group revenue growth and +12.7% adjusted[1] operating profit growth, driven by First Student and First Transit and favourable currency translation
- In constant currency, Group revenue was (0.5)% and adjusted[1] operating profit +2.3%. Excluding First Rail where revenue and margin rebased under new contracts, the 'Road' divisions increased revenue and adjusted operating profit by +0.3% and +10.3% in constant currency respectively
- Group adjusted[1] operating margin improved to 6.0%, with 250bps increase in First Student margin partially offset by rebased First Rail margin and higher fuel costs due to stronger dollar in UK businesses
- Adjusted[1] EPS increased by 20.4%
- Statutory operating profit increased by 15.1% and statutory EPS increased by 24.0%, with gains on disposal of a Greyhound property largely offset by reorganisation and restructuring costs
- Substantial increase in net cash inflow to £147.2m
- Net debt: EBITDA ratio reduced to 1.9x (2016: 2.3x)

	Change	Change in constant currency[2]
Revenue **£5,653.3m** 2016: £5,218.1m	+8.3%	(0.5)%
Adjusted[1] operating profit **£339.0m** 2016: £300.7m	+12.7%	+2.3%
Adjusted[1] operating profit margin **6.0%** 2016: 5.8%	+20bps	+20bps
Adjusted[1] profit before tax **£207.0m** 2016: £168.3m	+23.0%	
Adjusted[1] EPS **12.4p** 2016: 10.3p	+20.4%	
Net debt[3] **£1,289.9m** 2016: £1,410.2m	(8.5)%	(11.2)%

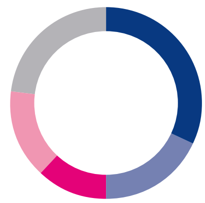
	Change
Statutory operating profit **£283.6m** 2016: £246.3m	+15.1%
Statutory operating profit margin **5.0%** 2016: 4.7%	+30bps
Statutory profit before tax **£152.6m** 2016: £113.5m	+34.4%
Statutory EPS **9.3p** 2016: 7.5p	+24.0%

[1] 'Adjusted' 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] Changes 'in constant currency' throughout this document are based on retranslating 2016 foreign currency amounts at 2017 rates.

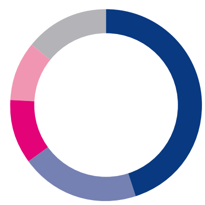
[3] Net debt is stated excluding accrued bond interest.

Revenue
(as % of Group)



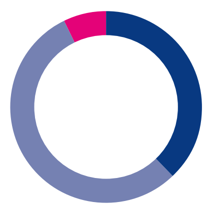
First Student	32%
First Transit	18%
Greyhound	12%
First Bus	15%
First Rail	23%

Adjusted operating profit
(as % of Group)



First Student	45%
First Transit	20%
Greyhound	11%
First Bus	10%
First Rail	14%

Group revenue by geography



UK	38%
US	55%
Canada	7%

Strategic report

Helping customers to make informed choices

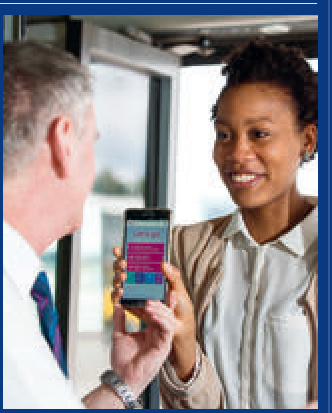
We search for the best examples of innovation from inside and outside the industry and introduce them for the benefit of our passengers and local communities

Improved website

Greyhound is continuing to improve the online booking process for customers by making it even quicker and easier to purchase a ticket on Greyhound.com. Following a complete redesign in 2015, the site now features a fresh, modern design, simple navigation and rich content. The site was built from the ground up to help our customers find the best fares, book more easily, and check out travel tips and suggestions for their next trip. During the year we have also completely redesigned our mobile app. Both the new app and website allow users to easily and conveniently search schedules, book trips, find terminal locations, access an updated loyalty scheme and track the real-time location of their bus.

Relaunch of passenger journey cards

We have relaunched our industry leading 'Safe Journey Cards' and 'Better Journey Cards' for passengers using First Bus services. These cards are designed to help passengers discreetly communicate a specific message to the driver and are supported by a number of charities including Disability Action Alliance. The relaunch has seen an increase in usage and positive feedback from our passengers.



Better customer journey planning

A new customer journey app was launched by TPE in December giving customers the option to purchase tickets and reserve seats on their phone, and plan their complete end-to-end journey. This app is also being extended to GWR and Hull Trains customers in early 2017/18. In future releases, customers will receive personalised journey alerts, making them aware of the progress of their train as well as connections.

Contactless payment

First Bus has continued to develop its offerings for customers to pay for services using contactless technology, reducing boarding time and helping customers plan their journeys with ease. A successful launch of smartcards and mobile payment mechanisms, as well as the initiation of payment through contactless credit and debit cards, will be rolled out across all operations throughout 2017/18.

The derailment of a tram in Croydon on 9 November 2016 was a tragedy that shocked and saddened us all. The thoughts of everyone at FirstGroup remain with those affected, their families, friends and colleagues.

The Group's response to the tragic incident was led by Tim O'Toole, Chief Executive, who attended the scene that afternoon together with Transport for London (TfL) to ensure all necessary steps were being taken to provide assistance to the victims, their families and friends and to the emergency services.

The Board is fully apprised of all matters relating to the incident and endorses the comprehensive, swift and appropriately focused response. It is absolutely essential that the reasons for the derailment are established, and we continue to provide full support to all ongoing investigations.

Strategic progress

During the year, the Group has continued to make progress in enhancing its long term ability to generate sustainable value, by investing in its capital assets and customer offerings while working to deliver improved margins through pricing and cost efficiency programmes.

The substantial improvement in First Student's margin this year reflects a step change in the value creation we derive from our market leadership in the North American school bus industry. First Transit continues to extend its 60 years of expertise in transport contracting into additional service lines and geographies, while Greyhound's results are beginning to benefit from our investment in the transformation of its entire business model. While we continue to face macroeconomic uncertainty in the UK, First Bus has developed tailored local plans to preserve value in the face of mixed market conditions, and we are confident that our First Rail business represents a source of long term value, buttressed by the recent award of the South Western franchise with our partner MTR Corporation, which was won by focusing on quality of service to the passenger. This reflects our increasing focus throughout the Group on listening to our passengers and understanding their needs, and then bringing expertise and innovation together from across our organisation and beyond in order to deliver quality services for our customers.

Results for the year

Overall, the Group achieved its financial objectives for the year. While Group revenue was broadly flat in constant currency, Group adjusted operating profit in constant currency increased by 2.3%, with significant progress in First Student, our largest division, and in First Transit, partially offset by rebased margins in First Rail and the higher cost of fuel in Sterling terms in the UK.

In reported currency, adjusted operating profit increased by 12.7%, benefiting from the strength of the US Dollar on the translation of results from our substantial North American operations, while adjusted EPS increased by 20.4%. Statutory operating profit and EPS also increased significantly.

As set out in my statement to you last year, the Group has achieved its goal of returning to generating significant net cash inflow this financial year. This is key to reducing the Group's leverage and interest costs towards an optimum long term level, and enhances the Board's flexibility to support sustainable shareholder value creation.

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 will not be recommending payment of a dividend in respect of the year to 31 March 2017 at the Group's Annual General Meeting but will continue to review the appropriate timing for restarting dividend payments.

The Board

A strong, experienced and diverse Board with the right mix of skills and experience lies at the heart of a successful and sustainable company.

I am pleased therefore that in February 2017 we were able to welcome Richard Adam to the Board as an independent Non-Executive Director and Chair of the Audit Committee on the same day that Brian Wallace retired from those roles. I am confident that Richard's strong background and long experience in contract-based international infrastructure businesses will be of immense value to the Group, while on behalf of the Board and everyone at FirstGroup I would like to thank Brian for his immense dedication and significant contribution to FirstGroup's progress over the last five years.

In May 2017 we welcomed Martha Poulter to the Board as an independent Non-Executive Director. Martha brings a wealth of information technology and business process transformation experience to the Board from her senior executive career at General Electric (GE) and most recently at Starwood Hotels and Resorts. Martha's strong background and experience in customer-focused, technology-led businesses will be a great addition to the Board.

In May 2017 we also welcomed Jimmy Groombridge to the Board as our new Group Employee Director. Jimmy has been a bus driver for just under 40 years and currently works in our First Eastern Counties bus operation. He was nominated by his colleagues to the role following Mick Barker's resignation earlier this year. The Board would like to thank Mick for his conscientious service over the last five years, and look forward to the contribution Jimmy will make to our deliberations, given his important and unique perspective as an employee of the Group.

Corporate governance

Sound corporate governance is a vital facet of our responsibilities to all our stakeholders, and in the year the Board has focused on further development of the Board's understanding and approach to risk appetite, succession planning and talent management for the Board and senior management, delivery of the transformation plans, development of the Group's strategy and business objectives, and reviewing the Board performance in light of the internal Board evaluation.

Our people

In the course of using many of the Group's services during the year, I have continued to meet many frontline employees throughout the five divisions. I have been extraordinarily impressed by the commitment and dedication that our more than 100,000 colleagues bring to the task of providing the vital transportation services on which millions of our customers rely.

On behalf of the Board I would like to extend my sincere gratitude to all of our employees for their hard work during the year, which has allowed the Group to begin to demonstrate its potential for further success in future.

Overall, I am confident that the Group has made important steps in the year to realising the promise that its significant scale and experience confers, both within each of the markets served, and as a Group.

There are significant challenges still to face, commitments to deliver and opportunities to improve our services ahead, but with a clear strategy for delivering further financial efficiencies and a growing focus on attracting new customers to our services, the Group is well placed to continue to deliver sustainable cash generation and increasing shareholder value in future.

Wolfhart Hauser
Chairman
1 June 2017

The Croydon tram derailment deeply shocked and saddened us all, and we feel the effect throughout our organisation. We are profoundly sorry that such an incident could take place aboard a service we operate.

Croydon tram incident

Shortly after 6am on 9 November 2016 a tram we operate on behalf of TfL overturned on a curve as it approached the Sandilands junction in Croydon. Seven people lost their lives in the incident and many other passengers were injured.

This tragic incident deeply shocked and saddened us all, and we feel the effect throughout our organisation. We are profoundly sorry that such an incident could take place aboard a service we operate. Our thoughts remain with the families and friends grieving for people who lost their lives, and those who were injured and affected by this terrible event.

The emergency services responded immediately to the incident, as did employees and the senior managers from our tram operations team. Colleagues from our rail division were also deployed to assist, including employees specifically trained in providing support to the families and friends of those involved. Together with TfL, we continue to provide support and assistance to those affected.

The Croydon trams are operated by Tram Operations Limited, a company within our Group, under a contract with Tramtrack Croydon Limited which is a subsidiary of TfL. Our company provides the drivers and management to operate the tram service, whereas the infrastructure and trams are owned and maintained by Tramtrack Croydon Limited.

Before services recommenced after the incident, Tram Operations Limited worked closely with TfL to implement additional measures including improved signage and speed restrictions. We also put in place enhanced speed monitoring across the tram network.

A number of regulatory bodies are conducting investigations and we are actively assisting them; they are being undertaken by the Rail Accident Investigation Branch, the British Transport Police and the Office of Rail and Road. Due to the complex nature of these investigations their outcomes may not be known for many months. We are focused on understanding the exact cause of this incident and will continue to provide our full support and assistance to the ongoing investigations.

Our commitment to the safety of our passengers, our employees and other parties who engage with us is unwavering. Each year we carry more than 2 billion passengers more than 10 billion miles and we are responsible for more than 100,000 employees. That is why safety is central to our culture and articulated through our value of Dedicated to Safety – always front of mind, safety is our way of life.

Our financial performance in the year

We have achieved the financial ambitions set out at the start of the year, including delivery of a significant increase in net cash generation, and those results were delivered notwithstanding a number of changes in the environment in which we operate. Overall, this year's results demonstrate the progress we have made in repositioning FirstGroup to deliver for our customers while creating value for our shareholders, commensurate with our leading market positions and scale. We have done so by adapting our plans and remaining flexible while maintaining our focus on our five strategic objectives: focused and disciplined bidding in our contract businesses; driving growth through attractive commercial propositions in our passenger revenue businesses; continuous improvement in operating and financial performance; prudent investment in our key assets (fleets, systems and people); and maintaining responsible partnerships with our customers and communities.

First Student delivered an excellent performance, with another well-executed bid season and timely action to lock in cost efficiencies at the start of the year. For the team to deliver a 250bps improvement in margin to 9.6% this year given the ongoing driver shortage challenges besetting the industry was an impressive performance, even with more operating days and lower fuel costs assisting. **First Transit** continued to deliver growth from core and adjacent markets despite the ongoing contraction of our Canadian oil sands business in the year, and took rapid action to resolve cost challenges experienced in the first half in order to maintain our longstanding track record of margin delivery. In **Greyhound** we delivered an improvement in margin by continuing to flex our operations in response to the evolving passenger demand environment, while beginning to benefit from the transformation we have made to our business model in recent years. In **First Bus** like-for-like passenger revenue was 0.6% lower overall, with passenger demand across the industry affected by high street retail footfall trends and worsening congestion. We continue to respond with specific actions tailored to conditions in each of our local markets. Similarly, **First Rail** like-for-like passenger revenue growth was 1.3%, with the slowdown seen across the industry compared with the prior year clearly exacerbated by the magnitude of the infrastructure upgrade activity on our Great Western Railway (GWR) franchise in the year. As previously indicated, First Rail's trading margin is also rebasing to reflect the terms of the new TransPennine Express (TPE) franchise and GWR direct award, albeit partially mitigated with cost efficiencies. Profitability at both First Bus and First Rail was also adversely affected by the US dollar-denominated nature of their fuel purchases, which together affected our results by £19.8m.

We are pleased with this year's improved financial results, with Group revenue, adjusted operating profit and statutory operating profit increasing by 8.3%, 12.7% and 15.1% respectively. In constant currency, Group revenue decreased by 0.5% and adjusted operating profit increased by 2.3%. Excluding the First Rail division where margin rebased under new contracts, our Road divisions increased adjusted operating profit in constant currency by 10.3%. The improvement in our operating performance combined with a rigorous focus on capital efficiency resulted in a substantial increase in net cash inflow this year, to £147.2m (2016: £36.0m before rail franchise outflows), and a reduction in our net debt: EBITDA ratio to 1.9x (2016: 2.3x).

Investing in our future

In addition to improving our financial performance, we have continued to invest in our future by making it easier for our passengers to use our services and to deepen our interaction with our customers. Greyhound's business model transformation has led the way, but throughout the Group we have asked ourselves what would make our services more convenient or attractive for our passengers, and the results include: making our tickets easier to book online and through smartphone apps; increasing the provision of real-time travel information to our passengers and contract authorities; and improving our customer relationship systems and processes to allow us to offer an increasingly personalised service. We are also integrating passenger revenue and bus location information into our management systems, enhancing our efficiency and productivity while saving cost. Technology is a key enabler for driving future passenger growth by delivering insights from our customers and creating new platforms for us to provide what our customers and communities want.

We continued to make progress with our Group-wide Be Safe behaviour change programme this year. Established and robust safety management systems are embedded across our businesses, with risk evaluation, training and compliance with our safety processes, policies and procedures at the core. The Be Safe programme aims to accelerate progress towards our goal of zero harm. With the aim of making safety a core personal value for colleagues across the Group, this programme works together with our safety management systems and builds on compliance by recognising and reinforcing safe behaviours. In the year, more than 5,000 managers and supervisors have been through the training across the Group, bringing the total trained to 8,500. Be Safe is a major programme, and we will continue to invest the necessary time, resource and effort into its success, as such culture change takes time.

We have also invested in more training for our customer-facing employees in the year, particularly in Greyhound, First Bus and First Rail, and have enlarged our apprenticeship and graduate recruitment schemes in the UK. To make the most of our scale and breadth of expertise across the UK and North America, we have also invested in our collaboration tools and realigned some of our structures to enhance best practice sharing across the organisation.

Group outlook

In the year ahead, the Group faces a mixed trading environment with opportunities for steady progress in the North American divisions but continued economic uncertainty in the UK. We expect to make further progress from the Road divisions, with First Rail's margin reducing, and to continue to generate free cash after disciplined investment to support our customers' and communities' needs across the Group.

First Student is now executing the fourth bid season under our strategy to move to a smaller but higher-returning contract portfolio, and therefore an increasing proportion of 'at risk' contracts have already been awarded under our 'up or out' strategy. As such, we expect the average price increase achievable to moderate and our contract retention rate to trend upwards over time; we will also continue to target further cost efficiencies across the division. In **First Transit** we will continue to bid for transportation management contracts offering good margins with modest capital investment, seeking to replenish and grow our portfolio both within our core and adjacent markets. With our pricing and yield management algorithms continuing to increase in effectiveness we are confident that **Greyhound** can return to growth in the year ahead. We will continue to focus on matching our timetables to demand to maximise the considerable operating leverage in the business. Our expectations for **First Bus** recognise that industry conditions remain challenging and our focus therefore must remain on tailored cost efficiencies to improve our margin. We therefore expect to continue to make changes to the shape and breadth of our depot network, while continuing disciplined investment to stimulate growth where appropriate. In **First Rail** we remain cautious on the rate of passenger growth in light of current industry conditions, and expect divisional margin to be lower as a result. We look forward to commencing operation of the South Western franchise from August 2017 in conjunction with our partner MTR Corporation.

Tim O'Toole
Chief Executive
1 June 2017

As a market leader in five segments of the passenger transport industry, our unique scale and diversity is our competitive advantage. Our overall strategy is to leverage this scale and the breadth of our global expertise for the benefit of our local markets, in support of our vision to provide solutions for an increasingly congested world… keeping people moving and communities prospering.

Our markets

Our divisions are exposed to a diverse range of demand drivers, revenue models and geographies within the overall passenger transport industry. All our services are critical enablers of strong economies and vibrant, successful and inclusive communities.

Demographic change, environmental sustainability, congestion and the search for greater efficiency are key challenges for our customers and opportunities for us in each market. Everywhere we operate, our customers are looking for better information, more convenience and more flexible ticket options. Driver shortages remain a key challenge in North America, while economic uncertainty has affected demand in the UK. World oil prices that fell sharply in recent years have stabilised somewhat.

Whilst our home markets in the UK and North America have been at the forefront of outsourcing transport solutions, there are increasing opportunities worldwide.

See pages 10-13 for more information on our markets.

Key inputs

- Our people
- Our vehicle fleets and terminals
- Our international experience and expertise
- Our relationships with key local authority and national government stakeholders
- Our reputation for safe and reliable services
- A strong and stable financial platform.

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:

Focused and disciplined bidding in our contract businesses

Approximately 52% of our revenues are derived from around 1,400 contracts competitively procured on behalf of passengers by government bodies and other parties. Formulating innovative and attractive bids with appropriate levels of risk and managing the delivery of our commitments in a range of constantly changing circumstances is a core strength of the Group.

Driving growth through attractive commercial propositions in our passenger revenue businesses

Our other main source of revenues is directly from our 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 use technology to innovate for our customers in the areas of ticketing, real-time information and to enhance our ability to offer value for money.

Continuous improvement in operating and financial performance

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 standards and seek out best practice from across the Group and beyond. We bring the same focus on discipline and continuous improvement to our financial performance, managing employee productivity, asset/fuel efficiency, procurement, overheads, insurance and other costs to ensure efficient use of our resources and best value for our customers.

Prudent investment in our fleets, systems and people

To continue to deliver over the longer term, using the considerable cash generated from operating activities to reinvest appropriately in our key assets is vital. Our most important assets are our people – we invest substantial sums in supporting and developing our employees, and recently have enhanced our recruitment processes in response to shifts in employment markets. The more than 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 customers want. We also invest in our systems and processes to support our other strategic objectives.

Maintain responsible partnerships with our customers and communities

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, and which we have been reinforcing with our Be Safe behaviour change programme. We aim to build long term, responsible partnerships with our customers and communities, including by managing our impact on the environment. Ultimately the sustainability of our business is tightly entwined with the aspirations, opportunities and success of our customers and communities.

Our five divisions

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

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

Greyhound
The only national operator of scheduled intercity coaches in the US and Canada, with a unique nationwide network and iconic brand.

First Bus
One of the largest bus operators in the UK, transporting 1.6m passengers a day, with a fifth of the market outside London.

First Rail
One of the UK's most experienced rail operators, carrying around 130m passengers last year across our two franchises and our open access operation.

Creating value for…

Passengers
Safe, convenient and reliable travel for around two billion passengers each year.

Communities and government
Stronger economies and more vibrant local communities whilst providing a deliverable response to congestion and air quality concerns.

Employees
Rewarding long term professional careers with opportunities to develop and grow.

Shareholders
Sustainable cash generation and value creation for investors.

Our values

Committed to our customers
We keep our customers at the heart of everything we do.

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

Supportive of each other
We trust each other to deliver and work to help one another succeed.

Accountable for performance
Every decision matters, we do the right thing to achieve our goals.

Setting the highest standards
We want to be the best, continually seeking a better way to do things.

How we manage the business

Leadership and governance

Each of our five divisions is run in a decentralised way 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 corporate centre.

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. The corporate centre focuses on monitoring performance and maintaining stewardship of the divisions through KPIs.

Whilst some risks, such as treasury risk, are managed at a Group level, all of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary.

Good corporate governance by the Board is based on the appropriate level of oversight, good communication and a focus on risks, transparency in how we operate and a culture of continuous improvement. The Board oversees the Group and amongst other things is responsible for setting overall incentive targets and determining remuneration.

For more information on the overall governance of the Group see pages 46-62.

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.

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

See pages 28-31 for more information on our KPIs.

Remuneration policy

A key principle underpinning the executive remuneration policy is to ensure it is aligned with the strategy of the Group. In addition, it provides a strong and demonstrable link between incentives and performance delivery in a consistent and responsible way, enables senior management to share in the long term success of the Group without delivering over-generous benefits or encouraging short term measures or excessive risk taking, and is competitive, simple and transparent.

See pages 63-79 for our remuneration report.

Principal risks

Our risk management methodology is aimed at identifying the principal risks that could adversely impact the safety or security of our 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, and/or adversely impact our reputation or stakeholder expectations.

See pages 32-37 for more information on our principal risks and uncertainties.

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.

Urbanisation

The world is becoming increasingly urbanised and globalised. The falling cost and increasing efficiency of transport links have created a global interconnected economy, even as more people and economic activity move into urban areas. More than half of global GDP is already generated in the largest 600 cities, and more than half the world's population today already live in urban areas – and both trends are set to increase. Despite ever more sophisticated forms of long distance communication, the rapid rise of cities globally is expected to continue, given the importance of face-to-face interactions in increasingly knowledge-based economies. Transport links within cities (such as those provided by First Transit and First Bus) and between them (such as provided by Greyhound and First Rail) will continue to be an important driver and beneficiary of these trends.

Poor air quality costs the UK up to £2.7bn a year in lower productivity[1]

Congestion and the environment

With 1.5m people moving to urban areas each week worldwide, maintaining mobility within cities despite this increasing population density is a key priority, and it is clear that an approach based primarily on the car is no longer sufficient. Some estimates put the annual cost of congestion to the average UK driver at almost £1,000 a year.

The cost is also counted in air quality degradation and higher carbon emissions. It is clear that increasing use of public transport systems is vital to the continued prosperity of cities. Whilst our businesses can also be affected by congestion day-to-day, they clearly form part of the long term solution by allowing travellers to leave their cars behind. We also strive to be at the forefront of technologies to minimise our own environmental footprint, as outlined in the corporate responsibility section on pages 38-42.

Demographic change and social inclusion

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 and 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, and we are specifically targeting these customers, particularly in Greyhound and First Bus.

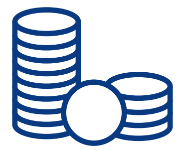
Working with local and national authorities

As good transportation services deliver such a wide range of social and economic benefits, many of our services are mandated or financially supported by the communities they serve. Indeed, all of our divisions either emerged from, or compete alongside, publicly funded models of transport provision. In all cases, private sector operators such as FirstGroup have been given the opportunity to operate services commercially in order to increase competition (improving value for money and efficiency) and bring innovation and agility in an increasingly fast-moving and complex environment. Across the Group a variety of funding and specification models exist, with varying degrees of reliance on local and national authorities. Offering value for money, ensuring we are good partners for our communities and listening to our customers are critical success factors across the Group.

Service standards and responding to complexity

Customers' requirements for safety, comfort and convenience continue to increase. The multiplication of potential transport modes and competition between operators continues to drive up quality and performance standards throughout the industry.

Our customers' requirements are complex and constantly evolving, and responding to their needs is critical. Interconnectivity between different transport modes is increasingly important, as is the provision of the real-time information necessary to make best use of them. In all of our divisions we are rolling out more convenient services through smarter and more flexible ticketing, improved onboard amenities (such as Wi-Fi) and we are getting to know our customers' needs better through customer relationship management techniques.



Congestion costs the US economy $300bn a year[2]

Meanwhile the growth of 'transport as a service' models, such as ridesharing, represents both an opportunity for our businesses as well as a source of potential competition.

Our geographic markets

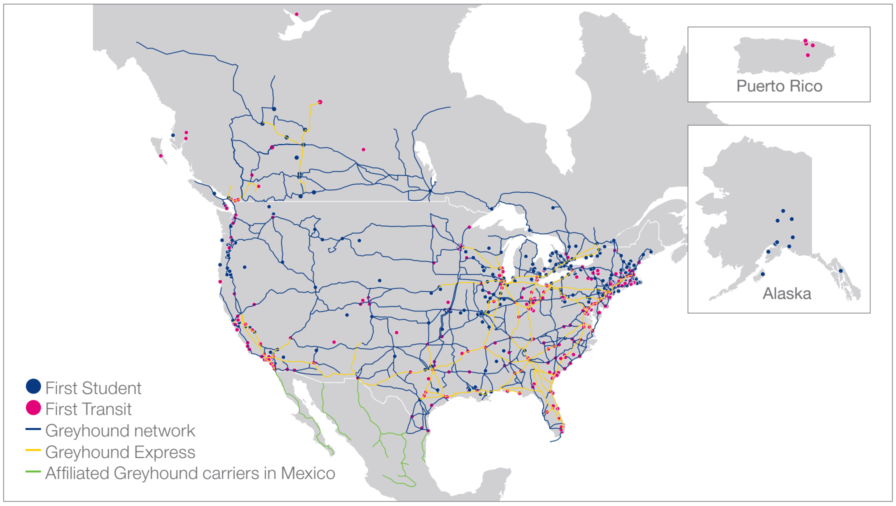
Our core markets in the UK and North America share several demographic, social and political characteristics which make them attractive for transport operators. Both are heavily and increasingly urbanised – just over 80% of the population in the UK and North America live in urban areas today, increasing to nearly 90% by 2050[3]. High and increasing proportions of both populations are either in education or retirement age, demographic bands where use of our services is proportionately higher, and although car ownership is relatively high in both markets, national and local authorities actively seek to encourage greater use of alternatives. Both markets also 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. In the longer term, we believe there is significant opportunity globally for the services we provide, and we are actively monitoring a range of markets for opportunities.

1 DEFRA, 'Valuing impacts on air quality' (2015).

2 INRIX Global Traffic Scorecard (2016).

3 UN Population Division, World Urbanization Prospects (2013).

Our North American markets



First Student

First Student is the largest provider of student transportation in North America with a fleet of around 44,000 yellow school buses – twice the size of the next largest competitor.

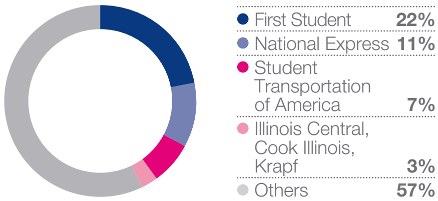
Market review and trends

School buses provide home to school transportation for millions of students in the US and Canada. There are around 14,000 school districts in North America, which deploy approximately 530,000 buses. The total North American market is estimated to be worth around $25bn per annum, of which 38% is outsourced to private operators, with the remainder directly operated by school districts. Charter services are also operated, either for school customers separate from scheduled school runs or for other customers such as church and community groups or businesses.

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

Market conditions in recent years have supported positive but limited organic growth and modest levels of conversion to outsourced providers, after a period when the economic downturn put significant pressure on school board budgets, which had led to organic retraction, price pressure and atypical levels of contract churn. School district budgets in aggregate have returned to levels seen before the recession, though school boards remain focused on ensuring quality of execution and value for money. High-quality, efficient outsourced providers with strong safety credentials have been able to achieve meaningful price increases during contract renewals in recent years, in part reflecting the cost inflation associated with shortages of drivers in certain regions.

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



Customers

School districts' obligations to provide student transportation are determined by criteria set at state level. Contracts usually specify fixed or annually indexed pricing, meaning that private operators bear cost risk. These contracts are typically three to five years in duration, after which they are often competitively re-tendered. In addition to school districts outsourcing student transportation for the first time ('conversion'), growth is driven by additional routes for a given school due to population growth or other factors ('organic growth'), as well as inflation-related price indexation built into some contracts.

Competitors

The private outsourced market is highly fragmented, with only three companies (including First Student) operating fleets of more than 10,000 buses; together they account for around 40% of the outsourced market. 14 other operators have fleets of more than 1,000 buses, with the remaining half of the outsourced market operated by several thousand smaller companies, often termed 'mom and pop' operators. These operators continue to be robust in their pricing to retain contracts. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, provide additional growth opportunities.

Market attractions

- 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 – long term acquisition opportunities.

First Transit

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

Market review and trends

The transit market is worth around $30bn per annum in North America, of which around 30% is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts which typically last for three to five years or longer. The market includes the provision of fixed route bus services (approximately $20bn segment, of which more than 10% is outsourced), paratransit bus services (approximately $5bn segment, three-quarters outsourced), private shuttle services (approximately $2bn segment, around 90% outsourced) and vehicle maintenance services (approximately $3bn segment, more than 30% outsourced). Internationally, the outsourced market for transit management 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. Experienced private sector contractors with relevant expertise 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.

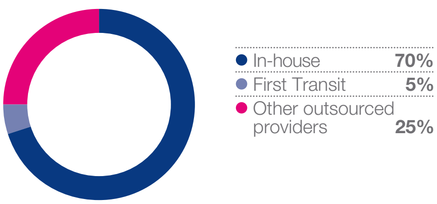
Meanwhile the shuttle segment continues to grow, with private companies, universities and airports seeking to offer improved services to their own customers and employees.

Our markets
continued

Customers
A wide range of customers contract out fixed route and paratransit services, including municipal transit authorities, federal, state and local agencies; and 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.

Competitors
First Transit has around 15% of the outsourced market in North America, which accounts for approximately 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. Our 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 new entrants, though reputation and track record remain important differentiators in the bidding process.

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



Market attractions
- Contracts mainly with public sector customers, low credit risk
- Typically high levels of contract retention
- Low levels of capital investment required (apart from in shuttle)
- Aging population and congestion trends provide support for continued growth through further outsourcing.

Greyhound

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

Market review and trends
In the last 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 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.

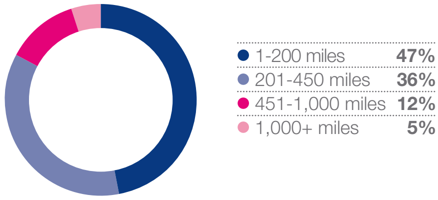
The substantial and rapid fall in at-pump fuel prices in the final months of 2014 resulted in coach passenger demand reductions as the cost of other forms of transport became more attractive compared with the coach. More recently, US coach passenger demand has begun to stabilise with the global oil price and improving economic conditions. Demand trends will continue to depend in part on future fuel price movements.

As well as passenger revenues, income is generated from package express services, charter and tour organisation and also terminal catering outlets. 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 and BoltBus have begun to 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 increasingly customers purchase in advance online or on smartphones.

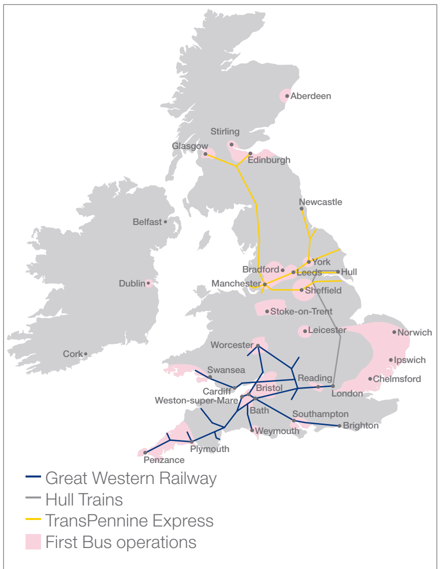
Competitors
Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including budget airlines and the private car. The intercity coach market is highly competitive in dense travel corridors such as the US north east and north west, where coach also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

Distribution of Greyhound passengers by mileage band



Market attractions
- Private car use becoming less attractive particularly 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.

Our UK markets



First Bus

First Bus is one of the largest bus operators in the UK, transporting 1.6m passengers a day, with a fifth of the market outside London.

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 of London, generating revenues of approximately £4.3bn 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 Department for Transport (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, which received royal assent in April 2017, has somewhat 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 Sheffield, Doncaster, Hampshire, the West of England, Cornwall and most recently Leeds.

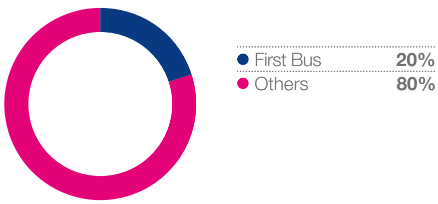
Customers

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 go shopping 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 more than 1,000 bus 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.

Approximate First Bus share of UK market outside London



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 65% 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 type.

First Rail

One of the UK's most experienced rail operators, carrying around 130m passengers across our two franchises and our open access operation.

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 £9bn 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. The Government continues to invest in upgrades to the rail infrastructure across the UK. Closer working relationships between Network Rail, regulators and TOCs continue to be encouraged by Government in order to facilitate these infrastructure upgrades and innovations.

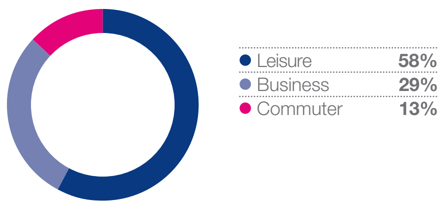
Customers

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 GWR fall into all four categories, while 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.

Passenger revenue base of First Rail operations



Market attractions

- More than £9bn of long term contract-backed passenger revenue available through 19 major franchise opportunities, of which more than half by revenue will be let by 2020
- New franchises typically have significant revenue opportunity/risk with some revenue protection, clear contingent capital requirements but low overall capital intensity
- Regulated environment, including government-capped regulated fare increases
- Historically high levels of passenger numbers across the UK.

Business review
First Student

Our objective is to maintain our leadership position in the industry while continuing to enhance our productivity and the quality of service for our customers.

Dennis Maple
President, First Student

	2017	2016
Revenue	**$2,323.3m**	$2,332.7m
Adjusted operating profit	**$222.0m**	$165.0m
Adjusted operating margin	**9.6%**	7.1%
Number of employees	**50,500**	57,000

First Student's revenue was flat in local currency at $2,323.3m (2016: $2,332.7m), with revenue increases from the third year of our contract pricing strategy, moderate organic growth and additional operating days compared to the prior year offset by contracts not renewed and more days lost to bad weather than the prior year. Reported revenue increased by 14.6% to £1,780.3m (2016: £1,553.5m).

Adjusted operating profit in local currency increased by 34.5% to $222.0m (2016: $165.0m) resulting in an adjusted operating margin of 9.6% (2016: 7.1%). The 250 basis point increase in adjusted operating margin benefited from improved contract portfolio pricing net of inflation and lost business and our cost efficiency programme, as well as the increase in operating days noted above and a reduction in fuel costs due to our hedging profile. It was partially offset by more days lost to weather than the prior year and a modest increase in employee costs associated with continued driver shortage challenges in parts of the US. In reported currency, adjusted operating profit increased by 52.0% to £171.1m (2016: £112.6m).

470 operating locations across US and Canada

Focused and disciplined bidding

The summer 2016 bid season represented the third year of our pricing strategy to focus only on retaining or bidding for contracts at prices that reflect an appropriate return on the capital we invest. We achieved an average price increase on 'at risk' contracts of 7.3%, an increase of 200 basis points on the prior year which in part reflected the driver cost inflation challenges we and the rest of the industry are experiencing. About one third of our bus portfolio was due for renewal in the 2016 bid season, and we retained 80% of 'at risk' buses in line with our budget, or 93% across our total portfolio. Pricing across the market continues to be firmer, though some smaller local operators continue to bid aggressively to retain business, and school boards remain focused on strong execution and value for money. We continue to see modest net organic growth or conversions from in-house to private provision. More than 75% of our overall bus fleet of 44,000 at the end of the year are operated under contracts awarded in the last three years which reflect our strategy to operate a smaller but higher-returning bus fleet.

5m student journeys a day on 44,000 yellow school buses

Continuous improvement in operating and financial performance

First Student continued to deliver cost efficiencies, including from a simplification of our regional management and central services structure at the start of the year, and from changes to our engineering practices using the expertise of First Transit's vehicle maintenance services segment. Additional efficiencies were delivered through relentless focus on best practice sharing and standardised processes across the division, and continuing to use real-time data and enhanced training to embed behaviour change at the local depot level. During the year, these management initiatives have delivered recurring cost savings of $26m, bringing the total delivered over the last three years to almost $60m.

These cost improvements have been delivered despite the significant task of responding to the ongoing challenge of recruiting and retaining drivers in some locations, as a result of the strength of the US employment market. We continued to improve our recruitment processes and marketing, particularly ahead of the September start-up period, which allowed the school year to get under way successfully. Revenue from our non-school charter bus offering, which benefits our asset utilisation rates, was adversely impacted by net lost business and the driver availability challenges noted above, but increased by approximately 4% on a per bus basis.

Prudent investment in our key assets

We continue to invest in systems and processes that differentiate our offering and enhance our customer service levels and safety performance. During the year we successfully trialled our FirstView smartphone app, which provides real-time bus location tracking for parents and school boards. The system can be deployed on our bus fleets or offered on a standalone basis to school boards operating their own fleets. Although we continued to make significant investments in new and refurbished buses during the year, we also benefited from our systematic approach to cascading buses around our operations, which is a significant competitive advantage of our scale; our average fleet age remained 7.3 years.

Our strengths

Clear market leader (bigger than next four competitors combined) – scale economies in areas such as vehicle and parts procurement, insurance, fleet management, technology development

Differentiated offering – safety programme, on-bus technology, strong customer relationships and satisfaction scores

Margin enhancement plan delivering through disciplined contract portfolio management, capital discipline and cost efficiency plans

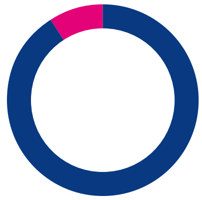
Repositioning business to sustainably deliver profitable growth and returns from market leadership in the long term.

FirstView bus tracking app

First Student launched FirstView, a secure school bus tracking app, during the year and will roll it out to further locations during 2017/18. Designed for parents and tested by parents, custom email or push notifications inform users of any delays (reasons and estimated delay length), time and distance reminders of when a bus will arrive at a stop, and its arrival at school. The app aims to improve communication with parents and carers, and increase transparency.

2017

Approximate revenue by type



Responsible partnerships with our customers and communities

We are entrusted with the safety and security of millions of children every day, and we take that responsibility extremely seriously. We maintained our strong safety track record compared with industry benchmarks and continue to invest to improve our performance. In the year we were delighted that our customer service scores improved further from their already high levels. As part of our commitment to support our communities, we invested in an additional 120 alternative fuel buses, taking our fleet to more than 1,800 vehicles, which is one of the largest such fleets in North America.

Future priorities

In the 2017 bid season – which is now under way – and beyond, we will continue to emphasise the overall value of our services in terms of the quality of driver training, maintenance and safety standards, technology capability and customer satisfaction as we continue our pricing strategy to ensure our contract portfolio returns reflect the capital intensity of the services we provide. We are confident that our unique market position, customer proposition and improving operational efficiency put us in a strong position to start to grow our portfolio of contracts in a disciplined way through further organic, conversion and tuck-in acquisition opportunities.

Outlook

We are now executing the fourth bid season under our strategy to move to a smaller but higher-returning contract portfolio, and therefore an increasing proportion of 'at risk' contracts have already been won under our 'up or out' strategy. As such, we expect the average price increase achievable to moderate and our contract retention rate to trend upwards over time. We continue to target incremental cost efficiencies across the division and expect to benefit modestly from our fuel hedging profile. As usual, First Student's operating results will be significantly weighted to the second half because of the overlay of our financial year with the North American school calendar.

Business review
First Transit

With 60 years of experience in the North American transport contracting space, we still have a substantial opportunity ahead of us, both internationally and in new service areas such as US commuter rail.

Brad Thomas
President, First Transit

	2017	2016
Revenue	**$1,358.9m**	$1,303.4m
Adjusted operating profit	**$95.2m**	$90.6m
Adjusted operating margin	**7.0%**	7.0%
Number of employees	**19,500**	19,500

First Transit's revenue was $1,358.9m (2016: $1,303.4m), an increase of 4.4% in constant currency. As expected, contract awards and organic growth in the rest of the division was partially offset by lower shuttle bus demand in the Canadian oil sands region compared with the prior year; divisional revenue excluding these activities increased by 5.6% in constant currency. Reported revenue increased by 20.5% to £1,042.0m (2016: £864.8m).

Adjusted operating profit in local currency was $95.2m (2016: $90.6m), representing an adjusted operating margin of 7.0% (2016: 7.0%), modestly ahead of our expectations at the half year due to favourable execution in certain contracts during the second half. In reported currency, adjusted operating profit increased by 22.0% to £73.3m (2016: £60.1m).

Focused and disciplined bidding

In the year, First Transit maintained its consistent track record of new business wins and high contract retention rates across a broad range of transport services and geographies. In the year we were awarded 19 new contracts, including important new business wins in our long-standing core markets such as a paratransit contract in Cobb County, Georgia, and a vehicle services contract for Florida International University. We were also awarded new contracts by PACE in Chicago and SEPTA in Philadelphia, both of which were extensions of existing relationships with these authorities. Our shuttle business, which is the only sub-segment of the division where we deploy significant capital, won contracts at Los Angeles airport and in five other cities.

335 contracts, with average value of less than $5m

Retaining existing clients is clearly as important as winning new business, and we renewed significant contracts for the Denver Regional Transportation District, TriMet in Portland, Eastern Contra Costa in California and COTA in Columbus, Ohio in the year. Our retention rate on 'at risk' contracts was 82% during the year; whilst somewhat lower than our normal target range, this included the loss of two relatively large existing contracts which had become loss-making and on which we had bid significant price increases.

In the year we made further progress in applying our expertise to new geographies and services to secure additional sources of growth. For example, we were recently awarded a small streetcar management contract in El Paso, and we are very pleased with the performance to date of our first US commuter rail contract, which was awarded to us in July 2016 by the Denton County Transportation Authority in Texas, and our ongoing management of the CTfastrak Bus Rapid Transit (BRT) system in Connecticut. These contracts benefit from the expertise of colleagues in the Group's UK divisions, and give us important credentials with which to pursue similar opportunities in these growing markets in North America. We are also looking at international markets in a measured way, and during the year we have been exploring growth opportunities beyond our recent entries into Panama and India.

We operate and manage 13,000 vehicles and maintain a further 35,000

Continuous improvement in operating and financial performance

Our technology infrastructure, management expertise and national service platform are significant barriers to entry. Notwithstanding this, sustaining First Transit's margin in highly competitive markets requires continuous improvement in efficiency to provide best value service provision. We also continue to develop our recruitment, retention and training systems and processes to ensure we maintain the necessary technical and driver capability in what remains a tight US employment market.

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, and our primary capital investment is therefore into the systems and processes needed to support efficient delivery. During the year we completed the roll out of our paperless engineering shop system, and have made further progress in rolling out enhanced real-time location information to our customers and passengers. These systems also provide detailed performance and analytics information to our management and engineering teams, allowing us to enhance our productivity and efficiency.

Responsible partnerships with our customers and communities

We are committed to offering the best value package to our customers and the communities we serve, which means our professionalism, technical and operational expertise and safety standards are as important as our cost effectiveness in winning or retaining business. We have completed the roll out of our safety behavioural change programme, which has had a positive impact on our safety performance, and we were pleased to have increased our already strong customer satisfaction score during the year. We are also at the forefront of low emissions vehicle technology, with almost one fifth of our fleet now operating using alternative fuel sources.

Our strengths

Established credentials and track record – First Transit is a market leader and has a pedigree extending more than 60 years

Diverse segments and large volume of relatively small contracts – our exceptional bidding and management expertise are well embedded

Industry-leading programmes including safety and maintenance training

Technology investment is delivering efficiency gains and service enhancements for our customers

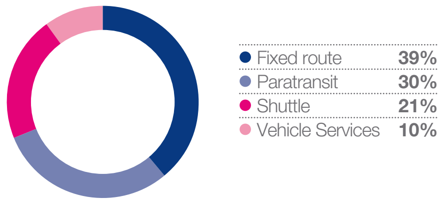
Our scale and breadth of management expertise will support future growth, including in new services and geographies.

A-train US commuter rail contract

First Transit's initial US commuter rail contract, the Denton County Transportation Authority A-train, began in October 2016 and is already showing signs of success. The 21-mile regional rail system connecting Denton and Dallas Counties in the state of Texas, has received the ISO 9001:2015 Quality Management System certification, providing guidance and tools for organisations that want to ensure their products and services consistently meet customers' requirements and that quality is consistently delivered.

2017

Approximate revenue by type



Future priorities

First Transit has developed a diversified platform of sector expertise and exceptional management strength in North American transit markets through continuous investment in our people and technology, all of which will support good margins and returns into the medium term. We have grown our business by listening to what our customers want and finding cost efficient ways to provide it. We continue to see opportunities for further growth in our core markets, particularly in shuttle and in vehicle services, increasingly for corporate as well as public clients.

We expect adjacent markets where we have now established our credentials – such as light rail, commuter rail and BRT – will become increasingly significant for our business. We will also continue to explore disciplined and low-risk opportunities to grow our geographic coverage when our track record means we are well placed to deliver.

We intend to remain at the forefront of technological change in our industry. For example, at the end of 2016 we commenced an autonomous vehicle pilot in conjunction with the Contra Costa Transportation Authority in California, and are exploring partnerships to provide Americans with Disabilities Act-compliant transportation for ridesharing and paratransit passengers.

The complexity and breadth of transport services continues to evolve, but our focus remains on bringing the skills and capability to deliver an efficient and effective service for our customers.

Outlook

We remain confident that our services offer a compelling option for local authorities and private customers to outsource their increasingly complex transportation management needs. We will continue to bid for contracts offering good margins with modest capital investment, seeking to replenish and grow our portfolio of contracts both within our core markets and in new service areas and geographies.

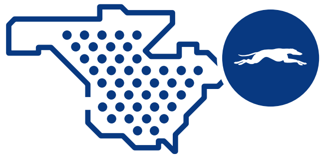
Business review
Greyhound

We are totally transforming our customers' experience of Greyhound while giving ourselves the tools to take full advantage of our unique national network and iconic brand.

Dave Leach
President, Greyhound

	2017	2016
Revenue	**$894.0m**	$914.0m
Adjusted operating profit	**$55.2m**	$54.4m
Adjusted operating margin	**6.2%**	6.0%
Number of employees	**6,500**	7,000

Greyhound's revenue was $894.0m or £684.7m (2016: $914.0m or £605.1m) for the year. Like-for-like revenue decreased by 1.7% for the year as a whole, reflecting a decrease of 3.9% in the first half and an increase of 0.8% in the second. Passenger demand throughout the intercity coach industry is adversely affected by the increased competitiveness of both passenger cars and low-cost airlines when fuel prices reduce year-on-year, as experienced in the first half of our 2017 financial year. Our point-to-point Greyhound Express revenue increased by 1.3%, with both Express and traditional Greyhound experiencing greater resilience over shorter haul (up to 450 miles) distances than long haul.



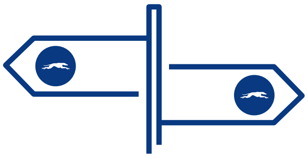
4,000 destinations used in more than 55,000 journey combinations monthly across North America

Adjusted operating profit was $55.2m (2016: $54.4m), or an adjusted operating margin of 6.2% (2016: 6.0%). We have continued to flex mileage operated in response to demand trends, resulting in modest improvements to revenue per mile, supplemented by our transition to one-way ticket pricing in July 2016 and our other business model developments. In reported currency, adjusted operating profit increased by 20.0% to £42.6m (2016: £35.5m).

Driving growth through attractive commercial propositions

Our transformation of Greyhound's customer facing systems in recent years now allows us to deploy airline-style yield management and real-time pricing algorithms throughout the network, and we are developing our customer relationship management systems and loyalty schemes to deepen our relationship with our customers. The majority of our customers now buy tickets online or via our new smartphone apps, and our fleet offers modern buses with amenities such as free Wi-Fi, guaranteed seating and better legroom than the low-cost airlines. In addition, we continue to promote our point-to-point Greyhound Express and BoltBus brands, which offer higher density timetables between popular city pair destinations.

In the year we have implemented more robust punctuality processes and systems, significantly improving on-time departure performance. We have upgraded our terminal environments in terms of cleanliness and security, simplified our baggage processes, and regularly review our sites for opportunities to move to intermodal transport hubs or new facilities tailored to our needs. We continue to make upgrades to our web offerings – we now offer one-click purchasing capabilities on our website and improvements to our mobile apps have resulted in us becoming one of the top rated apps in the travel industry.



Point-to-point service Greyhound Express covers 1,000 city pair combinations in 135 markets

We are now in a better position than ever before to offer potential customers a competitively priced, comfortable journey to their destination without the hassle of long airport queues or driving themselves.

Continuous improvement in operating and financial performance

Our financial performance is highly dependent on matching our timetables to demand and maintaining tight control of operating costs. The transition of our business model to more sophisticated, digitally-enabled systems enhances our ability to do both. In the year, mileage operated across the division decreased by 4.8%, with reductions weighted to the first half.

Our Canadian operations (15% of Greyhound revenue) have remained particularly challenging, with the lower oil price directly impacting on competitiveness compared with other modes but also affecting the health of the economy, particularly in western Canada. Despite considerable regulatory and structural constraints, we continue to take action including reducing mileage further but Greyhound Canada remained loss-making.

We continue to review our property portfolio for opportunities to strengthen the passenger experience, which resulted in decisions to sell sites in Reno, Barrie and El Paso. We also completed the sale of a terminal in San Jose, resulting in a gain on sale of £21.6m in the year, which has been reported separately.

Prudent investment in our key assets

In the year we have continued to invest in our business systems to improve the customer experience, with expenditure on the dynamic pricing systems, website and customer relationship management systems. However our investment focus has increasingly moved to enhancing employee training, in particular by building customer feedback into our priority setting process. During the year we retired more buses from the fleet than we replaced, modestly reducing the average age of our 1,600 bus fleet to 9.9 years. Our continued investment in growing our services in the Mexican domestic market has been successful in the year, and we will continue to expand in this market in future.

Our strengths

Iconic brand – synonymous with long distance coach travel

Only national network of scheduled intercity coach services – passenger feed from this network provides operating leverage to point-to-point services

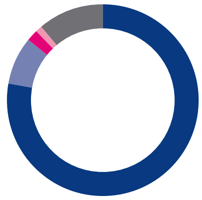
A business that is reconnecting with customers – operating a refreshed fleet with transformed systems to connect with our passengers and respond to their needs

Range of brands and price points to target new markets.

Improved information delivered through new systems

Greyhound have transformed customer facing technology as well as taking steps to improve the passenger experience. On-time departure performance has improved, in part thanks to GPS-based tracking, and we also launched a real-time bus tracker on our Greyhound website and mobile app. This ensures customers have accurate information at their fingertips. During their journey our customers have told us that they prefer information delivered through a variety of mediums and we are addressing this by introducing digital signage in terminals and live text message notifications and updates.

2017
Approximate revenue by type



Passenger revenue	78%
Package Express	8%
Food service	2%
Charter	1%
Other	11%

Responsible partnerships with our customers and communities

Our service to our customers is becoming more personalised and responsive, and we are increasingly focused on using customer feedback scoring, benchmarking and complaints data to diagnose common 'pain points' and remove them. We have also invested considerable effort in refreshing our safety culture, with encouraging overall progress in the year across our key passenger and employee safety metrics.

Future priorities

Over recent years we have upgraded our fleets, transformed our yield management, pricing, ticketing and purchase options, and made major steps to improve our terminal experience. While the benefits of these changes have been offset somewhat by the passenger demand challenges of a falling fuel price environment, we are confident that Greyhound is now in a strong position to take full advantage of its unique brand and scale. Our opportunity is to marry Greyhound's unique nationwide network and iconic brand, the refreshed fleet, locations and technology platforms we now have in place with a reinvigorated customer service ethos, and thereby attract and retain new passengers to Greyhound. We will also continue to deliver on the opportunities available to us in the Mexican coach market.

Outlook

With our pricing and yield management algorithms continuing to increase in scope and effectiveness, and assuming a somewhat less volatile oil price environment in the near term compared with the last three years, we are confident that Greyhound can return to growth in the year ahead. We will continue to focus on matching our timetables to demand, with the objective of maximising the considerable operating leverage in the business from additional passenger volumes, in order to enhance divisional margin.

Business review
First Bus

By focusing on the needs of our passengers and continuing to improve our operational efficiency, we are enhancing our value to the customers and the local communities we serve.

Giles Fearnley
Managing Director, First Bus

	2017	2016
Revenue	**£861.7m**	£870.9m
Adjusted operating profit	**£37.0m**	£52.0m
Adjusted operating margin	**4.3%**	6.0%
Number of employees	**17,000**	17,500

First Bus reported revenue of £861.7m (2016: £870.9m) for the year. Although the like-for-like passenger revenue trend improved through the year, it was still negative for three quarters, ending 0.6% lower overall. Market conditions for the industry remain challenged by muted high street footfall, worsening congestion in several localities, and some evidence of lower fuel prices encouraging car use, as well as general macroeconomic uncertainty in the UK. Revenue trends show wide variation across the division, with some markets (especially in the South and Wales) achieving good growth while others have been more challenged. Overall like-for-like commercial passenger volumes increased by 0.4%, while concessionary volumes decreased by 2.2%. Our contract and tendered revenue decreased by 3.0% as a result of reduced spending by local authorities on supported services.

We continue to take action in response to the challenging growth environment by taking opportunities to merge or close certain depots and reducing overheads, delivering cost efficiencies of £14.2m in the year. However these cost savings have not been sufficient to offset lower volumes and cost inflation. Adjusted operating profit was £37.0m (2016: £52.0m) and adjusted operating margin was 4.3% (2016: 6.0%), of which £11.5m or 130bps is directly attributable to the adverse impact of foreign exchange movements on our purchases of US dollar-denominated fuel. In light of the extent of the changes we have reported restructuring and reorganisation charges of £10.9m separately.

Driving growth through attractive commercial propositions

We continue to adjust our networks, fares and commercial offering in response to customer needs. We have increased our focus on improved convenience and a simpler offering for passengers, with several initiatives including fare discounts designed to increase take-up of mobile and other cashless tickets, which also speeds boarding times. We have trialled contactless ticketing using bank cards in Bristol and are planning a wider roll out of this technology during 2017 and 2018. In the year we have also stepped up the emphasis on customer service in our driver training programmes.

We have also focused on increasing our share of student markets across our networks through enhanced services, competitive fares and increased marketing, with particular success in York, Swansea, Bristol and Bath. We also reorganised our network serving Stansted Airport, successfully stimulating growth.

In the contract tender market, we were awarded contracts for Bristol Airport and its environs, and for the Hinkley Point construction project through a joint venture. Our expertise in managing Park & Ride services was rewarded with wins including in Bristol, Chelmsford and Leeds, and success in developing a solution for the local authority in Ipswich. The Vantage BRT scheme in Manchester has exceeded expectations since its April 2016 launch, carrying more than two million passengers in its first year. Additional services have been added to meet this demand.

Continuous improvement in operating and financial performance

We continue to take action to enhance our cost efficiency for the long term. In the year we closed Rotherham depot and transferred the operation of all services to other depots in South Yorkshire. Shortly after the year end we consolidated from six to four depots serving the Greater Manchester area. Following the release of certain restrictions by the Competition and Markets Authority, we sold local networks in East Scotland to Lothian Buses in summer 2016, and in March 2017 the Galashiels-based Borders network to West Coast Motors. This network had been adversely affected by the opening of the Borders Railway in 2015.

We continue to achieve savings from division-wide procurement, productivity and lean engineering projects, supplemented by ongoing efforts to increase our fuel efficiency through driver behaviour change and investment in more efficient buses. These actions are also focused on supporting improvements in service reliability and punctuality, which are fundamental to our customers.

In April 2017, we launched our upgraded bus app providing door-to-door journey planning, showing all bus services and other modes such as light rail with real-time location information and alerts for the bus stop of choice. Our long-established mobile ticket app will be integrated with this app later in 2017. Through embracing digital technology, we are rapidly integrating our location tracking, revenue collection and other back office systems to increase the availability of accurate real-time data. Our passengers will increasingly have access to more accurate information on their bus, and greater visibility of disruption. The availability of this information also increasingly enables us to plan and tailor our services more accurately.

Prudent investment in our key assets

We continue to invest in our fleets in a disciplined way, and took delivery of 272 vehicles in the year. As a result of our fleet investment programme our fleet is now fully compliant with the Disability Discrimination Act ('DDA'), and like all our recent fleet purchases, these new additions meet the latest Euro VI emissions standards, are fitted with Wi-Fi and most have next stop audio visual announcements and USB charging points. We are now one of the largest DfT certified 'Low Carbon Bus' operators in the UK, and were recently recognised as Low Carbon Vehicle Operator of the Year.

Our strengths

Strong position in the deregulated market (outside London) – c.20% market share, serving 1.6m customers a day with a fleet of 6,000 buses

Compelling positions in key markets – operations in eight of the 11 most densely populated cities in the UK

Repositioned to focus greater management expertise at the local level, delivering tailored networks and fares for local needs

Proactive and responsible partner to our local authorities, experienced at working together to deliver passengers' needs.

Improving accessibility on our services

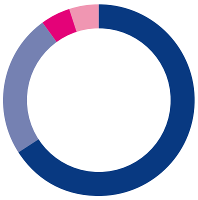
We work with a range of agencies including Disability Action Alliance, the RNIB and Age UK to find ways of improving customer access to our services, and are investing in new vehicles which meet the latest DDA regulations. Following the additional clarity from the Supreme Court ruling regarding priority use of wheelchair spaces on board buses, we are delivering further training to support our frontline employees in this area.

Responsible partnerships with our customers and communities

More commuters rely on the national bus network than any other form of public transport in the UK, and we are aligned with the national Government and local councils in wanting to get more people out of their cars and on the buses. Buses have a fundamental role to play in delivering Clean Air Zones with authorities supporting greater use of public transport in their towns and cities as they take measures to tackle congestion and improve air quality. We believe that local authorities'

2017

Approximate revenue by type



Passenger revenue	66%
Concessions	24%
Tenders	5%
Other	5%

objectives for bus services in their areas are best delivered through partnerships with innovative and commercially incentivised bus operators. We are delighted that the Bus Services Act recognises the importance of such partnerships and provides additional tools for councils and operators to work together to deliver improvements for customers.

In Leeds, one of our largest markets, we entered into a partnership with the City Council aiming to double patronage by 2025, supported by a £173.5m public funding package over four years to develop new bus priorities, Park & Ride sites and passenger facilities, while First Bus is preparing to invest in a fully ultra-low emissions fleet there by 2020. A partnership was also launched in September 2016 with Doncaster Council and South Yorkshire Combined Authority, which follows the successful launch of similar schemes in Sheffield and Rotherham. We are working with Bristol City Council and the West of England Combined Authority to launch the Metrobus network later in 2017. We are excited to be delivering the services on these priority routes which will significantly improve the bus offering and attract new users.

Future priorities

Bus services will continue to play a critical role in any local transport strategy that recognises the problems of congestion, air quality, parking and issues of social exclusion. Our objective is to continue to focus our investment and energy on local markets where these imperatives are recognised and our customers and the communities we serve have the most to gain from our services. Our focus remains on enhancing our ability to deliver the efficient, cost effective and customer-focused services our stakeholders need.

Outlook

Although like-for-like passenger revenue increased by 0.8% in the final quarter of the year, industry conditions remain challenging and our focus therefore must remain on tailored cost efficiencies to raise our margin. We will continue to make changes to the shape and breadth of our networks in response to market conditions, whilst continuing to stimulate growth through delivering high-quality services and identifying opportunities to grow our markets.

Business review
First Rail

By relentlessly focusing on the quality of service we provide to passengers, we will continue to play the significant role in the UK rail industry that we have maintained since privatisation.

Steve Montgomery
Managing Director, First Rail

	2017	2016
Revenue	**£1,268.8m**	£1,308.4m
Adjusted operating profit	**£53.8m**	£72.9m
Adjusted operating margin	**4.2%**	5.6%
Number of employees	**7,500**	7,500

First Rail division revenue decreased to £1,268.8m (2016: £1,308.4m), reflecting like-for-like passenger revenue growth of 1.3% offset by reduced subsidy receipts and the remapping of certain routes out of the scope of the new TPE franchise. Passenger volumes increased by 0.7%, reflecting a slowdown in growth due to macroeconomic uncertainty, modal shift due to sustained lower fuel prices, and the effect of non-recurring events such as the Rugby World Cup in the prior year. The magnitude of the infrastructure upgrade works taking place on the GWR network has exaggerated the impact of these factors on that franchise, while revenue performance for TPE has been better than the industry average during the year.

Adjusted operating profit of £53.8m (2016: £72.9m) represents a margin of 4.2% (2016: 5.6%), which in part reflects the rebasing toward industry norms under the terms of the TPE and GWR contracts agreed during the prior year as well as the slowing revenue growth environment, partially offset by cost efficiencies and resolution of historic performance regime discussions with the DfT. The adjusted operating margin was also reduced by the £8.3m impact of adverse currency movements on US dollar-denominated diesel fuel costs.

Focused and disciplined bidding

GWR continues to operate under the commercial terms of a direct award which runs to 1 April 2019. The DfT is now assuming that it will exercise its option to extend this direct award to April 2020 in its latest franchise timetable, published in December 2016. We successfully launched the new TPE franchise in April 2016, which will run until at least 2023. Outside franchising, our plans continue for new open access services between London, north east England and Edinburgh from 2021, which will offer a single class of service on a new fleet of trains designed to encourage travellers to switch from air or coach travel to rail.

In March the DfT announced that our 70:30 partnership with MTR Corporation had been selected to operate the new South Western rail franchise from 20 August 2017 until at least August 2024. Over the course of the franchise, £1.2bn will be invested to raise the quality of every aspect of train journeys on the South Western network. In the year our bid to operate the East Anglia franchise was not successful.

Continuous improvement in operating and financial performance

The Government's investment in key national rail infrastructure continues, including the £7.5bn investment in the Great Western Mainline and work on the TransPennine route. We have a strong track record for close partnership working with all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers. We are working closely with Network Rail and with the DfT to support these infrastructure upgrades, which will help us deliver capacity, frequency and journey time improvements for customers.

In the latest independent Transport Focus National Rail Passenger Survey (completed during autumn 2016) all of FirstGroup's three train operating companies again scored above the national average for overall satisfaction. Hull Trains continued to top the national table with a score of 97%, 11 points higher than the average of long distance operators. GWR saw a slight year-on-year fall from its previous record high to 82%, although scores for ticket purchasing, train comfort and station environments all showed improvement. TPE scored 84%, up a point year-on-year, with improvements in 25 out of 37 categories.

Prudent investment in our key assets

We continue to deliver new trains for all three of our rail companies. By 2020, 90% of our customers will be travelling on a train less than five years old.

On GWR, alongside the ongoing investment in the rail network, the biggest fleet upgrade in a generation has started. New Hitachi InterCity Express trains are scheduled to be introduced later this year, and GWR will be the first operator to run this class of rolling stock. We introduced the first electric trains to run on GWR's London suburban routes from September, providing more capacity; the service is being extended along the Thames Valley from May 2017. Overall, we will create three million more seats across the network by December 2018, as well as quicker journey times and more frequent services.

The new TPE franchise connecting major cities across the North and Scotland was launched with a new brand during the year. More than £500m is being invested to transform rail services across the region including 220 new carriages, comprising a mix of new Hitachi InterCity trains and a further intercity fleet from CAF. The first of the new trains will be introduced from summer 2018, providing 13 million more seats, and we are also completely refurbishing the remaining TPE rolling stock. Hull Trains will also benefit from a new Hitachi InterCity fleet. Passenger benefits from these new trains include more seats and space, Wi-Fi and onboard infotainment options. As well as transforming the customer experience, the extra capacity will allow us to deliver future passenger growth.

Responsible partnerships with our customers and communities

We are introducing a redesigned passenger app that allows customers to purchase tickets and reserve seats via mobile phone as well as plan their door to door multi-modal journey. This was launched in TPE in December 2016 and was extended to all GWR and Hull Trains customers in May 2017, with further functionality being introduced over time.

At our stations we are delivering additional car parking spaces, as well as new and upgraded customer information screens, and improved

Our strengths

Significant participant in the UK rail market since privatisation

Experienced in running every type of passenger rail operation – intercity, regional, commuter, sleeper and open access

Strong commercial, rolling stock and major infrastructure upgrade project capabilities

Highly experienced bidding team with a record of developing disciplined bids that deliver for passengers and taxpayers.

South Western rail franchise competition success

In partnership with MTR , we have been selected by the Department for Transport to run the new South Western rail franchise. Over the course of the franchise, which will operate from 20 August 2017 until at least August 2024, £1.2bn will be invested to raise the quality of every aspect of train journeys on the South Western network. Our successful bid will deliver the tangible improvements that customers have told us they want from this franchise. We will introduce new, spacious carriages and additional fully refurbished trains, delivering more peak seats per day. The remaining fleet will be refreshed with more reliable Wi-Fi and at-seat charging points plus our stations will benefit from £90m of investment.

2017

Approximate revenue by type[1]

[1] In the year the Group received no revenue support payments from Government and made total franchise payments to Government of £140.8m, which are included in costs.

waiting, retail and interchange facilities. We are also introducing new ticket machines which make it easy to find the best value fares. In the year more than 5,000 frontline employees took part in our customer service training programmes across the division. £770,000 was made available in the year from GWR's £2.25m Customer and Communities Improvement Fund. A similar fund has been introduced by TPE this year, which will work with community organisations across the network.

Future priorities

We will continue to focus on working with our industry partners to realise the upgrade plans across the network, so that passengers will begin to see the benefits from new and better trains, more seats and services, quicker journey times, improved stations and new technology.

We will also continue to examine opportunities to grow our rail business through our disciplined approach to the DfT's franchising process, aiming to deliver ambitious improvements for passengers and appropriate returns for shareholders, at an acceptable level of risk. During the year we announced 70:30 partnerships with Trenitalia UK Limited to bid together for the East Midlands and West Coast Partnership rail franchise competitions.

Outlook

Although like-for-like passenger revenue in the fourth quarter increased by 2.5%, we remain cautious on the rate of passenger growth in light of current industry conditions, and expect divisional margin to be lower as a result. We look forward to commencing operation of the South Western franchise from August 2017 in conjunction with our partner MTR Corporation.

Financial review

During the year we have delivered significantly increased cash flow by improving our overall operating performance and maintaining our capital discipline, allowing us to strengthen our capital structure.

Summary of the year

Group revenue in the year increased by 8.3% due to translation of our US dollar-based businesses into sterling at stronger rates than the prior year. In constant currency, Group revenue decreased by 0.5% with growth in First Transit offset by reduced subsidy receipts and the remapping of certain routes out of the scope of First Rail's new TPE franchise, together with lower revenues in Greyhound and First Bus, while First Student revenue was flat.

Group adjusted operating profit in constant currency increased by 2.3%, with a significantly higher contribution from First Student and good progress in First Transit, partly offset by rebased First Rail margin under new contract terms and challenging market conditions in First Bus. Overall Group adjusted operating profit margin increased by 20bps to 6.0%. In reported currency, adjusted operating profit increased by 12.7% to £339.0m (2016: £300.7m). In the year favourable currency translation of North American profits (operating profit benefit of £30.7m compared with prior year) was partially offset by higher dollar-based UK fuel costs (additional cost of £19.8m compared with prior year). Excluding First Rail where revenue and margin rebased under new contracts, the rest of the Group (the 'Road' divisions) increased revenue and adjusted operating profit in constant currency by 0.3% and 10.3% respectively.

Net finance costs were flat at £132.0m (2016: £132.4m) and adjusted profit before tax increased by 23.0% to £207.0m (2016: £168.3m). Adjusted profit attributable to ordinary shareholders was £149.4m (2016: £123.5m), with the higher adjusted profit before tax and a lower non-controlling interest charge due to the completion of the previous TPE partnership with Keolis, partly offset by a higher effective tax rate. Adjusted EPS increased by 20.4% to 12.4p (2016: 10.3p), and EBITDA by 11.5% to £686.6m (2016: £615.9m).

Increases in statutory operating profit to £283.6m (2016: £246.3m) and statutory profit before tax to £152.6m (2016: £113.5m) principally reflect the increased adjusted operating profit, together with gains on disposal of a Greyhound property largely offset by reorganisation and restructuring costs. Statutory EPS increased by 24.0% to 9.3p (2016: 7.5p) in the year.

The net cash inflow for the year was £147.2m (2016: £36.0m before First Rail end of franchise cash flows), with the £111.2m improvement year-on-year driven by the increase in cash generated by operations and the proceeds from the sale of a Greyhound terminal. This cash inflow, combined principally with movements in debt due to foreign exchange, resulted in a decrease in net debt of £120.3m (2016: £2.9m increase).

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 23:

	Year to 31 March 2017			Year to 31 March 2016		
	Revenue £m	**Operating profit[1] £m**	**Operating margin[1] %**	Revenue £m	Operating profit[1] £m	Operating margin[1] %
First Student	**1,780.3**	**171.1**	**9.6**	1,553.5	112.6	7.2
First Transit	**1,042.0**	**73.3**	**7.0**	864.8	60.1	6.9
Greyhound	**684.7**	**42.6**	**6.2**	605.1	35.5	5.9
First Bus	**861.7**	**37.0**	**4.3**	870.9	52.0	6.0
First Rail	**1,268.8**	**53.8**	**4.2**	1,308.4	72.9	5.6
Group[2]	**15.8**	**(38.8)**		15.4	(32.4)	
Total Group	**5,653.3**	**339.0**	**6.0**	5,218.1	300.7	5.8
North America in US Dollars	**$m**	**$m**	**%**	$m	$m	%
First Student	**2,323.3**	**222.0**	**9.6**	2,332.7	165.0	7.1
First Transit	**1,358.9**	**95.2**	**7.0**	1,303.4	90.6	7.0
Greyhound	**894.0**	**55.2**	**6.2**	914.0	54.4	6.0
Total North America	**4,576.2**	**372.4**	**8.1**	4,550.1	310.0	6.8

1 Adjusted.

2 Tramlink operations, central management and other items.

As at 31 March 2017, the net debt: EBITDA ratio was 1.9 times (2016: 2.3 times). Liquidity within the Group has remained strong; as at the year end there was £941.1m (2016: £940.2m) of headroom on committed facilities and free cash, being £800.0m (2016: £800.0m) of committed headroom and £141.1m (2016: £140.2m) of free cash. Our average debt maturity was 3.6 years (2016: 4.4 years). In March 2017 the Group agreed to amend and extend our main revolving bank facilities to July 2021.

During the year gross capital investment of £365.6m (2016: £413.3m) was invested in our business. ROCE was 7.3% (2016: 6.7% at constant exchange rates and 7.2% as reported).

Finance costs and investment income

Net finance costs before adjustments were £132.0m (2016: £132.4m) with the decrease principally reflecting lower interest rates, partly offset by adverse foreign exchange translation.

Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £207.0m (2016: £168.3m), with the increase due principally to higher adjusted operating profit. An overall charge of £54.4m (2016: £54.8m) for adjustments including other intangible asset amortisation charges of £60.2m (2016: £51.9m) resulted in statutory profit before tax of £152.6m (2016: £113.5m).

Tax

The tax charge, on adjusted profit before tax, for the year was £53.8m (2016: £38.7m) representing an effective rate of 26.0% (2016: 23.0%). Higher profits in the North American businesses led to the increase in rate. There was a tax credit of £17.3m (2016: £21.6m) relating to other intangible asset amortisation charges and other adjustments of £54.4m (2016: £54.8m). The total tax charge was £36.5m (2016: £17.1m). The effective tax rate on statutory profit before tax is 23.9% (2016: 15.1%). The Group's tax rate is sensitive to the geographic mix of profits including higher tax rates in the US and Canada and to changes in tax law and rates in the jurisdictions in which it operates. The statutory rate is lower than the effective rate on adjusted profits because the majority of intangible asset amortisation is in higher-taxed North America.

Over the medium term, our tax rate is likely to increase as the mix of our business changes. However any legislative changes may also impact our tax rate with any significant reduction in US tax rates tending to offset the impact of higher profits.

The actual tax paid during the year was £10.2m (2016: £7.0m). This is less than the tax charge primarily because of losses carried forward in the US.

EPS

Adjusted EPS increased by 20.4% to 12.4p (2016: 10.3p) and basic EPS increased 24.0% to 9.3p (2016: 7.5p), primarily due to improvements in operating profit.

Shares in issue

As at 31 March 2017 there were 1,207.3m shares in issue (2016: 1,204.2m), excluding treasury shares and own shares held in trust for employees of 0.4m (2016: 0.7m). 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 1,204.8m (2016: 1,204.0m).

Reconciliation to non-GAAP measures and performance

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

Other intangible asset amortisation charges

The amortisation charge for the year was £60.2m (2016: £51.9m). The increase primarily reflects a higher charge in the North America divisions due to the impact of foreign exchange and an incremental £6.6m in software intangible amortisation this year, partly offset by a lower charge in First Rail as the GWR franchise intangible was fully expensed at the end of its first Direct Award period.

Gain on disposal of property

During the year the sale of a Greyhound terminal in San Jose, California was completed which resulted in a gain on sale of £21.6m (2016: £nil).

Restructuring and reorganisation costs
There was a charge of £16.8m (2016: £nil) in the year for restructuring and reorganisation costs across the Group relating to the business turnarounds.

Ineffectiveness on financial derivatives
There was a £1.0m non-cash credit (2016: £0.4m charge) during the year due to ineffectiveness on financial derivatives.

Capital expenditure
As planned we continue to invest in our businesses. Cash capital expenditure was £404.3m (2016: £405.2m) and comprised First Student £198.7m (2016: £245.7m), First Transit £17.8m (2016: £20.5m), Greyhound £30.1m (2016: £21.1m), First Bus £74.4m (2016: £57.6m), First Rail £80.4m (2016: £58.1m) and Group items £2.9m (2016: £2.2m). First Rail capital expenditure is typically matched by franchise receipts or other funding. In addition, during the year we entered into operating leases for passenger carrying vehicles with capital values in First Transit of £8.0m (2016: £1.3m).

Gross capital investment was £365.6m (2016: £413.3m) and comprised First Student £165.9m (2016: £209.2m), First Transit £25.8m (2016: £20.4m), Greyhound £31.7m (2016: £24.8m), First Bus £63.9m (2016: £91.3m), First Rail £75.4m (2016: £65.4m) and Group items £2.9m (2016: £2.2m). The balance between cash capital expenditure and gross capital investment represents creditor movements in the year.

Cash flow
The £111.2m improvement in net cash inflow (before First Rail end of franchise cash flows) was driven by the increase in cash generated by operations and the proceeds from the sale of a Greyhound terminal in the year. This cash inflow, combined principally with no First Rail end of franchise cash flows (2016: £20.8m outflow) and movements in debt due to foreign exchange, resulted in a decrease in net debt of £120.3m (2016 increase: £2.9m), as detailed below.

Funding and risk management
Liquidity within the Group has remained strong. At the year end there was £941.1m (2016: £940.2m) of headroom on committed facilities and free cash, being £800.0m (2016: £800.0m) of committed headroom and £141.1m (2016: £140.2m) 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 of £150m of committed headroom at all times. Our average debt maturity was 3.6 years (2016: 4.4 years). The Group's main revolving bank facilities require renewal in July 2021 following a two-year amendment and extension agreed in March 2017. The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

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.

Fuel price risk
We use a progressive forward hedging programme to manage commodity risk. In 2016/17 in the UK, 91% of our 'at risk' crude requirements (1.8m barrels p.a.) were hedged at an average rate of $70 per barrel. We have hedged 89% of our 'at risk' UK crude requirements for the year to 31 March 2018 at $60 per barrel and 55% of our requirements for the year to 31 March 2019 at $55 per barrel.

In North America 68% of 2016/17 'at risk' crude oil volumes (1.4m barrels p.a.) were hedged at an average rate of $72 per barrel. We have hedged 57% of the volumes for the year to 31 March 2018 at $57 per barrel and 28% of our volumes for the year to 31 March 2019 at $50 per barrel.

Cash flow

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
EBITDA	**686.6**	615.9
Other non-cash income statement(credits)/charges	**(6.2)**	6.4
Working capital excluding First Rail end of franchise cash flows	**23.9**	(16.0)
Movement in other provisions	**(30.6)**	(18.6)
Pension payments in excess of income statement charge	**(37.6)**	(33.6)
Cash generated by operations excluding First Rail end of franchise cash flows	**636.1**	554.1
Capital expenditure	**(404.3)**	(405.2)
Proceeds from disposal of property, plant and equipment	**43.0**	19.5
Interest and tax	**(116.3)**	(122.4)
Dividends payable to non-controlling minority shareholders	**(11.9)**	(10.0)
Other	**0.6**	–
Net cash inflow before First Rail end of franchise cash flows	**147.2**	36.0
First Rail end of franchise cash flows	**–**	(20.8)
Foreign exchange movements	**(26.5)**	(15.3)
Other non-cash movements	**(0.4)**	(2.8)
Movement in net debt in the year	**120.3**	(2.9)

Balance sheet

Net assets have increased by £442.7m since the start of the year. The principal reasons for this are the retained profit for the year of £116.1m, favourable translation reserve movements of £356.2m and favourable after tax hedging reserve movements of £50.7m, partly offset by actuarial losses on defined benefit pension schemes (net of deferred tax) of £82.4m.

Goodwill

The carrying value (net assets including goodwill but excluding intercompany balances) of each cash generating unit (CGU) was tested for impairment during the year and there continues to be sufficient headroom in all of the CGUs.

Foreign exchange

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

	Year to 31 March 2017		Year to 31 March 2016	
	Closing rate	**Effective rate**	Closing rate	Effective rate
US Dollar	**1.25**	**1.29**	1.41	1.49
Canadian Dollar	**1.67**	**1.74**	1.87	1.93

Seasonality

First Student generates less revenue and profit 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. Greyhound operating profit is typically higher in the first half of the year due to demand being stronger in the summer months.

Results for 2018 will include the results of the rail business for the year to 31 March 2018 and the results of all the other business for the 53 weeks ended 31 March 2018.

Pensions

We have updated our pension assumptions as at 31 March 2017 for the defined benefit schemes in the UK and North America. The net pension deficit of £270.9m at the beginning of the year has increased to £358.5m at the end of the year principally due to lower real discount rates partly offset by higher asset returns. The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2017 are set out below:

	Movement	Impact
Discount rate	**+0.1%**	Reduce deficit by £38m
Inflation	**+0.1%**	Increase deficit by £32m

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 will not be recommending payment of a dividend in respect of the year to 31 March 2017 at the Group's Annual General Meeting but will continue to review the appropriate timing for restarting dividend payments.

Net debt

The Group's net debt at 31 March 2017 was £1,289.9m (2016: £1,410.2m) and comprised:

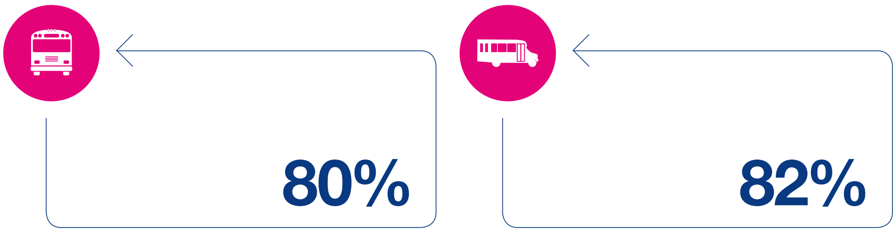
			31 March 2017	31 March 2016
Analysis of net debt	**Fixed £m**	**Variable £m**	**Total £m**	Total £m
Sterling bond (2018)	**298.8**	**–**	**298.8**	298.3
Sterling bond (2019)	**–**	**249.8**	**249.8**	249.8
Sterling bond (2021)	**–**	**348.3**	**348.3**	348.2
Sterling bond (2022)	**321.1**	**–**	**321.1**	320.5
Sterling bond (2024)	**199.6**	**–**	**199.6**	199.6
HP contracts and finance leases	**180.4**	**3.3**	**183.7**	238.3
Senior unsecured loan notes	**80.0**	**–**	**80.0**	105.9
Loan notes	**8.7**	**0.8**	**9.5**	9.7
Gross debt excluding accrued interest	**1,088.6**	**602.2**	**1,690.8**	1,770.3
Cash			**(141.1)**	(140.2)
First Rail ring-fenced cash and deposits			**(255.8)**	(217.5)
Other ring-fenced cash and deposits			**(4.0)**	(2.4)
Net debt excluding accrued interest			**1,289.9**	1,410.2

Under the terms of the First Rail franchise agreements, cash can only be distributed by the 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.

Key performance indicators

Focused and disciplined bidding in our contract businesses

First Student and First Transit contract retention
(%)



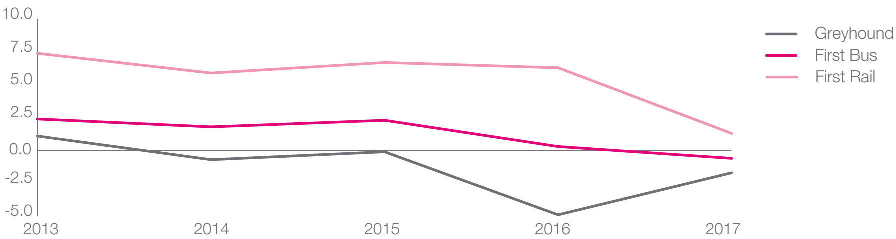
We measure contract retention as a percentage by revenues of all the contracts subject to bid in the year (rather than as a percentage of the contract portfolio as a whole). In First Student and First Transit we typically expect retention of around 90%.

In First Student, our contract retention rate during the summer 2016 bid season was 80%, in line with our budget this year given our ongoing focus on improving contract returns, which yielded an average price increase of 7.3%.

In First Transit, our contract retention rate was 82% during the year; whilst somewhat lower than our normal target range, this included the loss of two relatively large existing contracts which had become loss-making and on which we had bid significant price increases.

Driving growth through attractive commercial propositions in our passenger revenue businesses

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



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

Greyhound like-for-like revenue decreased by 1.7% reflecting a decrease of 3.9% in the first half and an increase of 0.8% in the second. Passenger demand throughout the intercity coach industry is adversely affected by the increased competitiveness of both passenger cars and low-cost airlines when fuel prices reduce year-on-year, as experienced in the first half of our 2017 financial year.

First Bus like-for-like passenger revenue reduced by 0.6%. Market conditions for the industry remain challenged by muted high street footfall, worsening congestion in several localities, and some evidence of lower fuel prices encouraging car use, as well as general macroeconomic uncertainty in the UK.

First Rail like-for-like passenger revenue increased by 1.3%, reflecting an industry-wide slowdown and exacerbated by the magnitude of the infrastructure upgrades on the Great Western network.

Group revenue
(£m)

Group revenue has declined in recent years principally due to our contract pricing strategy in First Student and the loss of rail franchises.

In the year, Group revenue increased by 8.3% due to translation of our US dollar-based businesses into sterling at higher rates than the prior year. In constant currency, Group revenue decreased by 0.5% with growth in First Transit offset by reduced subsidy receipts and the remapping of certain routes out of the scope of First Rail's new TPE franchise, together with lower revenues in Greyhound and First Bus, while First Student revenue was flat.

Continuous improvement in operating and financial performance

Punctuality

Greyhound on-time performance[1]
(%)

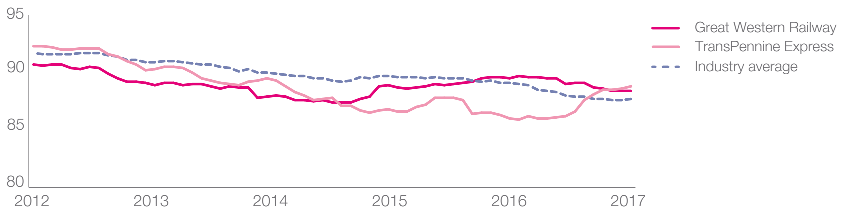
2017	81

First Bus punctuality
(%)

2017	91.1
2016	91.4
2015	91.8
2014	93.0
2013	92.2

[1] Implemented GPS tracking in 2017; earlier data not comparable due to this change in methodology.

First Rail Public Performance Measure (PPM)
(% moving annual average)



During the year Greyhound implemented more robust automatic on-time performance tracking using on-board GPS systems as part of the transformation of the business model. The ability we now have to analyse performance data down to the route and driver has resulted in a significant improvement in on-time performance as measured regularly within the year.

Our First Bus punctuality measure (percentage of services no more than one minute early or five minutes late) continues to be affected by roadworks and the resulting congestion in a number of the areas in which we operate. We continue to work with local authorities to resolve or mitigate these issues.

Our First Rail PPM scores of punctuality and reliability saw the benefit of a more robust timetable at TPE, while GWR's score was principally affected by the substantial infrastructure upgrades being undertaken on the network during the year. Both scores ended the year above the industry average although we continue to focus on improving this further.

Safety

Employee lost time injuries
(per 1,000 employees per year)

2017	8.35
2016	8.16
2015	8.31
2014	8.28
2013	8.94

Passenger injury rate
(per million miles)

2017	4.09
2016	4.18
2015	4.29
2014	4.09
2013	3.90

Our lost time injury rate has gone up by 2%, with increased incidents in both First Student and First Rail. These were offset by reductions in First Transit, Greyhound and First Bus. This remains an area of ongoing focus for our teams as we seek to identify and eliminate unsafe behaviours.

Passenger injuries per million miles have reduced by 2% compared to last year and this reduction is mirrored in the majority of the divisions, excluding First Student and First Rail. There are proactive ongoing initiatives within each of the divisions, implementing preventative measures to reduce injuries on or around our vehicles, trains and stations. This safety focus remains at the forefront of all our businesses' operational strategies.

Financial performance

Adjusted operating profit
(£m)

2017	339.0
2016	300.7
2015	303.6
2014	268.0
2013	254.1

Adjusted EPS
(p)

2017	12.4
2016	10.3
2015	9.8
2014	7.5
2013	11.0

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 2.3%, with a significantly higher contribution from First Student and good progress in First Transit, partly offset by rebased First Rail margin under new contract terms and challenging market conditions in First Bus. Adjusted operating profit in reported currency increased by 12.7%, with favourable currency translation of North American profits partially offset by higher dollar-based UK fuel costs.

Adjusted EPS increased by 20.4%, reflecting higher adjusted operating profit and a lower non-controlling interest charge due to completion of the previous TPE partnership with Keolis, partly offset by a higher effective tax rate.

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

Employee engagement
Your Voice employee engagement score
(%)

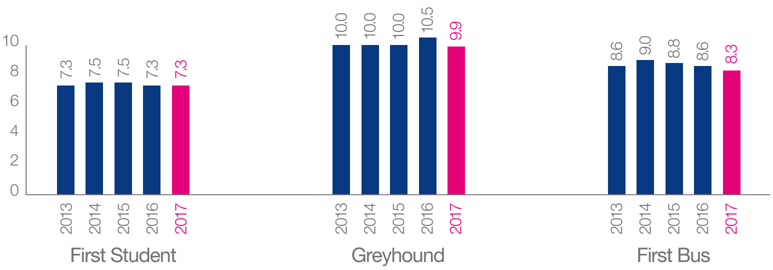
Each of our divisions conducted Your Voice employee engagement surveys during 2016/17.

Our First Rail businesses once again scored well, with employee engagement scores between 66-92% compared with an external UK benchmark norm of 65%.

The First Bus score of 61% represents a 4% improvement on their 2015 survey.

Engagement scores in our North American divisions ranged from 66-74%, against an external benchmark norm of 72%.

Average fleet age
(Years)

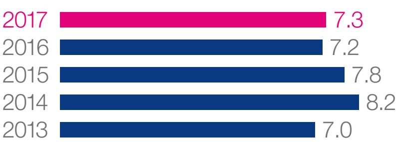


Although First Student continued to make significant investments in buses during the year, we also benefited from cascading buses around our operations; our average fleet age remained 7.3 years.

During the year we retired more Greyhound buses from the fleet than we replaced, reducing our average fleet age modestly to 9.9 years.

In the year we continued our disciplined investments in our First Bus fleet, reducing the average age to 8.3 years. As a result of our fleet reinvestment programme our fleet is now fully compliant with the Disability Discrimination Act. All our recent additions are Euro VI engine buses.

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 was 7.3% in 2017, reflecting increased adjusted operating profit and capital employed as translated at year-end currency rates. Group ROCE was 6.7% at constant exchange rates in the prior year.

Maintain responsible partnerships with our customers and communities

Customer and passenger satisfaction
First Student
(Average rating out of ten)

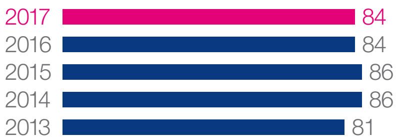
First Transit
(Average rating out of ten)

In both First Student and First Transit we increased our already high levels of overall customer satisfaction in the year, through continued focus on delivering what our customers want. Both First Student and First Transit scored the highest ratings for five years.

Customer and passenger satisfaction continued

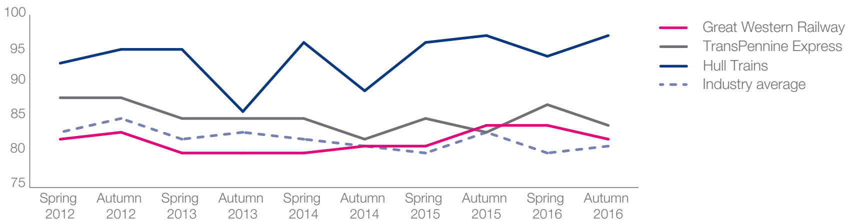
Greyhound
(Change in Net Promoter Score)[1]

First Bus
(% satisfied with their journey overall)



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

First Rail
(% satisfied with their journey overall)

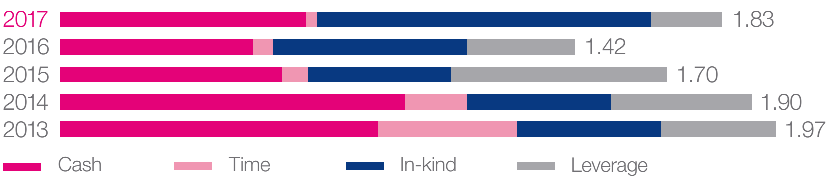


As part of Greyhound's business model transformation, we refocused our customer satisfaction KPI on the Net Promoter Score (NPS) methodology in 2016. This improved significantly in 2017, correlating strongly with our improving on-time performance. We would expect NPS to improve again in 2018, albeit by a lesser amount, as further customer service improvements take effect.

In First Bus, overall satisfaction in the independent Transport Focus National Bus Passenger Survey remains high with many local businesses recording improved results. However congestion in some areas such as the West of England and West Yorkshire continues to impact on punctuality, holding back progress on our customer satisfaction scores. We anticipate our roll out of additional customer benefits such as contactless payments, new vehicles and continued focus on more punctual and reliable services will have an impact on these metrics in the future.

In the latest independent Transport Focus National Rail Passenger Survey all of First Rail's three train operating companies again scored above the national average for overall satisfaction. Hull Trains continued to top the national table at 97%. GWR saw a slight year-on-year reduction from its previous record high to 82%, although scores for ticket purchasing, train comfort and station environments all showed improvement. TPE scored 84%, up a point year-on-year, with improvements in 25 out of 37 categories.

Total FirstGroup community investment
(£m measured using the LBG model)



This year we contributed £1.83m to the communities we serve across the UK and North America, as measured by the LBG model.

This includes cash contributions made directly by the Group, time (employee volunteering), in-kind support (such as travel tickets) and leverage (including contributions from other sources such as employees, customers and suppliers).

We donated more than £460,000 to Prostate Cancer UK, our employee-chosen UK charity of choice.

Environment
Greenhouse gas emissions
(Tonnes of carbon dioxide equivalent per £1m of revenue)

Data from 2016 onwards now includes emissions attributed to the waste we produce through our operations.

Our emissions are calculated in line with the requirements of the WRI/WBCSD GHG Protocol. We report our emissions from all activities for which we are responsible across our operations expressed in tonnes of carbon dioxide equivalent (CO_2(e)), normalised per £1m revenue.

From 2016 onwards, our data includes emissions from waste. Our 2016 data will become our new baseline year against which our future targets are set.

In 2016/17, our normalised emissions decreased by 7.7% against 2015/16 levels. We are constantly striving to improve the completeness of our data, and continue to invest in systems that allow us to accurately track our carbon footprint at a local level.

Principal risks and uncertainties

Our risk management approach

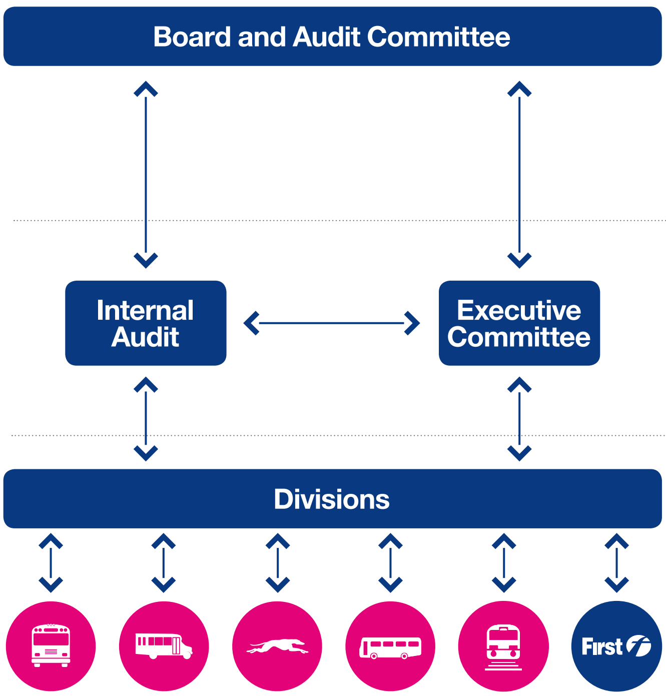
We take a bottom up, top down approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view.

During the year we developed our risk appetite statement which has been formally approved by the Board. We will use this to assist in the management of the operational risks within our businesses and also to provide an understanding of the scale of risk exposures and appetite in the context of our strategic goals, in both cases helping us to set appropriate parameters for risk and assess the extent to which our risk mitigations and controls are appropriate and in line with appetite.

Risk management structure

Whilst some risks such as treasury risk are managed at a Group level, all of our businesses own and manage the risks they face with appropriate assistance from the Group functions as necessary.

The current structure is as follows:



Responsibility	Process
The Board has overall responsibility for the Group's systems of internal control and their effectiveness. The Audit Committee has a specific responsibility to review and validate the systems of risk management and internal control.	The Board reviews and confirms Group and divisional risks and the Audit Committee reviews the Group's risk management process.
The Executive Committee reviews the Group's risk management processes. Internal Audit provides assurance on the key risk mitigating controls and ensure that the audit plan is appropriately risk-based.	The Executive Committee and other Group management review and challenge Group and divisional risk submissions.
The divisions and Group functions management have responsibility for the identification and management of risks, developing appropriate mitigating actions and the maintenance of risk registers.	Divisional and Group risk champions maintain and update risk registers for their function or division. Risks and mitigating actions are monitored through normal business management processes.

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; and/or
- adversely impact the Group's reputation or stakeholder expectations.

The Group's principal risks are set out in the table on pages 33 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 54 and 55.

Strategic objectives

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.

	Focused and disciplined bidding	Driving growth through attractive commercial propositions	Continuous improvement in operating and financial performance	Prudent investment in our key assets	Responsible partnerships with our customers and communities
Economic conditions	●	●	●	●	
Political and regulatory	●	●	●	●	●
Contract businesses including rail franchising	●	●	●	●	●
Competition and emerging technologies	●	●	●	●	
Information technology	●	●	●	●	●
Treasury and credit rating	●		●	●	
Pension scheme funding	●		●	●	
Compliance, litigation and claims, health and safety	●	●	●		●
Labour costs, employee relations, recruitment and retention	●	●	●	●	●
Disruption to infrastructure/operations	●	●	●		●

Risk and potential impact	Mitigation	Comment and movement during the year
Economic conditions including Brexit implications		
Changing economic conditions affect our different businesses in different ways. A less positive economic outlook 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. An improving 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. Improving economic conditions may also result in a tightening of labour markets resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services.	To an extent, our First Bus and Greyhound operating companies are able to modify services to react to market changes. All of our businesses focus on controlling costs to ensure they remain competitive.	Continued low oil prices have adversely affected our Greyhound business. The UK departure from the European Union ('Brexit') may adversely impact the UK's economic position which in turn may have an adverse impact on the Group's UK operations. These factors have increased the risk during the year.
Political and regulatory		
The political landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes, 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.	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.	The Bus Services Act came into force in April 2017 and includes devolved powers to regulate bus services in local areas, subject to certain criteria being met. The risk has increased in the year as Brexit, the new administration in the USA, and the shift in the political landscape in the UK could bring about changes in both how we operate and in the markets we serve.

Risk and potential impact	Mitigation	Comment and movement during the year
Contract businesses including rail franchising		
Approximately fifty percent 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. 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 South Western 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.	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.	No material change during the year, although the award of the South Western franchise will increase the size of our contracted operations.
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. Emerging technologies such as Uber, ride sharing apps and price comparison websites make access to alternative transport solutions easier. Increased competition could result in lost business, reduced revenue and reduced profitability.	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. In the UK, we have established 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. In addition, 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.	No material change during the year.

Risk and potential impact	Mitigation	Comment and movement during the year
Information technology (IT) and cyber security		
The Group relies on IT in all aspects of our businesses. 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 (including credit card and personal data). 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.	As a result of the continuing threat of cyber attacks, we have implemented new threat detection systems but continue to remain vigilant to security improvements when identified. The Group has also increased its focus on asset management and further enhanced its IT security processes and procedures during the year. The Group has further strengthened its IT project management capability during the year, particularly within Greyhound.	No material change in the year, however, web and mobile sales channels remain of increasing importance across many of our businesses. Cyber security remains high risk.
Treasury and credit rating		
As set out in further detail in note 24 to the financial statements on pages 116 to 118, 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.	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 8.	The reduction in the Group's leverage from 2.3 times net debt:EBITDA to 1.9 times at the end of the financial year, and improved cash generation has reduced the level of risk.
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 upon financial markets, notably investment returns and valuations, the rates used to value the liabilities and through changes to life expectancy and could result in material changes in the accounting cost and cash contributions required.	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.	No material change in the year, however, the Company has given notice to the UK First Bus Pension Scheme to close to future accrual from April 2018. This will further reduce the size and volatility of the pension funding risk over the longer term.

Principal risks and uncertainties
continued

Risk and potential impact	Mitigation	Comment and movement during the year
Compliance, litigation and 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. A large single claim or a large number of smaller claims may negatively affect profitability and cash flow.	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.	There has been no material change to the risk environment in the year; however, due to the scale and scope of our operations, risk mitigation in this area continues to be an area of focus for the Group.
Labour costs, employee relations, recruitment and retention		
Employee costs represent the largest component of the Group's operating costs, and political or union 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 employee costs and operational disruption. Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.	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 leadership conferences, employee surveys and the presence of Employee Directors (who are voted for by the employees to represent them) on many of the Group's UK divisional 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.	No material change during the year.

Risk and potential impact	Mitigation	Comment and movement during the year
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, potentially, climate change or pandemics. 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. Greater and more frequent adverse weather could lead to interruptions or disruption to service performance and reduced customer demand with consequent financial impact, potential increased costs and accident rates. As a leading transport provider, we face the challenge of addressing climate change, both through managing its impact and reducing emissions.	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 and investment in new technology.	No material change during the year.

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.

Corporate responsibility

Our approach

We recognise our responsibility as a leading transport operator to provide sustainable travel solutions for our customers and the communities we serve.

Our approach to corporate responsibility covers our commitment to the environment, customers, safety, community and our people. Across our business, we work to embed long term programmes and partnerships in each of these areas, with targets and established plans and policies. In support of our corporate responsibility strategy, our environment strategy will be refreshed during 2017/18 and will detail our plans to reduce our direct and indirect impact on the environment.

We have detailed policies in place across FirstGroup that ensure a cohesive approach to corporate responsibility. In addition to the core areas mentioned above, these policies also cover our approach to human rights[1] across our business, including our supply chain. These policies will be updated during 2017/18.

Our focus on managing our impacts on the environment, safety and investing in our people, customers and communities, reflects the areas where we have a material impact and believe we can make a positive difference. In each of these areas, we aim to exceed regulatory requirements, and work with expert networks and groups to learn from best practice, helping us to respond to the current and future needs of our stakeholders. We constantly strive to find new, innovative ways to meet changing expectations and become the provider of choice for those we serve, optimising our resources and investing in the future of our people and communities.

Through our environment and corporate responsibility strategy, and the support of our more than 100,000 employees, we know we can make a positive, sustainable difference to our customers and their communities through our day-to-day operations.

Environment

Our solutions put us at the heart of a greener, cleaner future for our communities.

During 2016, transport contributed 23% of global energy-related carbon emissions[2]. Sustainable transport has a vital role in helping to maintain global temperatures at or below the 2 degrees Celsius level, at which the most serious consequences of climate change can be avoided[3].

Our vision is to provide solutions for an increasingly congested world, driving a shift to less carbon-intensive modes of public transport such as bus, rail and coach, which produce less harmful emissions per person, and reduce congestion in the communities we serve. However, the pace of investment in clean technology must take place at a rate that maintains the affordability of public transport, ensures high levels of utilisation and reduces overall carbon emissions.

Meeting the growing demand for transport whilst also minimising emissions of greenhouse gases and local air pollutants, is key to the successful delivery of the Sustainable Development Goals agreed by the United Nations in 2015, and forms part of FirstGroup's focus on the environment.

Investment in greener road and rail fuels and technologies, and validation of emissions through independent testing, were significant drivers of our work in 2016/17 and will continue to drive our longer term environmental plans.

Carbon emissions and air quality

In North America, the American School Bus Council reports that each yellow school bus takes 36[4] cars off the road in the morning and evening peaks. In comparison to short-haul flights, opting to travel by Greyhound in North America can provide a carbon saving of 124g CO_2(e) per passenger km[5].

In the UK, in cities such as Leeds, where FirstGroup is the largest bus operator, cleaner (Euro VI engine) diesel and alternative fuel buses offer significant reductions in roadside emissions of fine particles (PM) and nitrogen oxides (NOx), improving local air quality.

The topic of air quality has become increasingly significant, and in the UK we perform our own independent testing to verify air emissions data for our bus fleet. The planned implementation of Clean Air Zones in five UK cities highlights the importance and relevance of reducing pollutant emissions, and our continued investment in low emission vehicles ensures we are strongly positioned.

Carbon footprint methodology

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

First Bus celebrates Low Carbon Vehicle Operator of the Year

First Bus has led the industry's drive to introduce cleaner vehicles, improve fuel efficiency, reduce emissions and improve air quality in towns and cities across the UK.

Judges at the Low Carbon Champions Awards, which celebrate innovation and best practice in the UK's accelerating drive to cut carbon emissions from the road transport sector, were impressed by our vehicle trials at Millbrook, a vehicle testing facility in Bedfordshire, and commended us for our pursuit of emerging low emission technologies.

We currently operate 12 electric buses in York and two in Bristol; four hydrogen fuel cell buses in Aberdeen; and in Bristol we recently trialled a bio-methane vehicle that ran on fuel processed from human waste.

In 2015 we announced what was the UK's largest single order (355 vehicles) of the latest Euro VI engine buses which, compared to those they replace, produce 95% less nitrogen oxide emissions and help improve air quality.

Since 2012, we have invested around £300m in almost 1,600 new buses, bringing the size of our DfT-certified 'Low Carbon Bus' fleet to around 1,000 – one of the largest in the UK.

How does travel by FirstGroup vehicles compare with other modes?

Mode	gCO_2(e)/passenger kilometre
First Bus	88.26
Greyhound	32.39
First Rail (average)	51.26
Car (medium diesel)	113*

All FirstGroup data refers to 2016/17. CO_2(e) refers to carbon dioxide equivalent.

* UK Government GHG Conversion Factors for Company Reporting (2016) (DECC/Defra) based on 177g CO_2(e) per km, normalised for 1.56 passengers per car according to NTS 0905.

[1] See our statement on Human Rights and Modern Slavery on page 53.

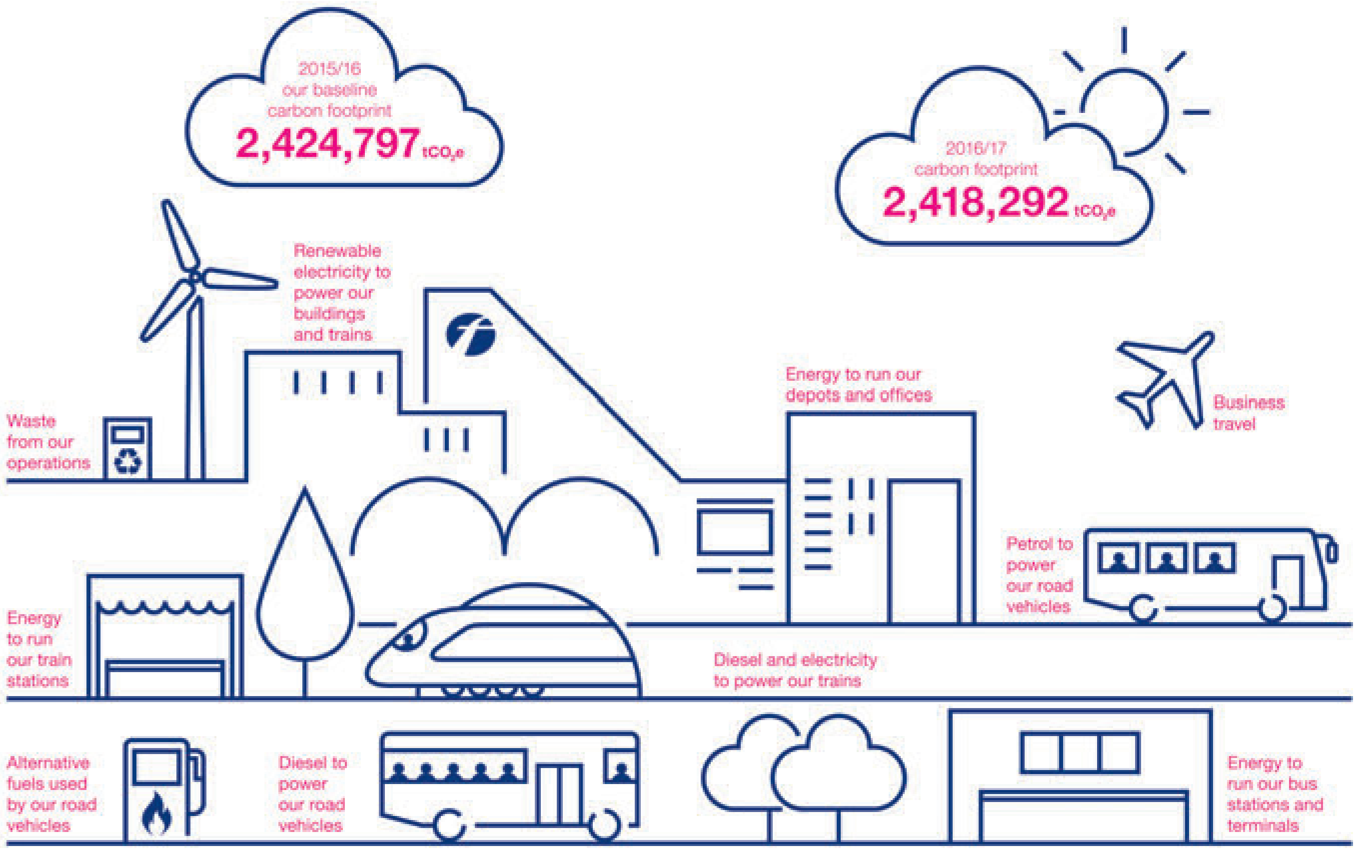
[2] International Energy Agency, Energy Technology Perspectives 2016.

[3] Intergovernmental Panel on Climate Change 5th Assessment Report: Synthesis Report 2015.

[4] http://www.americanschoolbuscouncil.org/issues/environmental-benefits.

[5] Environmental Protection Agency 2014 – Emission Factors for Greenhouse Gas Inventories. EPA Short Haul flight 156g CO_2(e) per passenger km. Greyhound 32g CO_2(e) per passenger km.

Our carbon footprint



Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, applying the operational control approach to our organisational boundary. We have used emissions factors from the UK Government conversion factors for GHG Company Reporting (2016), various World Resources Institute GHG Protocol tools (2015), the US Environmental Protection Agency (2015), Canada's National Inventory Report (2015) and the Association of Issuing Bodies European Residual Mixes (2015).

- 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.
- Scope 3 – Indirect emissions from: First Travel Solutions; business travel by air; and North America and UK waste recycling and disposal.
- Out of scope – Indirect emissions from burning bio fuels in our First Bus vehicles, in line with Defra reporting guidelines.

For more information, see our reporting guidelines at www.firstgroupplc.com/2017_Reporting_Guidelines

Our carbon footprint in tonnes of CO_2(e):

	2016/17	2015/16
Scope 1	2,338,164	2,324,947
Scope 2 (location based)	61,567	72,776
Scope 3	9,031	13,489
Out of Scope	9,530	13,585
Total tonnes CO_2(e)	2,418,292$^{\Delta}$	2,424,797
Total tonnes CO_2(e) per £1m revenue	428	464
Scope 2 (market based)	46,128	57,023

Δ Data extracted from www.firstgroupplc.com/2017_CR_Data which was included within Carbon Clear's independent limited assurance scope. See www.firstgroupplc.com/2017_CR_Assurance for full assurance opinion and for notes on the breakdown of this table.

Reporting period – 1 April 2016 to 31 March 2017, in line with the Group's financial year.

Our performance in 2016/17

The majority of FirstGroup's carbon dioxide emissions (95%) result from fuels and electricity used to power our road and rail vehicles. In 2016/17, our absolute fleet carbon emissions were broadly flat overall compared to 2015/16, with a small increase of 0.98%.

In 2016/17, we ordered more than 300 new buses for our UK fleet, all equipped with the latest Euro VI engine technology. These engines have been independently proven to produce up to 95% less nitrogen oxide emissions than previous generations of engines and are therefore now helping in the effort to improve air quality within many towns and cities across the UK. More than 230 of these new vehicles are also Low Carbon Emission certified, which have also been independently proven to produce 30% less greenhouse gas emissions compared with older vehicles.

In 2014/15, we reported that 81% of our annual First Bus mileage was completed with engines of Euro III standard or higher; in 2016/17, this has increased to 93%. In addition, our mileage from electric, hydrogen, diesel-electric hybrid and the latest Euro VI low carbon engines has more than tripled since 2015/16 to 23.4m miles. This investment positions FirstGroup as one of the UK's largest operators of DfT-certified Low Carbon Buses.

First Student home to school transport offers the lowest passenger km carbon emissions of any of our fleet[1]. First Student's fleet has achieved a 4.87% reduction in CO_2(e) compared to 2015/16.

[1] Based on American Schoolbus Council Data of 54 students travelling.

Corporate responsibility
continued

At Greyhound, better utilisation, streamlining of routes and fuel efficiency measures have resulted in 32.39g CO_2(e) per passenger km – an improvement of more than 3% since 2015/16.

Across our rail operations in the UK, we continue to support Network Rail's electrification projects and are rolling out our new electric trains on GWR routes, with the delivery of our new bi-mode trains for TPE routes starting in 2018. Continued support for energy efficient driving techniques across our rail operations has improved performance levels compared to last year across the rail division. Overall, CO_2(e) emissions per passenger km have fallen from 52.38g CO_2(e) per passenger km in 2015/16 to 51.26g CO_2(e) per passenger km.

Significant improvement in our property-related carbon footprint (a 22.8% reduction in gas use and a 12.8% reduction in electricity) has followed warmer winter weather (requiring less energy-intensive heating) and changes to our property portfolio.

This year, we are able to report for the first time the carbon emissions related to the overall volume of our wastes and their final fate in recycling or disposal. In First Bus and First Rail, we are seeing an improving trend in levels of recycling and waste diverted from landfill.

Our communities

We are proud to serve our communities across the UK, North America and beyond.

We use our expertise, passion and support to make a positive impact wherever we work, helping to meet our ambition of being the preferred partner of the communities we serve.

Community engagement

Community partnership and engagement lie at the heart of our business. Developing, sustaining and improving long term partnerships with our key stakeholders is critical to our ongoing success.

This year, we continued to provide regular community engagement training and support for our managers across the Group. In addition, we used the results of our stakeholder and customer surveys to further tailor and enhance our training and engagement activities. We also implemented a new online engagement tracking tool this year, which helped to drive an increase in the number of engagement activities taking place across our businesses.

In the coming year, we will launch a new online community engagement planning system, to allow greater visibility and cross-divisional sharing of our formally documented local community engagement plans and associated best practice activities. This, and our continued focus on engagement, will support employees at every level of the organisation to continue to engage with our communities in a consistent and effective way.

Community investment

An important part of our approach to community engagement is the investment we make in our partnerships with charitable organisations who share our ambition of keeping our communities prospering.

In total, FirstGroup and our employees gave £1.83m during 2016/17 as measured by the LBG model on community impact. Around 60% of our community investment is focused on two key areas; health and education. This year we supported more than 1,000 charitable organisations through corporate donations and gifts in kind, including the donation of advertising space and vehicle hires, event sponsorships, and tickets.

Our employees take us even further into our communities, giving their time and effort to fundraise and support the causes they are passionate about. This year we again offered our UK employees matched funding for their fundraising efforts, matching up to £200 per person to registered charities. In addition, more than 1,050 UK employees took part in our payroll giving scheme, donating more than £97,000 to charity through their pre-tax pay in the past year alone.

Our flagship UK charity of choice partnership with Prostate Cancer UK continues to go from strength to strength, with a total partnership value of more than £920,000 in the two years to 31 March 2017. The selection process for our next employee-voted charity of choice will begin in late 2017, with a new partner joining us on 1 April 2018.

Safety

Dedicated to Safety, always front of mind – safety is our way of life.

Dedication to safety is one of our five values, and it signals that our commitment to the safety of our passengers, our employees and all third parties interacting with our businesses remains unwavering.

Every year our trains and buses carry more than two billion passengers more than 10 billion miles, and we are responsible for more than 100,000 employees. Sadly there was one employee fatality in First Student this year, and nine passenger fatalities – seven of those in the tragic incident at Tramlink in Croydon in November 2016 (which is covered in detail on page 6 of this report). We feel the impact of these tragic events throughout our entire organisation and they strengthen our resolve to achieve zero harm to our employees, passengers and anyone else we engage with in the course of our business.

Second successful year for Prostate Cancer UK partnership

FirstGroup's three-year partnership with our employee-chosen charity Prostate Cancer UK began in April 2015, with a target of reaching £1m by March 2018 in cash, gift in kind donations, such as advertising space, and volunteering. The partnership provides numerous opportunities for employees to take part in raising both vital funds and awareness for the charity.

One such opportunity is Prostate Cancer UK's flagship event Brew and Bake, which aims to bring together friends, family and colleagues over tea and cake to raise funds to help beat the most common cancer amongst men. FirstGroup promoted the event to all UK employees, providing toolkits including posters, cake labels and bunting. As well as raising funds, the initiative also raised awareness of a disease that affects one in eight men in the UK.

FirstGroup and Prostate Cancer UK's aim is to reach as many people as possible, helping to start lifesaving journeys across the UK. As part of this, we are funding the production of one million 'Know Your Prostate' guides, which are being distributed across the UK to help educate and raise awareness of the symptoms of prostate cancer.

During the first two years of the partnership (April 2015 – March 2017), FirstGroup employees fundraised more than £40,000. This is in addition to corporate donations and gift in kind advertising, bringing the total partnership value to date to more than £920,000.

Safety leadership

Our Executive Safety Committee is chaired by the Chief Executive, and meets six times per year to review the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies. It also assists the Board Safety Committee in obtaining assurance that appropriate operational systems and processes are in place to manage safety risks and to promote a safety focused culture. Our Board Safety Committee reviews the safety performance of the Group on behalf of the Board, oversees the management of the Group's operational safety risk profile and promotes a positive safety culture throughout the Group. More information on our Committees can be found on page 62.

Be Safe

Be Safe is our Group-wide commitment to safety, to:

- drive continuous improvement towards zero harm
- make safety a personal core value for all employees
- improve performance.

To achieve this, there are robust safety management systems, and a clear focus on ensuring compliance with policies, processes and procedures. Our behavioural change programme builds on this, by focusing on the positive reinforcement of safety critical behaviours through regular touchpoints (daily positive safety coaching interactions) and debriefs (weekly collective discussion and feedback on the touchpoints delivered at each of our locations).

Our First Bus fleet is fully compliant with the Disability Discrimination Act

To support safety behaviour change, we have delivered tailored training to more than 5,000 managers and supervisors this year, bringing the total to almost 8,500 employees now trained. Touchpoints take place across the Group every day, and nearly 20,000 debriefs have occurred since the programme began, including by the Chief Executive and by managers throughout the organisation.

To embed further our Be Safe programme, in 2016/17 we developed a set of Principles to help every employee across the Group to understand how they can demonstrate our Dedicated to Safety value. These are supported by Rules of Engagement, which make clear the actions that all managers and supervisors are required to take, including daily touchpoints and weekly debriefs.

Strategy in action

This year, First Student has strengthened its new driver training, and has begun implementing turning and manoeuvring clinics across the division.

In First Transit, driver training clinics are being delivered at every location across the division, focusing on addressing the most common causes of collisions, with more than 6,000 drivers trained to date.

In Greyhound, sideswipes have been identified as the largest single reason for collisions. A sideswipe incident occurs when the side of a vehicle comes into contact with another that is driving next to it, in the same direction. To tackle this, training is being targeted in built-up urban areas where these incidents most frequently occur.

First Bus is delivering a refresher of Smith's System driver training, and has developed an online tool to monitor and manage driving performance in an objective way and allow for any interventions to take place at an early stage.

An online version of our competency management system, covering our driver population, was rolled out in GWR, TPE and Hull Trains during 2016/17, allowing assessors to collect and access competency management data on tablets or laptop computers during frontline site inspections. Also, new driver training modules are being developed to support consistent safety standards and behaviours.

Initiatives in technology

We continue to innovate and explore the use of technology to enhance safety performance, learning from other businesses and sectors, and sharing best practice across our operations.

The majority of the road fleet is now equipped with safety sensors and recording devices. In Greyhound and First Transit, video and audio recording is triggered when acceleration exceeds specified thresholds. This information is used to improve driver behaviour, prioritise drivers requiring further support, commend high-performing drivers, and support incident investigation.

First Student uses a fleet management system that logs speed and routes through GPS, as well as reporting faults, thereby contributing to road safety.

First Bus uses a sensor that not only provides in-vehicle feedback to drivers, but also compiles driver safety scores and trip history. This feeds into a database that makes it simple for managers to monitor driver performance and improve driver standards. This database is now also being implemented in our North American divisions, commencing with Greyhound.

Health and wellbeing of our employees

As a responsible employer we want to support our people to stay healthy and active, both physically and mentally. Each of our businesses supports employees through local initiatives targeting the issues most relevant to its workforce.

One of the biggest health challenges for our drivers is how to eat well and maintain a healthy weight during life on the road.

Greyhound's Rolling Strong programme provides drivers with on-site support from a wellness coach who visits our terminals and training schools to give free biometric readings, face to face consultations, and advice on simple preventative actions to reduce health risks and make better food choices. As part of the programme we've changed the menu at driver training schools to offer healthier options.

Greyhound's Healthy Hound initiative also supports employees to lose weight and stop smoking.

TPE has introduced health monitoring equipment at its main employee locations to help employees track key indicators including blood pressure, body fat, BMI and heart rate. Regular assessments and advice are provided by specialist occupational health professionals.

Our initiatives also recognise the importance of psychological wellbeing. For example, TPE has rolled out mental health awareness workshops to help managers and colleagues recognise the signs that someone may be struggling, offer appropriate support and learn about coping techniques.

Good mental health helps ensure better customer service, employee motivation, performance and safety.

Corporate responsibility
continued

Our people
With more than 100,000 employees, our people are at the heart of our success.

Our employee programmes cover a range of areas, and we are constantly looking to see where we can improve our offering.

Be First awards
Our annual Be First awards celebrate employees who have made a significant contribution to our business over the past year.

Individuals and teams are nominated by colleagues for the way their everyday behaviours and actions reflect our vision, strategy and values. Two employee recognition events, one in North America and one in the UK, bring together nominees and senior management to celebrate success and learn where best practice examples can be shared across the Group.

To encourage employees to get involved, the Group donates £5 per nomination to our charity of choice, Prostate Cancer UK. This year we were pleased to see an increase in the number of nominations to 705, more than double the previous year, resulting in more than £3,500 being donated.

Apprentices and graduates
In 2016, 66 new apprentices began their careers in engineering and operational roles with us, 26% of them female, indicating gradual progress in the proportion of women beginning technical careers with FirstGroup.

Our UK graduate programme also continues to help us attract engineering and leadership talent, with seven graduates joining in 2016 across our First Bus and First Rail divisions. We continue to see a rise in female applicants, with 43% of hires into our graduate programme being female in 2016/17.

During the year we have expanded our programme to include three graduate opportunities in our Group Finance team, who will join us during 2017.

Our graduates and apprentices benefit from exposure to a range of areas within the business, allowing them to identify the area in which they wish to specialise. This year, our graduates took part in a fundraising challenge for our UK charity of choice, Prostate Cancer UK, raising thousands of pounds between them and raising awareness amongst our employees and customers.

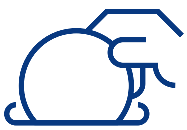
Employee engagement
Our Your Voice survey measures employees' satisfaction with the way they are managed, the pride they feel in working for the business, and how likely they are to recommend us to others as a great place to work.

All of our divisions conducted Your Voice surveys during 2016/17. Our First Rail businesses once again scored well, with employee engagement scores between 66-92% compared with an external UK benchmark norm of 65%. The First Bus score of 61% represents a 4% improvement on its 2015 survey.

Engagement scores in our North American divisions ranged from 66-74%, against an external benchmark norm of 72%.

In the second half of the year, we simplified the survey to make it quicker and easier for employees to complete, whilst still preserving the ability to track progress with previous years and compare results against internal and external benchmarks.

Since introducing the new streamlined survey, and encouraging completion online, participation rates have increased, with our First Bus response rate climbing 3% to 73%, significantly ahead of the external UK benchmark norm of 66%. Linking to our employee-chosen charity of choice, Prostate Cancer UK, we made a donation to the charity for each completed survey. Response rates for TPE were up 12% to 86% and GWR 9% higher at 75%.



Our partnership with Prostate Cancer UK is valued at more than £920,000 since we launched in April 2015

Our North American divisions will benefit from the new simpler survey in their next survey cycle in 2018.

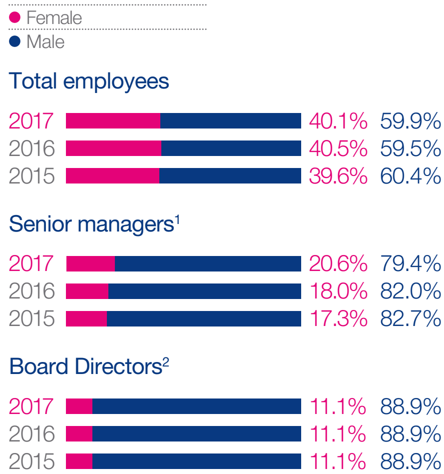
Diversity and inclusion
A diverse and inclusive organisation is better able to serve our customers and communities, and to attract and retain the best available talent.

Our full gender diversity snapshot for 2016/17 is shown above.

The passenger transport industry remains male-dominated. Traditionally, fewer women have applied for driving jobs, or studied the science, technology, engineering and mathematics subjects which lead to careers in many of our engineering and operational roles.

We remain committed to changing the gender demographics of our business, and we are pleased that the proportion of women in senior

Diversity snapshot at 31 March 2017



[1] 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'.

[2] We have improved the diversity of our Board Directors since 31 March 2017, with the recruitment of two new Board Directors in May 2017 leading to a 20:80 female to male gender split.

management roles has increased again, from 18% to 20.6% since last year, another rise from 17.3% in 2014.

More broadly, around 35% of all management roles across the Group are now held by women, an important foundation for further increasing the number of women in senior management.

More than 56% of the workforce in our First Student division is female, with more than 25,000 women employed across a variety of driving, supervisory and management roles.

During the year our businesses have led a variety of initiatives to improve diversity and inclusion. For example, GWR has been part of the UK National Inclusion Taskforce to improve leadership opportunities for Black, Asian and Minority Ethnic employees, and will continue contributing to the Taskforce in 2017.

We have also partnered with the Dame Hannah Rogers Trust, Mencap, the Department of Education and Oxfordshire County Council to offer 12 month supported internships to young people with learning disabilities. These placements provide high quality, valuable work experience, and build confidence and independence.

Ruth Collins, Mencap's Education and Employment Service Manager, said 'Around 80% of working age people with a learning disability in the UK could work, but fewer than 10% are currently in employment. Schemes like GWR's make a huge difference by developing the skills they need to enter the job market.'

We have also supported employability skills sessions with Clean Break, an organisation that aims to help female ex-prisoners to develop the skills and confidence to move into jobs.

Improving local environmental performance

We are at the forefront of deploying low carbon and alternative fuel vehicles across the industry, helping to improve air quality for the local communities in which we operate

Investing in low carbon vehicles

Following our order of more than 300 Euro VI buses during 2016, our fleet of DfT-certified low carbon vehicles in First Bus stands at around 1,000 – one of the largest in the UK. These vehicles produce 95% less oxides of nitrogen (NOx) emissions compared to buses with Euro V engines, and as a result will help improve air quality in the towns and cities in which First Bus operates.

Increased use of alternative fuels

Mileage by vehicles using alternative fuels is continuing to grow across First Student and First Transit. In response to customer demand, we offer a range of options including biodiesel, electric and gas vehicles such as liquefied natural gas (LNG), liquefied petroleum gas (LPG) and hydrogen. As well as reducing the fleet reliance on fossil fuels, these vehicles help to improve local air quality through reduced or negligible emissions. More than 18% of our mileage in First Transit and 14% of our mileage in First Student is now completed using alternative fuels.

New electric trains

GWR have begun the roll out of a fleet of new electric trains, as part of their commitment to deliver more capacity and faster, more frequent services. The trains started to enter service in September and offer at-seat power sockets, air conditioning, extra luggage space and free Wi-Fi for customers. They replace diesel vehicles, improving local air quality and reducing noise pollution around stations and depots.

Innovative vehicle trials to measure air quality impact

Our award-winning vehicle trials at Millbrook, a vehicle testing facility in Bedfordshire, help us to better understand the impact First Bus has on local air quality. We complete a number of tests over and above manufacturers' recommendations, working with potential suppliers to identify areas for improvement in both engine and vehicle design, encouraging fuel efficiency and emissions reduction. These vehicle trials help us to understand which models and manufacturers we wish to invest in, and lead to positive competition between potential contractors, with learnings that can be applied across their businesses.

Board of Directors

1. Wolfhart Hauser N
Chairman

Appointed: May 2015 and became Chairman in July 2015
Key areas of prior expertise: Governance, Strategy
Skills and experience: Starting his career with various research activities covering also road traffic safety, Wolfhart went on to establish and lead a broad range of successful international service industry businesses. He was Chief Executive of Intertek Group plc for ten years until he retired in May 2015. He was previously Chief Executive Officer (CEO) and President of TÜV Süddeutschland AG for four years and CEO of TÜV product services for ten years.
Other appointments: independent Non-Executive Director of Associated British Foods plc and Senior Independent Director of RELX Group plc.
Nationality: German

2. Tim O'Toole CBE
Chief Executive

Appointed: 2009 and became Chief Executive in 2010
Key areas of prior expertise: Transportation, Strategy
Skills and experience: Tim brings to the Board a wealth of international transport management experience gained over a number of years in the sector. Prior to joining the Company, he was Managing Director, London Underground, having previously been at Transport for London. He was President and Chief Executive of Consolidated Rail Corporation and a Non-Executive Director of CSX Corporation until March 2017.
Nationality: American/British

3. Matthew Gregory
Chief Financial Officer

Appointed: 2015
Key areas of prior expertise: Finance, M&A
Skills and experience: Matthew has strong financial and operational expertise, including strategic and financial planning and control, as well as extensive international experience of driving performance improvement and restructuring. Former Group Finance Director of Essentra plc, having previously been Director of Corporate Development as well as having held a number of senior finance roles. His early career was spent at Rank Group plc and Ernst & Young.
Nationality: British

6. Jimmy Groombridge B
Group Employee Director

Appointed: 26 May 2017
Key areas of prior expertise: Bus Industry, Employee Relations, Employee Engagement, Safety
Skills and experience: Jimmy has been a bus driver for almost 40 years and is currently employed as a bus driver for First Eastern Counties, one of the Group's bus operations. An Employee Director for First Eastern Counties Buses Ltd. for more than a decade, he was also elected as the regional Employee Director for Norfolk and Essex. Safety is a passion for Jimmy and as such he is a Be Safe champion. Having gained experience working on projects for different departments within FirstGroup, he has a unique wealth of experience of employee engagement.
Nationality: British

7. Drummond Hall N R
Senior Independent Non-Executive Director

Appointed: 2014
Key areas of prior expertise: Marketing, Strategy
Skills and experience: Drummond brings to the Board a wealth of experience gained across a number of customer-focused businesses in the UK, Europe and the US. He was formerly Chief Executive of Dairy Crest Group plc, prior to which his career was spent mainly with Procter & Gamble, Mars and PepsiCo. He has also been Chairman and a Non-Executive Director of Mitchells & Butlers plc and a Non-Executive Director of Taylor Nelson Sofres PLC.
Other appointments: Senior Independent Non-Executive Director and Chair of the Remuneration Committee of WH Smith plc and of The Sage Group plc.
Nationality: British

8. Martha Poulter
Independent Non-Executive Director

Appointed: 26 May 2017
Key areas of prior expertise: IT, Business Process Transformation
Skills and experience: Martha's experience in technology spans the telecommunications, financial services, and hospitality industries. She was most recently 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: Board Director of Norwalk Community College Foundation
Nationality: American

4. Richard Adam Ⓐ Ⓡ
Independent Non-Executive Director

Appointed: 24 February 2017
Key areas of prior expertise: Finance, M&A, International Business
Skills and experience: Richard has served as Finance Director of private and listed businesses for nearly 30 years. From 2007 until retiring in 2016 he was Group Finance Director of Carillion plc. Prior to this he was Group Finance Director of Associated British Ports Holdings plc for seven years. He was also previously Non-Executive Director and Chair of the Audit Committee of SSL International plc. He qualified as a chartered accountant with KPMG in 1982.
Other appointments: Non-Executive Director of Countryside Properties plc, Countrywide plc and BMT Group Ltd; Chair of the Audit Committee of Countryside Properties plc and Countrywide plc; Chair designate of the Audit Committee of BMT Group Ltd; Senior Independent Director of Countryside Properties plc.
Nationality: British

5. Warwick Brady Ⓐ
Independent Non-Executive Director

Appointed: 2014
Key areas of prior expertise: Transportation
Skills and experience: Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes. 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. Warwick also held board positions at Airline Group and NATS, the UK's airspace provider, and was Deputy CEO of Buzz.
Other appointments: Deputy Chief Executive Officer (CEO) of Stobart Group Ltd (until 1 July 2017 when he will become CEO) and strategic Board Advisor at Vistair Systems Ltd.
Nationality: British

9. Imelda Walsh Ⓡ Ⓝ Ⓑ
Independent Non-Executive Director

Appointed: 2014
Key areas of prior expertise: Remuneration, HR
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 Non-Executive Director and Chair of the Remuneration Committee of Sainsbury's Bank plc and Mothercare plc and has held senior executive roles at J Sainsbury plc (where she was Group HR Director), Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited.
Other appointments: Non-Executive Director and Chair of the Remuneration Committees of William Hill plc and Mitchells & Butlers plc.
Nationality: British

10. Jim Winestock Ⓑ Ⓝ Ⓐ
Independent Non-Executive Director

Appointed: 2012
Key areas of prior expertise: Distribution
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: Non-Executive Director of YRC Worldwide, Inc; also serves on the Board of two not-for-profit organisations in the US.
Nationality: American

Board Committees

Ⓐ Audit Committee
Ⓡ Remuneration Committee
Ⓝ Nomination Committee
Ⓑ Board Safety Committee
● Chair

Executive Committee: supports the Chief Executive in the day-to-day running of the Group

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

Constance Baroudel
Director of Strategy & Operational Performance

Rachael Borthwick
Group Corporate Services Director

Giles Fearnley
Managing Director, First Bus

Michael Hampson
General Counsel & Company Secretary

Dave Leach
President, Greyhound

Dennis Maple
President, First Student

Steve Montgomery
Managing Director, First Rail

Brad Thomas
President, First Transit

Corporate governance report

Chairman's report

I believe firmly that good governance lies at the heart of a successful and sustainable company. The Board sets out the Group's strategic aims, monitors the Group's strategic objectives and oversees its implementation by the management team. The Board is also responsible for shaping the culture and values of the Group.

Our values

At a time when breaches of corporate trust and integrity are under the spotlight, resulting in ever greater scrutiny, regulation and control, we believe our values, which were put in place to promote the required culture for the delivery of our vision and the transformation of the Group into a customer-focused entity, could not be more relevant:

- 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, our suppliers, our employees and our other stakeholders across the Group. We will not get everything right all of the time, but we will aim to learn where we make mistakes, and our Board evaluation assists us in highlighting areas in which improvements can be made.

Understanding our business

Corporate governance does not exist in isolation and cannot be reduced to compliance with checklists and codes. 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 have a thorough understanding of our businesses.

During the year, the Board visited our operations in Miami and San Francisco. These visits provided us with an opportunity not only to see our businesses in action, 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.

Board and Committee composition

The Board underwent some changes during the year with Mick Barker and Brian Wallace stepping down, whilst welcoming Richard Adam, Jimmy Groombridge and Martha Poulter as new additions. I would like to thank Mick and Brian on behalf of the Board for their commitment and contribution over their years with the Group.

In February 2017, Richard Adam was appointed as a Non-Executive Director, succeeding Brian Wallace as Chair of the Audit Committee. Richard has a wealth of financial acumen, M&A and international business experience and we look forward to working with him.

In May 2017, Martha Poulter joined the Board as Non-Executive Director. Martha's strong background and experience in customer-focused, technology-led businesses will be of immense value to the Board.

Group Employee Director

We are proud of our long history in bringing the voice of our colleagues into the boardroom through our Employee Directors. Such a role has received significant focus over the year, in particular since the launch of the Government's consultation on corporate governance reform. Whether or not it becomes a requirement for all companies to have employee representation on the board, in our experience, the perspectives and input of Employee Directors aid decision-making and demonstrate the Company's desire to hear from our workforce.

Mick Barker was our Group Employee Director from January 2012 until his resignation on 17 February 2017. Mick was succeeded by Jimmy Groombridge on 26 May 2017, with whom we look forward to working over the coming years given his important and unique perspective as an employee of the Group.

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.

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.

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 32 onwards and in this Corporate Governance Report.

Engaging with shareholders

Engaging with shareholders 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.

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 will remain 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 with shareholders after the meeting to discuss any issues they may have. I encourage as many shareholders as possible to attend the AGM on 18 July 2017.

Wolfhart Hauser
Chairman

Key achievements during the year

- Delivery of the transformation plans
- Development of the Group's strategy and business objectives
- Further review of succession planning and talent management for the Board and senior management
- Review of recommendations arising out of the internal Board evaluation
- Further development of the Board's understanding and approach to risk appetite
- Appointments of Richard Adam and Martha Poulter as Non-Executive Directors, and Jimmy Groombridge as Group Employee Director

Areas of focus in the future

- Disciplined growth and bidding
- South Western rail franchise mobilisation
- Strong cash management
- Ongoing development of Group's strategy

Index to section

Governance framework

The Annual Report and Accounts for the year ended 31 March 2017 has been prepared in accordance with the UK Corporate Governance Code which was issued in April 2014 (the 'Code') by the Financial Reporting Council (the 'FRC') and is available to view at www.frc.org.uk.

Code compliance and internal control

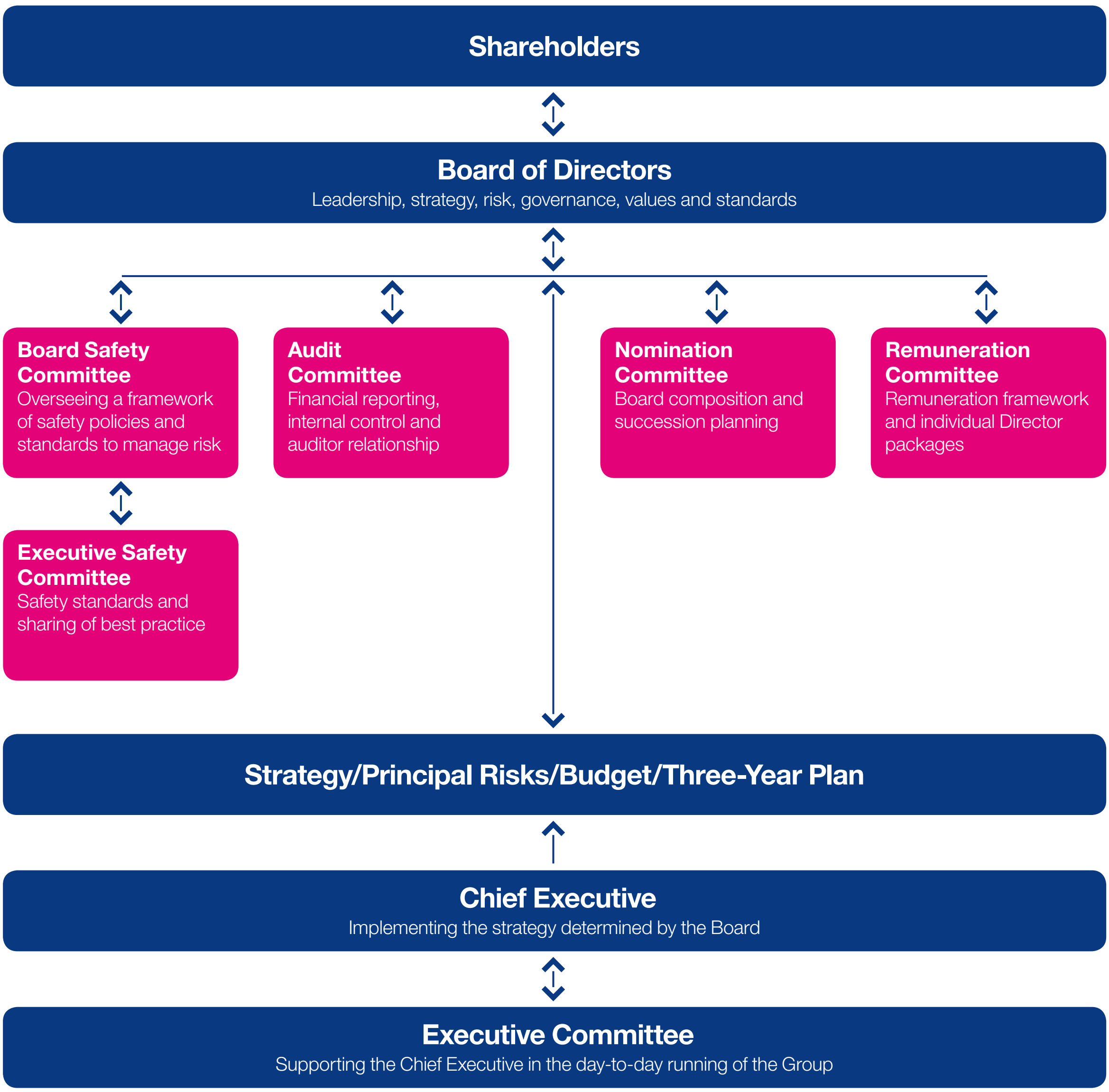
The Board confirms that throughout the year the Company has applied the main principles and complied with the provisions of the Code, including those regarding risk management and internal control. The Board also confirms that we will detail in next year's Annual Report and Accounts how we have applied the principles and provisions of the Code, as revised by the FRC in April 2016.

Leadership

The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes the long-term success of the Company 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 provides entrepreneurial leadership of the Group within a framework of prudent and effective controls for risk assessment and management. The Board is primarily responsible for: determining strategic direction and demonstrating leadership; focusing on matters that consistently 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; the management of the Group's employees; setting the Group's culture, standards and values, and ensuring that its obligations to shareholders and other stakeholders are understood and met; and determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives. Another key responsibility of the Board is to ensure 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. These include approval of:

- the Group's strategy;
- risk appetite;
- 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; and
- financial results, viability statement and governance.

Board meetings and visits

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

To ensure the Board sees the Group's operations in action, the Board normally holds at least three meetings 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 Board members informally. It also provides the Board with the opportunity to review operational matters on site. For example, during the year the Board visited our operations in Miami and San Francisco, which included presentations from senior management on their businesses' performance, employees, opportunities, risks and strategy.

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 Board receives and considers 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 the following areas:

- divisional updates;
- strategy;
- financial and operational updates;
- assessment of risks and how they should be managed and mitigated;
- other reporting items for approval, including UK rail franchise bids; and
- reports from Committee Chairs.

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.

Roles and responsibilities

Chairman

- establishes the Group's values and standards and sets the tone from the top;
- promotes the interests of the Company with special regard to Group planning and development to secure the Group's future and sustainable success;
- 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;
- ensures that shareholders and the Board receive accurate, timely, clear and high-quality information;
- chairs the Nomination Committee;
- ensures effective induction and development of Directors;
- ensures the performance of the Board, its Committees and individual Directors are formally evaluated annually, with an externally facilitated evaluation performed at least every three years;
- facilitates effective and constructive relationships and communications between Non-Executive Directors and Executive Directors and senior management;
- ensures effective communication with shareholders and other stakeholders, and that their views are understood by the Board; and
- provides an appropriate balance of support and challenge to the Chief Executive in order to maintain an effective working relationship.

Board visit to First Student operation in San Francisco

The purpose of the visit was to provide the Board with a full year review of the division's performance to date and to discuss major operational initiatives and future plans for the business, including an increased focus on growth.

During the visit the Board toured the facility, met and interacted with location personnel, and attended the business briefing.

The areas of greatest interest for the Board were touring the maintenance area, and meeting employees and the location's routing team and local location management.

Chief Executive

- promotes the creation and maintenance of a safe working environment and a safety-focused culture across the Group;
- leads the Executive Committee iin the day-to-day running of the Group's business;
- develops the Group's business objectives and strategy, having regard to the Group's responsibilities to its 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;
- ensures at all times that the Group conducts its business in accordance with the legal requirements of the countries in which it operates and the Company's standards, if higher;
- 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;
- develops and maintains an effective framework of internal controls and risk management; and
- ensures the Board is kept appraised in a timely manner of the issues facing the Group and of events and developments as they arise.

Senior Independent Director

- acts as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive or CFO. No such matters of concern were raised by shareholders or stakeholders during the year ended 31 March 2017;
- 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 (NEDs) without the Chairman being present at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman; and
- deputises for the Chairman, as necessary.

Non-Executive Directors

The NEDs provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the stewardship of the Company's affairs, the NEDs fulfil a vital role in corporate accountability. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the main Board Committees. Between them, the current NEDs have the appropriate balance of skills, experience, knowledge and independent judgment gained through experience in a variety of business sectors.

Group Employee Director

The Board considers that it is extremely beneficial for its employees to be represented on the Board so that employee-related issues are raised directly and providing a two-way communication between the Board and employees. The Group Employee Director (GED) is nominated by his fellow Employee Directors at the Forum, and serves a maximum of three, three-year terms.

Board Committees

The four principal Committees of the Board are: Audit; Board Safety; Nomination; and Remuneration. Board Committee members are appointed by the Board upon the recommendation of the Nomination Committee, which reviews the composition of each Committee regularly. Committee membership is spread between the NEDs and the GED, 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 terms of reference of each Committee are available to view on the Company's website (www.firstgroupplc.com) and on request from the Company Secretary. The terms of reference are normally reviewed annually, as they have been this year.

Executive Committee

The Executive Committee supports the Chief Executive in the day-to-day running of the Group. Its membership is shown on page 45. It meets every month to communicate, review and agree on significant issues and actions. It helps to develop, implement and monitor strategic and operational plans, considers the continuing applicability, appropriateness and impact of risks and leads the Group's culture and safety programme.

Effectiveness

Board balance

Effective management and good stewardship of the Group are led by the Board. The Board is currently comprised of the Chairman, two Executive Directors, one GED and six NEDs. 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. Biographies of all current Directors are set out on pages 44 and 45. Mick Barker resigned on 17 February 2017 and Brian Wallace retired on 24 February 2017. Richard Adam was appointed on 24 February 2017 and Jimmy Groombridge and Martha Poulter were appointed on 26 May 2017.

Board Committee membership

Director	Audit Committee	Board Safety Committee	Nomination Committee	Remuneration Committee
Wolfhart Hauser	–	–	C	–
Tim O'Toole	–	–	–	–
Matthew Gregory	–	–	–	–
Richard Adam	C	–	–	M
Warwick Brady	M	–	–	–
Jimmy Groombridge	–	M	–	
Drummond Hall	–	–	M	M
Martha Poulter	–	–	–	–
Imelda Walsh	–	M	M	C
Jim Winestock	M	C	M	–

C: Chair of Committee

M: Member of Committee

The attendance of Directors at scheduled Board and Committee meetings, which they were eligible to attend, and the number of meetings attended in the year ended 31 March 2017, is shown below. Jimmy Groombridge and Martha Poulter were appointed on 26 May 2017 and are therefore not included.

	Board		Audit Committee		Remuneration Committee		Nomination Committee		Board Safety Committee	
Director	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended
Chairman										
Wolfhart Hauser	9	9					8	8		
Executive Directors										
Tim O'Toole	9	9								
Matthew Gregory	9	9								
Non-Executive Directors										
Richard Adam[1]	1	1	1	1						
Mick Barker[2]	7	7							3	3
Warwick Brady	9	9	4	4						
Drummond Hall	9	8			3	3	8	7		
Brian Wallace[3]	8	8	3	3	2	2	7	6		
Imelda Walsh	9	8			3	3	8	7	3	3
Jim Winestock	9	9	4	4			8	8	3	3

1 Richard Adam was appointed a Non-Executive Director on 24 February 2017.

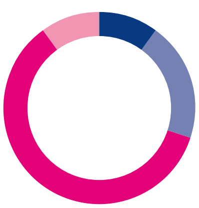
2 Mick Barker resigned on 17 February 2017.

3 Brian Wallace retired on 24 February 2017.

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 NEDs to be independent in character and judgment. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the Company and there are no business or other relationships likely to affect, or which could appear to affect, the judgment of Richard Adam, Warwick Brady, Drummond Hall, Martha Poulter, Imelda Walsh or Jim Winestock. Jimmy Groombridge, the GED, is not considered by the Board to be independent as he is an employee of one of the Group's subsidiaries.

Board composition

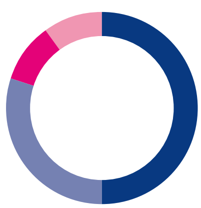


- Chairman 1
- Executive Directors 2
- Independent Non-Executive Directors 6
- Group Employee Director 1

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 because of exceptional circumstances, they still 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.

Length of tenure



- 0-2 years 5
- 2-4 years 3
- 4-6 years 1
- 6-8 years 1

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 several occasions with the Non-Executives without the Executive Directors present, allowing for more informal discussions on a variety of issues. The Senior Independent Director also led the Non-Executive Directors in evaluating the performance of the Chairman, with the Chairman showing effectiveness in leadership.

Development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by the Company Secretary, includes visits to the Group's businesses and meetings with senior managers and advisers, as appropriate. 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, the Company's corporate governance practices and procedures, as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

To assist 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 and financial performance. This enables the Directors to discharge their duties on strategic, financial, operational, compliance and governance issues effectively.

All Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes in best practice. Typical training for Directors includes attendance at seminars, forums, conferences and working groups as well as receiving updates from relevant bodies on various legal, regulatory and corporate governance matters.

To ensure the Board as a whole remains fully informed of the views of shareholders, the Board receives regular reports on shareholder sentiment at Board meetings.

Although not part of their induction programme, all Non-Executive Directors can attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the AGM.

Information and support

The Company Secretary, through the Chairman, is 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. The Company Secretary 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. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

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. Directors are provided between meetings with relevant information on matters affecting the business. Such updates were carried out by a variety of methods, including conference calls amongst the full Board or between the Chairman and/or the Chief Executive and the Non-Executive Directors, and by way of the Company Secretary circulating monthly financial and operational reports as well as papers and updates on relevant issues.

Throughout the year a fully encrypted electronic portal system was operated, which enabled the Board and Committee papers to be delivered securely to the Directors. This enables a faster and more secure distribution of information, accessed using electronic tablets, and reduced resource usage.

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

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 (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 Company's 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 Company's 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.

Performance evaluation

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

Following an internal review in 2016, the Board conducted another internal review in 2017 led by the Chairman with the support of the Company Secretary. The 2017 evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company's processes. It entailed completion of a questionnaire to assess the effectiveness of the Board, its Committees and individual Directors, and the preparation of a report. The questionnaire focused on the oversight responsibilities and effectiveness of the Board, the role of the Chairman and the operation of the Committees. The results of the performance evaluation were presented and discussed at the May 2017 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

As set out in last year's Annual Report and Accounts, an internal Board performance evaluation process was undertaken in 2016 and the results were presented at the June 2016 Board meeting. It was concluded that the dynamics, culture and effectiveness of the Board had improved and that the individual members of the Board remained effective in their ability to discharge their duties and responsibilities. Each Director continued to make a valuable contribution whilst demonstrating commitment to their role. The main areas identified for improvement and corresponding actions taken during 2016/17 are detailed in the table on page 53.

Area identified	Responsibility	Action taken
Review the Board calendar, information flows and the use of time when Directors are together for Board and Committee meetings to determine how better to optimise the use of Directors' time	Chairman supported by Company Secretary	Rolling agendas were developed not only for the Board but also for the Audit, Nomination and Remuneration Committees. The Company Secretary and his team provide guidance to senior management on the structure and content of Board and Committee papers.
Information flow and contact involving the Chairman and the Non-Executive Directors between Board meetings	Chairman	Informal contact in between meetings increased.
Prioritisation of agenda items and allocation of time for discussion in Board meetings	Chairman supported by Company Secretary	Rolling agendas were developed and the Company Secretary and his team monitor the time allocated on agendas in line with business priorities.
Aspects of strategy into the planning cycle and Board programme	Chief Executive	As the Group moves out the transformation phase, certain aspects of strategy now have a prominent place in the Board cycle.
Succession planning and talent management	Chairman	The Nomination Committee, led by the Chairman and supported by the HR Director, continued to keep under review the leadership needs of the Company.
Role and modus operandi of the Nomination Committee	Chairman	The Nomination Committee had previously met on and ad-hoc basis. Meetings are now scheduled one year in advance.
Development of a positive safety culture across the organisation	Board Safety Committee	Proactive steps were taken across the Group in training, technology and management to promote the embedding of a safety culture.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that Wolfhart continued to operate to a high level.

The evaluation of the Board was externally facilitated in 2014/15 and it will be so again in 2017/18, in line with the requirements of the Code.

Election and re-election of Directors

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the AGM following their appointment. Richard Adam, who was appointed on 24 February 2017, and Jimmy Groombridge and Martha Poulter, who were appointed on 26 May 2017, will retire and submit themselves for election at the forthcoming AGM.

In accordance with best practice and the Code, it is proposed that all other Directors will submit themselves for re-election at the forthcoming AGM as, following the formal performance evaluation process, the Chairman is content that all Directors' continue to be effective and demonstrate commitment to their role.

Anti-Bribery and Corruption

The Group has implemented and refreshed its existing compliance programmes and specific policies around key legislation (e.g. UK Bribery Act and the Modern Slavery Act). In particular, policies upholding our zero-tolerance position on bribery and corruption, including on the giving and receipt of appropriate gifts, hospitality or entertainment, have been updated. Colleagues in high-risk areas have received training and policy communications to support their ongoing awareness of these polices and other regulatory risks. There is also an externally managed whistleblowing service available across the Group for colleagues, with a dedicated helpline for the anonymous reporting of inappropriate conduct. 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. The Group continues to develop its effective systems to counter bribery and corruption, including the introduction of its integrated risk and compliance online tool to monitor the use and awareness of policies and procedures and, to provide management data on compliance risks.

Modern Slavery and Human Trafficking

On human rights, we continue our zero-tolerance approach to slavery and human trafficking, which extends to all business dealings and transactions in which we are involved, regardless of location or sector. As part of our contracting processes with suppliers, we include prohibitions against the use of forced, compulsory or trafficked labour, or anyone held in slavery or servitude, whether adults or children. We implemented our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and published our Modern Slavery and Human Trafficking Statement across the Group. The statement sets out the steps we have taken to address this issue during the previous financial year, and sets goals for the current one. We will publish an updated statement for the year ended 31 March 2017 on our Group websites in due course. We remain committed to strengthening our practices in this area, both within our own business and across our supply chains.

Accountability

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders and other stakeholders. This includes ensuring 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 which identifies, evaluates and manages the principal risks associated with the Group's achievement of its business objectives, with a view to safeguarding the shareholders' investment and the Group's assets.

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 (of relevant sections).

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 2017 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 and reserved specific key matters for its decision. The Board has authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems. 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. Biannually, the Group's risk management framework is robustly reviewed by the Audit Committee, together with the process for identifying and assessing risks and a detailed analysis of the risks identified in the previous six months.

The Board has adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. To assist in the identification and management of key risks, the Board has:

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

The process is designed to provide assurance by way of cumulative assessment.

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

- a clearly defined organisation 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 Committee and Executive Safety Committee 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 for the assessment, approval, control and monitoring of 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 CFO, are presented to the Executive Committee prior to being assessed by the Audit Committee;
- 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 coordinated 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; and
- a remuneration policy for executives that motivates them, without delivering excessive benefits or encouraging excessive risk-taking.

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 Group's approach to risk management and how it profiles the risks identified is set out on pages 32 onwards.

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 determining who has authority to release information. A statement of the Directors' responsibilities for preparing the financial statements can be found on page 84.

The Group adopts a financial reporting and information system that complies with generally accepted accounting practice. A 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, a treasury committee approves decisions regarding fuel, foreign exchange and other matters reserved for its decision as set out in the Group Treasury Policy.

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 as well as advising on ways in which areas of risk can be addressed. It provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal audit's work is focused on the Group's principal risks. The mandate and programme of work of the internal audit department is considered and approved by the Audit Committee. Based on the approved internal audit plan, a number of internal audits took place across the Group's divisions to facilitate improvement of the Group's internal controls and findings were reported to relevant operational management and to the Audit Committee. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and to the Audit Committee.

The Group Director of Assurance reports regularly to the Chair of the Audit Committee and attends each Audit Committee meeting to present the internal control findings from the internal audits performed. The Audit Committee reviews and discusses the effectiveness of internal audits on an annual basis with the Group Director of Assurance. This is done by the review of the internal audit plan of work for the year and monitoring progress against the plan and actions identified by internal audit. The Group Director of Assurance meets with the Audit Committee every time the Committee meets, without management present.

Relations with shareholders

The Board welcomes the opportunity openly and purposefully to engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with institutional shareholders, private or employee shareholders. The Board takes responsibility for ensuring that such dialogue takes place. The Chief Executive and CFO are closely involved in investor relations, and the Group Corporate Services Director has day-to-day responsibility for such matters. Feedback from shareholders is provided at Board meetings.

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.

The Company responds as necessary to requests from individual shareholders on a wide range of issues. There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group. 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.

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.

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 2016 AGM, the Chairman provided shareholders with a brief summary of the Company's activities for the previous year. All resolutions at the 2016 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 2016 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.

Nomination Committee

The Committee is primarily responsible for leading the process for Board appointments.

The Committee also keeps 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 continues to take account of the Board's aims in relation to diversity and succession, whilst ensuring that the right people with the right range of skills and experience are on the Board and in senior management positions in the coming years.

We have seen further changes on our Board composition this year. In February 2017, Mick Barker resigned and Brian Wallace retired from the Board. During the year, we welcomed Richard Adam to the Board, who was appointed on 24 February 2017 and he succeeded Brian as Chair of the Audit Committee. Jimmy Groombridge was appointed as Group Employee Director and Martha Poulter also joined the Board on 26 May 2017. We look forward to working with them.

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.

Wolfhart Hauser
Chair, Nomination Committee

Role and responsibilities

The key roles and responsibilities of the Committee are to:

- review regularly the structure, size and composition (including skills, experience, independence, knowledge and diversity) of the Board and make recommendations to the Board with regard to any changes;
- identify and nominate for Board approval, candidates to fill Board vacancies having regard to, amongst other things, the benefits of diversity, including gender, as and when they arise;
- recommend to the Board suitable candidates for the role of Senior Independent Director, and membership of the Board Committees;
- ensure that the Company's Board and executive leadership skills are fully aligned to the Company's long-term strategy;
- oversee succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and experience that will be needed on the Board in the future;
- ensure any appointees have sufficient time to undertake their role;
- recommend the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given regard to their length of tenure, performance and ability to continue to contribute to the Board in the light of the skills, experience, independence and knowledge required;
- recommend the re-election by shareholders of any Director in accordance with the provisions of the Code having due regard to their performance and ability to continue to contribute to the Board, taking into consideration the skills, experience and knowledge required and the need for progressive refreshing of the Board; and
- report formally to the Board on how the Committee has discharged its responsibilities.

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 will evaluate the balance of skills, knowledge, independence, experience and diversity on the Board and, in light of this evaluation, will prepare 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 from different genders and a wide range of backgrounds;
- 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; and
- engages from time to time with the Group's major shareholders on future skills requirements and ideas for potential candidates.

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.

The full terms of reference of the Committee can be found on the Company's website (www.firstgroupplc.com).

Membership

The current members of the Committee are the Group Chairman, who chairs it; the Senior Independent Director; the Chair of the Remuneration Committee, and the Chair of the Board Safety Committee. A majority of its members are independent Non-Executive Directors, in accordance with the provisions of the Code.

If a matter were to concern the Group Chairman, then he would leave the meeting and the Senior Independent Director would instead take the Chair.

The Chief Executive attends meetings of the Committee at the invitation of the Committee.

Members of the Committee took no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee, but were involved in the recommendations on Committee membership changes.

Activities in 2016/17

At its meetings in 2016/17, the Committee considered, amongst other matters, the following:

- selecting and recommending to the Board the appointments of Richard Adam and Martha Poulter as Non-Executive Directors;
- recommending to the Board the appointment of Jimmy Groombridge as Group Employee Director;
- reviewing the composition of the Board and its Committees;
- succession planning for the Non-Executive Directors and, in so doing, considering the tenure, mix and diversity of skills and experience of existing Board members and those of prospective Board members in the context of the Group strategy, and
- reviewed the results of the performance evaluation of the Committee.

Recruitment of Non-Executive Directors

A comprehensive and rigorous search process was put in place with candidate profiles and position specifications. Spencer Stuart and MWM Consulting, external search consultancies who have 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 and meetings were held with shortlisted candidates. Richard Adam and Martha Poulter were then recommended to the Board for approval as they fully met the criteria required.

Group Employee Director

Following the resignation of Mick Barker in February 2017, the Employee Directors' Forum met on 20 April 2017 to nominate a candidate for this position. Jimmy Groombridge was put forward to the Nomination Committee, who in turn was pleased to recommend his appointment to the Board.

Diversity

The Company takes account of diversity when recruiting, including when it considers Board appointments, and will continue to do so in the future.

The Board consists of Directors with a wide range of skills and business experience drawn from a number of industries, which is 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 bring 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 is currently below its target of 25% female representation at 20%, it remains committed to achieving that goal as soon as practicable. The Board remains of the opinion that appointments should be made on merit and relevant experience, against the criteria identified by the Committee, having regard to the benefits of diversity, including gender. 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 to achieve their full potential in their careers in the Group. The Board also welcomes the recommendations of the Hampton-Alexander report. In that sense, as part of an overall approach to HR management, a framework has been developed which includes an Equality, Diversity and Inclusion Policy as well as practical training materials and support for line managers to promote its communication across the Group. Further details on the Group's approach to diversity are set out in the Corporate responsibility section on pages 38 to 42.

Audit Committee

I am pleased to present my first report as Chair of the Audit Committee. I succeeded Brian Wallace on 24 February 2017 and I am looking forward to continuing his good work.

During the year the Committee has continued to devote significant time to reviewing the integrity of the Group's Financial statements, including the significant financial reporting judgments, as well as reviewing internal controls, and the effectiveness of both internal and external audit.

In my role as Chair of the Committee, I intend to meet and communicate regularly with our external auditor, Deloitte, outside of the normal meeting schedule and with various senior managers to further understand the way in which the Group operates, the risks it faces and its internal control framework. These discussions help shape thought processes and decision making, and promote a more rounded view of the Group.

Richard Adam
Chair, Audit Committee

Role and responsibilities

The Committee acts independently of management to ensure that the interests of shareholders are properly protected in relation to financial reporting, the effectiveness of the Group's system of internal control and risk management, and the relationship with the external auditor.

The key responsibilities of the Committee are to:

- monitor and challenge, where necessary, the integrity of the Financial statements of the final and half-yearly results relating to financial performance, including a review of the financial reporting judgments which they contain and the methodology and assumptions used in relation to them;
- review and challenge, where necessary, the actions and judgments of management taking into account the views of the external auditor, in relation to the Company's Financial statements, Strategic report, financial review, corporate governance statement (insofar as it relates to audit and risk management), half-yearly and final results announcements, including the going concern assumption and the viability statement;
- review the Company's internal controls, including financial controls and risk management systems;
- approve the internal audit plan and monitor the role and effectiveness of the internal audit function;
- oversee the Company's relationship with the external auditor, including monitoring its independence and expertise, its engagement terms and fees, and assessing the effectiveness of the audit process with due regard to relevant UK professional and regulatory requirements;
- agree the scope of the external auditor's annual audit plan and the output;
- review and amend as necessary the policy on the provision of non-audit services by the external auditor with due regard to ethical guidance;
- consider and make recommendations to the Board in respect of the appointment, re-appointment, dismissal or resignation of the external auditor;
- review annually the Committee's own performance and terms of reference; and
- report formally to the Board on how the Committee has discharged its responsibilities.

The terms of reference of the Committee can be found on the Company's website (www.firstgroupplc.com).

Membership

The current members of the Committee are Richard Adam, who chairs it, Warwick Brady and Jim Winestock.

Richard Adam has recent and relevant financial experience for the purposes of the Code, being a chartered accountant and having held a number of senior finance roles. The other Committee members have significant current or recent executive experience in the transport and distribution industries. This range and depth of financial and commercial experience enables the Committee to deal effectively with the matters it is required to address and to challenge management when necessary.

The Group Chairman, Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the Director of Finance, the Group Director of Assurance, the Group Financial Controller and the external auditor are normally invited to attend Committee meetings, as well as members of the Board. The Deputy Company Secretary acts as Committee Secretary.

At the end of each meeting the Committee normally meets with the external auditor and the Group Director of Assurance, without management present, to discuss any matters relating to their remit and any matters arising from external and internal audits.

Activities in 2016/17

At its meetings in 2016/17, the Committee considered and discharged its responsibilities on the following matters:

Financial Reporting

- reviewed the Group's final and half-yearly results, and considered the significant accounting policies, principal estimates and accounting judgments used in their preparation and 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 the external auditor on accounting, financial reporting regulation and taxation issues;

- reviewed reports from the external auditor on its audit in respect of the final and half-yearly results prior to them being approved by the Board; and
- 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 risks and develop a risk appetite statement for recommendation to the Board;
- reviewed the effectiveness of the Group's risk management framework, and reports arising from the risk management process;
- approved the annual internal audit plan and reviewed reports from the internal audit department relating to control matters. Progress against the internal audit plan was monitored and any deviations to the plan were agreed;
- monitored and assessed the Group's insurance arrangements; and
- considered reports from the General Counsel & Company Secretary on litigation matters.

External auditor

- approved the terms of engagement of the external auditor, the fees paid to it and the scope of work carried out by it;
- performed an annual review of the policies on the independence and objectivity of the external auditor, the use of the external auditor for non-audit services and the employment of former employees of the external auditor;
- reviewed the performance and effectiveness of the external auditor in respect of the previous financial year;
- assessed the objectivity and independence of the external auditor. In assessing independence and objectivity, the Committee considered the level and nature of service provided by the external auditor as well as confirmation from the external auditor that it has remained independent;
- received reports on the findings of the external auditor during the half-yearly review and annual audit, and reviewed the recommendations made to management by the external auditor and management's responses;
- reviewed letters of representation to the external auditor; and
- recommended the re-appointment of the external auditor.

Other matters

- reviewed its terms of reference and the results of its performance evaluation;
- received reports from divisional and functional management on a range of financial, operational, risk management, legal and corporate governance matters, including a review on cyber security arrangements across the Group, and GWR performance regime receipts;
- received reports on the latest technical accounting, taxation and regulatory changes; and
- received reports on matters raised on the confidential reporting 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.

Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services, which has been updated to reflect the FRC's Ethical Standard (revised in 2016), includes the identification of non-audit services that may be provided and those prohibited, and a process through which other non-audit services may be provided. The policy can be summarised as follows:

- audit-related services – the external auditor can be invited to provide services, which in its position as external auditor, it must or is best placed to undertake as it is clearly audit-related. These include reviews of half-yearly and other interim financial information, advice on correct accounting treatment of proposed transactions and reporting on regulatory returns;
- permitted non-audit services – there are a number of projects or engagements where the external auditor is best placed to perform the work due to their skills and knowledge of the business, or experience and market leadership in a particular area. These are set out in the policy and include providing tax compliance advice (in line with the Ethical Standard and other related corporate governance guidance), formalities relating to shareholder circulars and various other regulatory reports, and professional training. Before engaging in any work of this type, approval is required from the CFO with services likely to cost more than £125,000 requiring the approval of the Committee;
- other permitted non-audit services – for those projects or engagements that are not covered by the permitted non-audit services category and where the external auditor is best placed to provide them, approval is required from the CFO, with services likely to cost more than £75,000 requiring the approval of the Committee. In addition, the Committee considers whether a tender should be conducted before awarding such work to the external auditor; and
- not permitted services – there are some projects that are not to be performed by the external auditor because they would represent a threat to the independence of the audit team, for example where the external auditor is remunerated through a success fee or where the project could lead to the external auditor being in a position of auditing their own work or making management decisions for the Company or its subsidiaries.

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. Details of amounts paid to the external auditor for audit and non-audit services for the year ended 31 March 2017 are set out in note 6 to the consolidated financial statements.

Auditor independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. The external auditor's independence and objectivity are safeguarded by a number of control measures:

- 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; and
- an annual review by the Committee of the policy in place to ensure the objectivity and independence of the external auditor is maintained.

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 risks, as well as the reporting and categorisation of Group risks. The Committee also reviewed the process for assessing the principal 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 83 and considered the appropriate period for which the Company was viable.

The Group's system of internal control and risk management was reviewed by the Committee throughout the year. Key external audit findings and management actions were discussed as well as reports at each meeting on the outcomes of Internal Audit planned activities. The operation and effectiveness of Internal Audit were also reviewed, including its focus, plans and resources. The Committee monitored the progress of action plans to ensure they were completed satisfactorily.

Assessing the effectiveness of the external audit process

The Committee manages the relationship with the external auditor on behalf of the Board. During 2016/17, the effectiveness of the external audit process was reviewed by the Committee and the findings reported to the Board. This involved an initial assessment of the delivery and performance of the external auditor against the external audit plan for the year, which includes the reports and updates provided to the Committee. 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. These questionnaires covered a variety of topics including: the audit partners and team; the planning and execution of the audit approach; and insights and added value provided by the audit process. Feedback from the annual assessment was shared with the external auditor so that any areas for improvement could be followed up. The Committee concluded that the external audit process was effective.

External audit tendering

The current external auditor, Deloitte LLP, was appointed in 1998 following a full tendering process. The Committee has undertaken a review of Deloitte's performance every year since its appointment. The Committee, which remains satisfied with Deloitte's performance, believes that consistency of approach in the audit is of particular importance as the Group returns to a leadership position. The Company will not, therefore, be putting its audit out to tender in the next year, but the Committee will review this annually.

It remains the Committee's intention to put the external audit out to tender during the lead audit partner's five-year tenure, which is due to expire at the conclusion of the 2019/20 audit. This means that the external audit will be put out to tender in 2019 so that the process is completed by the conclusion of the 2019/20 audit. This approach is in accordance with the EU audit reform legislation and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Significant issues

The external audit process identifies significant issues and accounting judgments which are reviewed by the Committee. These are summarised in the table on page 61. Management prepared papers and analysis on the significant issues and judgments which were discussed in Committee meetings during the year. The Committee also discussed these issues with the external auditor at the half year and year end. All the significant issues were also areas of focus for the external auditor as detailed in the auditor's report.

Significant issues and judgments	How the Audit Committee addressed these issues
Carrying value of First Student goodwill and intangible assets Management exercises a significant amount of judgment during the impairment testing process as it is based on an estimation of future cash flows and a suitable discount rate.	The Committee has considered 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 growth rate assumptions have been applied in line with both market data and the macroeconomic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness. Further detail on impairment testing is provided in notes 2 and 11 in the consolidated financial statements.
North America self-insurance provisions 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.	The Committee has reviewed the provision and considered the assumptions used to calculate the liability. Independent actuarial expert advice on the adequacy of the provisions against such liabilities is sought on a regular basis and the discount rate has been benchmarked against external data. Further detail on the assumptions used in determining the value is provided in notes 2 and 26 in the consolidated financial statements.
Pensions The Group participates in a number of defined benefit pension schemes. Management exercises significant judgment 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 the assumptions used for calculating the liability. Sensitivity analysis has been performed on the key assumptions which are: the discount and the inflation rates. The overall liability has also been assessed for reasonableness. Further detail on pensions is provided in notes 2 and 34 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 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. These policies and their application are 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.

Board Safety Committee

The tragic tram incident in Croydon, which resulted in the loss of seven lives, highlights the importance of continuously reviewing and improving our safety strategy, procedures, systems and performance.

We continue to provide full support to the ongoing investigations into the incident. It is absolutely essential that we learn the lessons that emerge; all relevant recommendations from the investigations will be implemented.

We welcome the roll out of the Be Safe programme across the Group. This is a highly valuable investment that will change behaviours and culture, building on established compliance with safety management systems, processes, procedures and practices to achieve the goal of zero harm. The Board commends the implementation of this forward-looking and innovative programme, which was sponsored by the Committee.

The year finishes with the Group having successfully improved the majority of its occupational performance indicators, with the total number of staff injuries, days lost through incidents at work, staff major injuries and fatalities all reduced. Total passenger injuries reduced but major injuries and fatalities increased and included those who were injured and lost their lives in Croydon.

Proactive steps are being taken across the Group in training, technology and management to ensure the safety of customers, employees and third parties. Safety is front of mind but we must accelerate our progress toward achieving zero harm.

Jim Winestock
Chair, Board Safety Committee

Membership
The current members of the Committee are Jim Winestock, who chairs it; Jimmy Groombridge, Group Employee Director and Imelda Walsh, Chair of the Remuneration Committee. The Deputy Company Secretary acts as Committee Secretary.

Safety Governance
The Committee meets at least three times per year and reviews safety performance on behalf of the Board, providing oversight of the management of the Group safety risk profile. The Committee promotes a positive safety culture throughout the business and reports back to the Board on safety trends, actions and other deliberations.

The Executive Safety Committee, chaired by the Chief Executive, meets six times per year to review and oversee the Group's safety strategy and the performance, procedures and practices of the divisions and operating companies.

Divisions and operating companies consider safety at executive level at monthly meetings to review performance, agree divisional safety plans and actions and drive safety performance.

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.

Our approach to safety governance is characterised by:

- the Committee overseeing material safety matters and risks across the Group, as well as reviewing safety targets for remuneration purposes;
- 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; and
- the safety function providing advice directly and through a series of networks across the Group.

For more information on the Group's approach to safety and activities in the year, see pages 40 and 41 in the Corporate responsibility section.

Role and responsibilities
The key responsibilities of the Board Safety Committee are to:

- 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; and
- 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.

Activities in 2016/17
The Committee's agenda during the year covered a range of matters including:

- safety performance of the Group, its divisions and operating companies and significant incidents across the Group;
- lessons learnt and steps taken following significant incidents;
- safety targets for incentive plans and approval of performance outturns;
- key safety initiatives across the Group; and
- terms of reference and performance evaluation of the Committee.

In addition to the above, a key focus of the Committee has been the Be Safe programme, which is designed to deliver a step change in safety performance through the enhanced safety behaviours of our employees. Be Safe is a comprehensive programme which encompasses the safety management system, includes safety rules enforcement and promotes behavioural change using positive reinforcement. Initial indications from the locations who were first to implement Be Safe are encouraging.

Also, to better understand the safety risk exposures and challenges faced by the divisions and the operating companies and the actions being taken to address these, during the year presentations were given by the senior management teams of Greyhound, First Rail and First Student.

Statement by the Chair of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for the financial year ended 31 March 2017.

Overview

The Company's current Directors' Remuneration Policy (the 'Policy') was approved by shareholders at the Annual General Meeting (AGM) in 2015 (92.82% voted in favour of the Policy) and will come up for approval again next year; a copy of the Policy is available on the Company's website at www.firstgroupplc.com/investors

The Committee believes that the Policy continues to provide a good framework for incentivising Executive Directors and senior management to drive the performance of the Group for the long-term benefit of shareholders and to enable the Company to recruit competitively.

The key components of the remuneration packages of our Executive Directors and senior management are:

- Fixed element – base salary and pension-related benefit.
- Short-term element – participation in the Executive Annual Bonus Plan (EABP), under which annual targets are set based on the Group's financial performance in the year and on the achievement of key business objectives. Half of each award is normally paid in cash and the other half in deferred shares that have to be held for three years.
- Long-term element – participation in the Group's Long-Term Incentive Plan (LTIP), which drives sustainable value creation and provides alignment with longer-term returns to shareholders. Under the LTIP there is a three-year performance period and the shares that then vest are subject to an additional holding period of two years.

Our approach to remuneration

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

- **Alignment with strategy and business objectives** – the remuneration of our Executive Directors and senior managers is specifically structured to incentivise the delivery of these objectives.
- **Rewarding performance** – there is a clear line of sight between the performance of the Company and payments made to Executive Directors and senior managers, with the building of a sustainable performance culture being a key focus.
- **Performance-biased framework** – the components of the remuneration packages offer a performance-biased framework that enables Executive Directors and senior managers to share in the long-term success of the Group, without delivering over-generous benefits or encouraging short-term measures or excessive risk-taking.
- **Competitive remuneration** – the remuneration packages offered are framed by reference to relevant comparator companies and are designed to help retain and recruit high-calibre executives with the appropriate skills to implement the Group's strategy.
- **Simplicity and transparency** – the Committee seeks to deliver a remuneration structure and incentive plans that are both simple and transparent, with performance targets clearly aligned to the Company's short and long-term goals.

Alignment with strategy

As mentioned, the Executive Directors and senior management are specifically incentivised to achieve the Group's strategy and business objectives, which are as follows:

- focused and disciplined bidding in our contract businesses;
- driving growth through attractive commercial propositions in our passenger revenue businesses;
- continuous improvement in operating and financial performance;
- prudent investment in our fleets, systems and people; and
- maintaining responsible partnerships with our customers and communities.

The Board believes that the ongoing achievement of these strategic objectives will deliver strong long-term financial and shareholder value on a sustainable basis.

Business performance

As the Chairman and the Chief Executive have reported, the Company made good progress overall in the year under review, achieving its financial objectives and returning to generating a significant net cash inflow.

The financial targets for our Executive Directors under the EABP are based on revenue, adjusted operating profit and cash flow. In 2016/17 revenue was £5,653.3m, an increase of 8.3%; adjusted operating profit was £339.0m, representing an increase of 12.7%, and our net cash inflow increased substantially to £147.2m.

In line with our remuneration philosophy, demanding targets were set across all the Group's businesses that aimed to incentivise the generation of sustainable value through the application of the Group's strategy.

In 2016/17 progress was made by each of our divisions and the highlights were as follows:

- First Student delivered a significant improvement in adjusted operating margin to 9.6% through successful execution of its pricing, cost efficiency and recruitment plans, despite ongoing driver shortage challenges.
- First Transit delivered growth from both core and new geographic and service markets, while maintaining its long-standing track record of margin delivery.
- Greyhound improved margins by continuing to flex the cost base in response to the evolving passenger demand environment, while beginning to benefit from the transformation made to the business model in recent years.
- First Bus has responded to challenging market conditions across its industry with specific cost and customer service actions tailored to conditions in each of its local markets.
- First Rail has continued to focus on delivering for passengers and Government despite an industry-wide slowdown and the impact of infrastructure upgrades on the Great Western network, while continuing to make disciplined bids for further rail business.

Overall, the improved financial results demonstrate the progress made in enhancing the Group's ability to generate sustainable shareholder value, commensurate with its leading market positions and scale.

Our approach to remuneration

Alignment with strategy and business objectives

Reward performance

Performance-biased framework

Competitive remuneration

Simplicity and transparency

Overall remuneration

The structure of and quantum of individual remuneration packages varies by role and level of responsibility and geography

Remuneration structure

Fixed element

Short-term element

Long-term element

The Company's Directors' Remuneration Policy was approved by shareholders at the 2015 AGM. This policy came into effect following the AGM on 16 July 2015 and will apply until the 2018 AGM, when shareholders will be asked to approve a revised Directors' Remuneration Policy. The Policy can be found on our website at: www.firstgroupplc.com/investors

Annual bonus plan

Our normal approach is for 50% of any annual bonus to be paid in cash and 50% in deferred shares, which do not vest for three years. The amount of the total bonus is determined by the Committee based on measures and targets agreed at the beginning of the year.

The calculation of this year's annual bonus outturn for the Chief Executive, based on the performance of the business, would have been £723,415 (which is 71.3% of maximum potential).

As reported on page 6, on 9 November 2016 a tram derailed on the Tramlink network we operate on behalf of Transport for London in Croydon, resulting in the tragic loss of lives and injuries. In view of this and despite the strong financial results and year-on-year improvements across other measures, the Chief Executive will not be paid a bonus this year.

Both the Chief Executive and the Committee are very conscious that the current investigations into the tram incident are ongoing and, under these circumstances, the Committee, with the full support and agreement of the Chief Executive, has decided that it would not be appropriate to award an annual bonus for the last year. It has been determined however that Tim O'Toole will be granted an award of deferred shares under the EABP, subject to an additional condition relating to the outcome of those investigations.

As soon as practicable after 31 March 2020, the Committee will decide the extent (if at all) to which any of the shares will vest, taking into account the outcome of the relevant investigations into the tram incident. If, after a careful review of all the information available, it is determined that any shares should vest, a full explanation for that decision will be provided in the Directors' remuneration report.

The number of conditional deferred shares will be calculated based on the value equivalent to the bonus that the Chief Executive would have received for 2016/17. The element relating to the safety measure was set to zero when making this calculation.

The Committee consulted with the Company's major shareholders on this matter and believes that this approach recognises not only the severity of the incident but also that the various investigations may be ongoing for some considerable time.

In recognition of the leadership roles of other senior executives in the Group, including the Chief Financial Officer (CFO), the Committee determined that the safety element of their annual bonuses should also be set to zero for 2016/17; the relevant executives were in full support of this decision. The resulting annual bonus outturn for the CFO was £454,450 (which was 71.3% of maximum potential).

LTIP outturns

The vesting of the 2014 LTIP award was subject to two performance measures: half the award was conditional on the achievement of an EPS measure and the other half of the award was conditional on the achievement of a TSR measure. In addition, at the time the awards were made, my predecessor committed to you that if the underlying performance of the Group did not justify the level of vesting, the Committee would have discretion to adjust the vesting of the awards. Whilst the TSR target was not achieved, the EPS threshold level was exceeded. The Company's TSR ranking was below median (79th percentile) and our adjusted EPS was 12.4 pence. Accordingly, based on the EPS performance, 16.3% of the total award will vest. The Committee believes that over the performance period there has been a clear improvement in the underlying performance of the Group, which justified the vesting of the award.

Last year the 2013 LTIP awards lapsed in full as a result of the Company failing to achieve the required TSR and EPS targets.

2017/18 base pay, annual bonus and LTIP

In accordance with our Policy, the Chief Executive's base pay has not been increased. The base salary of the CFO was increased by 2.8% with effect from 1 April 2017, taking his salary to £436,900. This increase was in line with average pay increase across our UK operations.

Each year the Committee reviews the EABP and LTIP to ensure that metrics used to set performance targets remain aligned with the Company's current business strategy and motivates participants. The Committee believes that the performance metrics used for the EABP continue to be appropriate.

As the Group moves out of the transformation phase and following the recent award of the South Western rail franchise, which commences on 20 August 2017, the Committee is reviewing the performance metrics used for the LTIP to ensure they remain fit for purpose. This will be a thorough review with the intention to consult with major shareholders in the autumn. Therefore grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2017. Awards will be subject to a holding period of two years following the three-year performance period as well as malus and clawback.

Senior managers' remuneration

The Committee annually reviews the remuneration arrangements for the senior managers below the executive level to ensure that they are appropriate.

During 2015 the Committee had introduced a Divisional Incentive Plan (DIP) for those employees immediately below the Executive Directors. The DIP was put in place to help focus each Division on achieving specific goals to underpin the transformation process the Group was undertaking. The performance period of the DIP was two years and, as previously stated, the intention was always at the end of that period to review whether such a scheme continued to be relevant and necessary. In view of the progress that has been made by the Group, it has been decided not to make further awards under the DIP. In future, the employees who participated in the DIP will revert to the remuneration structures they previously had.

Pay across the Group

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 76.

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 this regard, we will be reporting next year on gender pay.

Shareholder engagement

The Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration and considers these engagements vital to ensure its remuneration strategy continues to be aligned with the long-term interests of FirstGroup's shareholders.

The annual report on remuneration received 96.53% of votes in favour at the 2016 AGM (2015: 95.29%) and we look forward to your support at the forthcoming AGM.

I am also grateful for the support of my colleagues on the Committee and those who support our work.

Imelda Walsh
Chair, Remuneration Committee

Priorities for 2017/18

For the coming year it is anticipated that the Committee will focus on the following areas:

- supporting the Group's business objectives and strategic goals;
- reviewing the Remuneration Policy prior to presenting it to shareholders for approval in 2018;
- reviewing the performance metrics used for the LTIP to ensure they remain appropriate;
- ensuring compliance with regulatory requirements, including review of gender pay gap reporting; and
- ensuring that remuneration arrangements are designed to promote the long-term success of the Company and reward performance, whilst maintaining a prudent approach to cost and the risk to the business.

At a glance

Policy element	Tim O'Toole (Chief Executive)	Matthew Gregory (Chief Financial Officer)
Base salary from 1 April 2017	£845,625	£436,900
% increase from prior year	0%	2.8%
Pension	Defined benefit arrangement, providing 1/50th accrual for each year of service up to a fixed earnings cap of £140,705. For earnings above this cap, an allowance of 20% of base salary is paid.	Allowance of 20% of base salary, of which at least £10,000 is paid into the Company's defined contribution pension plan.
Annual bonus (EABP)	Up to 120% of base salary	Up to 150% of base salary
Annual bonus metrics	Adjusted operating profit (45%) Revenue (20%) Cash flow (10%) Safety (7.5%) Customer satisfaction (7.5%) Individual performance (10%)	Adjusted operating profit (45%) Revenue (20%) Cash flow (10%) Safety (7.5%) Customer satisfaction (7.5%) Individual performance (10%)
Payment for threshold performance	0%	0%
Deferred bonus plan	50% of annual bonus is deferred for three years in FirstGroup shares	50% of annual bonus is deferred for three years in FirstGroup shares
2016/17 bonus outturn % maximum potential)	As mentioned in the Statement by the Chair on page 64, it has been decided that no bonus will be paid this year to the Chief Executive.	71.3%
LTIP	120% of base salary	175% of base salary
LTIP metrics[1]	50% ROCE and 50% relative TSR	50% ROCE and 50% relative TSR
Payment for threshold performance	25%	25%
Malus and clawback	Malus applies to the period prior to vesting for both the EABP and LTIP Clawback applies to the cash and deferred shares awarded under the annual bonus for a period of three years from the date the cash payment is made and the date the share award is granted, and to the LTIP for two years following the end of the performance period	
Dividends on vested awards	Participants are eligible for dividend equivalents on awards granted from 2015 onwards	
Shareholding requirement	200% of base salary	150% of base salary
Shareholding as at year end	950,405 (147% of base salary)	261,033 (79% of base salary)
Shareholding requirement to be achieved by:	16 July 2020	1 December 2020

Non-executive fees[2]	
Chairman	£280,000
Non-Executive Director (NED)	£55,000
Group Employee Director (GED)	£55,000
Additional fees	
Senior Independent Director	£10,000
Audit Committee Chair	£12,000
Remuneration Committee Chair	£12,000
Board Safety Committee Chair	£10,000
Date last reviewed	August 2016

1 Prior to 2015, LTIP awards were subject to 50% EPS growth and 50% relative TSR. A review of the LTIP metrics is planned to ensure they remain appropriate; once the review has been concluded, the 2017 LTIP awards will be made.

2 From 1 August 2016, the basic NED fee, which had last been reviewed in May 2014, was reviewed and increased. The GED fee was also increased and aligned to the basic NED fee. Further information is available on page 77.

Annual Report on Remuneration

This part of the 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 Annual Statement by the Chair will be put to an advisory shareholder vote at the AGM on 18 July 2017.

Executive Directors' total remuneration (audited)

				Annual bonus[2]						
	Year	Salary £000s	Benefits[1] £000s	Cash £000s	Value of deferred shares £000s	Long-Term Incentive Plan £000s	Pension[3] £000s	Total before buyout £000s	Buyout[4] £000s	Total £000s
Tim O'Toole	2017	846	44	0	0	173	197	1,260	–	1,260
	2016	846	38	81	81	0	197	1,243	–	1,243
Matthew Gregory	2017	425	14	227	227	0	85	978	–	978
	2016	142	5	20	20	0	28	215	692	907

1 Taxable benefits include: Tim O'Toole – £12,000 car allowance, £23,000 for US medical insurance and £9,000 reimbursement of advisory fees (principally relating to taxation in the UK and US). Matthew Gregory – £12,000 car allowance and £2,000 for UK private medical insurance.

2 In light of the tragic tram incident in Croydon last year, and the ongoing investigations, the Committee decided that it would not be appropriate to award a bonus either in cash or award the deferred share element to the Chief Executive in the usual way. The Chief Executive will not be awarded a bonus for the financial year 2016/17. Instead, the Committee determined that a conditional award of deferred shares would be made which was equivalent in value to the bonus of £723,415 that he would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. The Committee will determine at its discretion in 2020 the extent (if at all) to which the award will vest based on the outcomes and/or status of the various investigations.

3 The following pension-related benefits were received during the year: Tim O'Toole – £140,705 pension allowance and a defined benefit pension input amount, net of Director's contributions, of £56,299. Matthew Gregory received a pension allowance of £85,000, which included a defined contribution pension input amount of £10,000.

4 Full details of Matthew Gregory's recruitment remuneration are set out on page 85 of the Annual Report and Accounts 2016. The awards were not subject to performance conditions. Two of the awards vested in 2016 and the third award vested on 1 April 2017. The buyout amount was determined by the face value at the date of grant (£572,000) plus a partial bonus in lieu of the amount forgone under his previous employer's annual bonus plan amounting to £120,000.

Annual base salary (audited)

	2016	2017	% increase
Tim O'Toole[1]	846	846	0
Matthew Gregory[2]	425	437	2.8

1 In accordance with the Remuneration Policy approved by shareholders in July 2015, the base salary of Tim O'Toole will not be increased for the duration of the Policy.

2 The base salary of Matthew Gregory was increased in line with the rest of the UK workforce.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, private medical cover, life assurance and advisory fees (principally relating to taxation in the UK and US for Tim O'Toole).

Pension (audited)

Tim O'Toole participates in a defined benefit pension scheme. His contributions to this scheme are paid via salary sacrifice with an equivalent contribution being paid directly to the pension scheme by the Company. This provides him with 1/50th accrual for each year of service, based on average pensionable salary for the three tax years prior to retirement. Upon reaching age 60, he has amended his normal retirement age from 60 to 65, for future service. He will receive all his benefits at the same time, but those payable from age 60 will be increased for deferred payment, and those payable from age 65 are payable unreduced at that time. Pensions normally increase in line with the consumer prices index and provide a dependant's pension on a member's death. There is a scheme earnings cap of £140,705 above which a pension allowance of 20% of base salary is paid.

Information in the table below includes the total accrued benefit at 31 March 2017 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 March 2017	Pension age	Total accrued benefit at 31 March 2017 £000s	Increase in accrued annual pension in the year to 31 March 2017 £000s
Tim O'Toole	61	65	20	4

1 Pension age is the earliest date a non-reduced pension is payable.

2 Under the rules of the defined benefit scheme Tim O'Toole can continue to accrue benefits beyond the pension age.

3 No additional benefits are available on early retirement.

An Executive Director employed after 1 April 2011 receives a 'pension allowance' equal to 20% of their base salary. The allowances paid during the year to Tim O'Toole and Matthew Gregory were £140,705 and £85,000 respectively. Matthew Gregory's allowance included a defined contribution pension input amount of £10,000.

Performance-related pay

The Committee believes it is important that for Executive Directors 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.

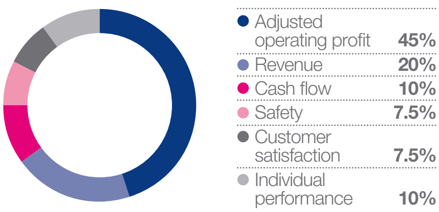
The table below outlines each of the performance measures used in the Company's performance-related incentives and how they support the Company's strategy and business objectives as outlined in the Strategic Review:

	KPIs	Business objectives	Our values
LTIP[1]			
ROCE	●	●	
TSR		●	
Bonus			
Adjusted operating profit	●	●	
Revenue	●	●	
Cash flow	●	●	
Safety	●	●	●
Customer satisfaction	●	●	●
Individual performance	●	●	●

[1] As mentioned on page 65, a review is being undertaken in 2017/18 of the performance metrics used in the LTIP.

Executive Annual Bonus Plan

2016/17 Executive Directors' annual bonus (audited)



For 2016/17, the annual bonus comprised six elements as set out below.

Adjusted operating profit – a KPI used in managing the business.

Revenue – encourages management to deliver sustainable growth through pricing and volume.

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 and people.

Safety – to ensure that risk controls, safety procedures and safety behaviours are constantly improved to reduce long term injuries and avoid safety incidents across all the Divisions. Performance was assessed against a balanced scorecard across 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: customer satisfaction surveys, punctuality, cancellations and complaints across First Bus, First Rail, First Student, First Transit and Greyhound.

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 and transformation plans, and the Executive Directors' core areas of responsibility.

Stretching, relevant and measurable financial and non-financial annual bonus targets were set at the start of the performance period by the Committee. 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 performance of the Executive Directors 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 rates changes experienced in the year under review.

As explained in the Statement by the Chair and note 2 on page 67, the Committee has determined that no bonus will be paid to the Chief Executive in respect of 2016/17. In light of the tragic tram incident in Croydon last year, and the ongoing investigations, the Committee decided that it would not be appropriate to award a bonus either in cash or award the deferred share element to the Chief Executive in the usual way. Instead, the Committee determined that a conditional award of shares would be made equivalent in value to the bonus of £723,415 that he would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. In determining the amount used to calculate the share award, the portion of the bonus relating to the safety performance measure was set to zero. These shares will be awarded under the EABP but on condition that the Committee would determine whether the shares shall vest and, if so decided, the percentage that shall vest. The Committee will make these decisions as soon as practicable after 31 March 2020, taking into consideration the outcome of the relevant investigations into the incident. The Chief Executive fully supports this decision.

	Directors	
	Tim O'Toole	Matthew Gregory
Maximum bonus opportunity (% of salary)	120	150
Annual bonus (% of salary)	0	107
Actual bonus (£000s)	0	454[1]

[1] The actual bonus achieved was 71.3% of the total bonus opportunity for Matthew Gregory.

[2] The original Operating Profit target was set at £310.0m with the original Revenue target set at £5,180.0m. These targets were adjusted upwards to £330.9m and £5,641.7m for exchange rate gains.

For 2016/17, the financial and non-financial performance outcomes were as follows:

Metrics	Actual performance	Threshold (0%)	Target (50%)	Maximum (100%)	Maximum potential award	% of award which vested	Outcomes
Adjusted operating profit	£339.0m	£321m	£330.9m	£346.1m	45%	37.6	Group EBIT delivers at 84% of maximum
Revenue	£5,653m	£5,565.4m	£5,641.7m	£5,772.4m	20%	11.8	Group Revenue performance delivers at 59% of maximum against this component of EABP award
Cash flow	£147.2m	Less than £101.9m	£101.9m	Greater than £101.9m	10%	10.0	Group cash generation for the year exceeded the EABP target level (£101.9m) and delivered full payout
Safety	Between threshold and target	Balanced scorecard of indicators			7.5%	0[1]	Set as zero in view of the Croydon incident
Customer satisfaction	Between threshold and target	Balanced scorecard of measures			7.5%	3.9	Customer performance in Student, Transit and First Bus is assessed based on annual surveys, while Greyhound and Rail are assessed across a wider range of metrics, including punctuality, cancellation and road failure statistics

[1] Due to the Croydon incident, the Committee and the Executive Directors felt it would be inappropriate for any amount of bonus to vest in respect of the safety performance measure.

[2] '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.

The Committee carefully reviewed the individual performance of Tim O'Toole and Matthew Gregory against objectives set at the beginning of the year and concluded that:

Executive Director	Objective	Assessment	Performance outcome (range of 0% to 10%
Tim O'Toole	Make further progress towards the delivery of the medium-term financial and operational targets through continued improvement in our bus businesses	■ Solid progress in delivering overall targets ■ Student and Bus efficiencies delivered ■ Various strategies for growth being delivered in all divisions	8%
	Further strengthen the approach to talent development and succession planning	■ Further developed our strategic approach to talent and skills ■ Strengthened succession plans for senior roles through external hires and development of internal talent with particular focus on increasing gender diversity	
	Build a culture of innovation to improve customer service and develop new growth opportunities	■ Initiatives implemented across all Divisions to increase innovation and the use of new technologies to improve customer experience and support growth	
	Continue to establish close relationships with all related parties relevant to the business activities	■ Continued to build and maintain effective working relationships with relevant stakeholders, including those in new markets	
Matthew Gregory	Deliver cost savings and capital expenditure reductions set out in the 2016/17 budget	■ Implemented Group-wide cost-saving initiatives ■ Capital expenditure target achieved	8%
	Present the updated Turnaround Plan to shareholders and analysts, providing a clear path to future targets through the final results presentation	■ Established a strong presence in the investment community	
	Drive the improvement/rationalisation of financial information in the Group	■ Led improvements to the quality of financial information available to the Board and the Divisions	
	Identify process improvement opportunities across the Group to generate cost-savings	■ Created a control-focused culture across the Group's finance functions ■ Cost-saving process improvement initiatives underway in three key areas	

2017/18 Executive Directors' annual bonus

For 2017/18 the executive annual bonus plan will incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus is unchanged from 2016/17 and will be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics. The financial targets set by the Committee are based on the Group's approved plan. The Committee also reviewed targets at individual business unit level and took into consideration current consensus and expectations for FY2017/18. The Committee believes that the targets are stretching to ensure payouts only occur for strong performance over the financial year.

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 are subject to an underlying performance override enabling them to be scaled back to reflect the Group's 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 2017/18 annual bonus maximum and threshold levels of bonus as a percentage of base salary are as follows:

Executive Director	Maximum	Threshold
Tim O'Toole	120%	0%
Matthew Gregory	150%	0%

Long-Term Incentive Plan

2014 Long-Term Incentive Awards (audited)

The vesting of the 2014 LTIP awards were subject to an Adjusted EPS and a TSR performance condition. Based on the Group's performance relative to these measures, 16.3% of the maximum award vested. The performance in respect of each of the metrics was as follows:

- TSR performance (worth up to 50% of maximum award) was measured against the FTSE250 constituent peer group (excluding financial services and extraction companies) at the financial year end; actual relative performance to 31 March 2017 was below median (79th centile) and no award for the TSR element is therefore payable.
- Adjusted EPS of 12.4p performance for 2016/17 resulted in a payout of 16.3% (out of 50%) under the LTIP scheme.

Metrics	Actual performance	Adjusted EPS entry level (5%)	Threshold (12.5%)	Maximum (50%)	% of award which vested
Adjusted EPS	12.4p	10p	12p	16p	16.3
TSR	Below median	n/a	Median	Upper quartile	0

The Committee has taken into account the underlying performance of the Group in approving the vesting of the 2014 LTIP. See pages 64 and 65.

2016 Long-Term Incentive Awards (audited)

Half of the award is subject to the achievement of stretching ROCE target figures determined at the end of the performance period and the remaining half of the award is subject to the Company's relative TSR. Awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory. 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 2016 LTIP awards are set out below.

ROCE – a KPI used in managing the business as it captures both growth in earnings and the efficient allocation of limited capital. 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 will be 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. The principal foreign exchange assumptions will be provided for each award;
- 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.

Due to the way in which rail franchises are included, an appropriate ROCE target range will be determined in respect of each LTIP award.

In order to provide transparency for each LTIP award, the Committee will disclose both the ROCE target range percentages and also the equivalent EPS CAGR percentages.

The Committee believes that this method of calculation results in a ROCE definition which 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 2016 LTIP are set out below:

ROCE	Equivalent EPS CAGR	% of award which vests
<7.6%	<9.1%	0%
≥ 7.6%	≥9.1%	12.5%
≥ 8.7%	≥16.6%	50%

1 Between 12.5% and 50% of the award will vest on a straight-line basis if ROCE at the end of the performance period is between 7.6% and 8.7%.

2 ROCE performance is assessed using constant FX rates of US$1.50 : £1 and Can$2.025 : £1.

3 Equivalent EPS CAGR assumes interest charges, effective tax rate and capital employed assumptions are held in line with the 2016-2019 Three-Year Plan projections for the year ended 31 March 2019.

Relative TSR – reflects actual returns delivered to shareholders. The relative nature of the metric, with TSR measured against a comparator group of 32 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 2016 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 2016 LTIP are set out below:

TSR Ranking	% of award which vests
Below median	0%
Median	12.5%
Upper quartile	50%

[1] Between median and the upper quartile of the peer group, vesting will be on a straight-line basis between 12.5% and 50%.

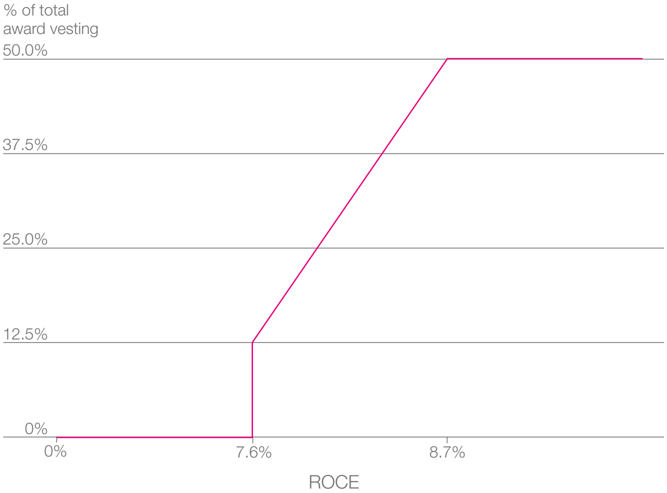
The comparator group for the benchmarking of remuneration and the relative TSR metric for awards granted in 2016 comprises:

Aggreko	Carnival	Grafton Group	Serco Group
Amec Foster Wheeler	DCC	Hays	SIG
Atkins (WS)	easyJet	Interserve	Smith (DS)
Babcock International Group	Electrocomponents	IWG	Stagecoach Group
Balfour Beatty	G4S	Kier Group	Thomas Cook Group
Bunzl	Galliford Try	Mitie Group	Travis Perkins
Capita	GKN	National Express	Wolseley
Carillion	Go-Ahead Group	Rentokil Initial	Wood Group (John)

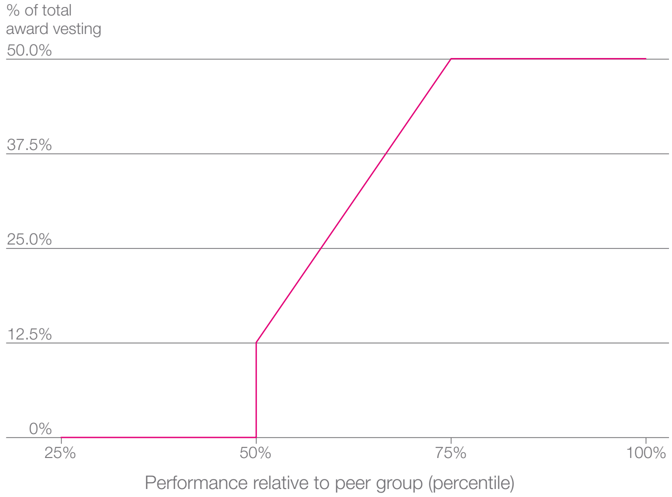
The comparator group comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup. In the event of one or more of the constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that will materially affect the calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

In the event of a change of control, awards will normally vest on a pro rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time, although the Committee may decide not to pro rata an award if it is inappropriate to do so in the particular circumstances.

ROCE performance vesting schedule



TSR performance vesting schedule



On this basis, awards were granted to Executive Directors on 28 June 2016 as follows:

Executive Director	Share price at date of grant	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance period
Tim O'Toole	97.320 pence	120	1,042,694	£1,014,750	25%	1.4.16 – 31.3.19
Matthew Gregory	97.320 pence	175	764,231	£743,750	25%	1.4.16 – 31.3.19

[1] Awards were granted to Tim O'Toole as conditional awards and those to Matthew Gregory as nil-cost options.

[2] Award granted using the average five-day closing mid-market share price at the time of grant.

2017 Long-Term Incentive Awards

As the Group moves out of the transformation phase and following the recent award of the South Western rail franchise, which commences on 20 August 2017, the Committee is reviewing the performance metrics used for the LTIP to ensure they remain appropriate. This will be a thorough review with the intention to consult with major shareholders in the autumn. Therefore grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2017. Awards will be subject to a holding period of two years following the three-year performance period as well as malus and clawback. Award levels will remain unchanged and will be as follows:

	Face value (% of base salary)	Minimum threshold performance (% of maximum potential)	Maximum performance (% of maximum potential)	Performance period
Tim O'Toole	120	25%	100%	1.4.17 – 31.3.20
Matthew Gregory	175	25%	100%	1.4.17 – 31.3.20

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. The number of awards detailed in the table below have been adjusted, where appropriate, to reflect the rights issue in 2013 following the application of the standard rights issue adjustment formula.

Director	Plan	Date of grant	Number of awards held as at 1.4.16	Awards granted	Face value of awards (£)[2]	Awards vested[3]	Awards lapsed during the year	Number[1] of awards held as at 31.3.17	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Tim O'Toole	Deferred share bonus	10.6.14	223,554	–	312,081	–	–	223,554	nil	1.4.17	9.6.24
		15.6.15	230,748	–	284,051	–	–	230,748	nil	1.4.18	14.6.25
		28.6.16	–	83,126	76,975	–	–	83,126	nil	27.6.19	27.6.26
	LTIP	2.7.14	785,288	–	1,013,807	–	–	785,288	nil	1.4.17	31.3.18
		17.12.15	972,728	–	1,022,337	–	–	972,728	nil	1.4.18	1.4.19
		28.06.16	–	1,042,694	965,535	–	–	1,042,694	nil	1.4.19	1.4.20
Matthew Gregory	Deferred share bonus	17.12.15	134,295[4]	–	141,144	134,295	–	–	nil	1.4.16	16.12.25
		17.12.15	89,530[4]	–	94,096	–	–	89,530	nil	1.4.17	16.12.25
		24.3.16	359,098[4]	–	336,295	359,098	–	–	nil	24.3.16	23.3.26
		28.6.16	–	81,399	75,375	–	–	81,399	nil	27.6.19	27.6.26
	LTIP	17.12.15	1,222,200[4]	–	1,284,532	–	–	1,222,200	nil	1.4.18	1.4.19
		28.06.16	–	764,231	707,678	–	–	764,231	nil	1.4.19	1.4.20
Former director Mick Barker[5]	SAYE	11.12.12	705	–	–	–	705	–	117	1.2.16	31.7.16
		10.12.13	1,645	–	–	–	–	1,645	94	1.2.17	31.7.17
		9.12.14	2,782	–	–	–	–	2,782	97	1.2.18	31.7.18
		8.12.15	3,601	–	–	–	–	3,601	85	1.2.19	31.7.19
		12.12.16	–	5,436	–	–	–	5,436	86	1.2.20	31.7.20

1 The table above shows the maximum number of shares that could be released if awards were to vest in full. Participants are entitled to receive dividends or dividend equivalent amounts once the share awards have vested.

2 The face value in the table above has been calculated by multiplying the maximum number of shares that could vest by the closing share price on the date of grant.

3 An award vests 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.

4 These awards were made in connection with the recruitment of Matthew Gregory to replace awards he held under similar schemes with his former employer.

5 Mick Barker resigned on 17 February 2017.

Shareholding guidelines (audited)

Under the terms of the remuneration policy approved by shareholders at the 2015 AGM, Executive Directors are required 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 the later of their date of appointment or the date of approval of the current remuneration policy, 16 July 2015, 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 Executive Directors' and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2017.

Executive Director	Ordinary shares beneficially owned at 1.4.16	Ordinary shares beneficially owned at 31.3.17	Unvested deferred share bonus awards subject to continued employment	Unvested LTIP awards subject to performance conditions	Vested but not exercised share awards	Vested and exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary)
Tim O'Toole	849,370	939,296	313,874	2,015,422	1,008,842	0	200%	147%
Matthew Gregory	0	261,033	81,339	1,986,431	89,530	0	150%	79%

1 Based on the middle market closing price of an ordinary share of the Company of 132 pence per share on 31 March 2017. The range of the Company's share price for the year was 88.7 pence to 133 pence.

2 Tim O'Toole has until 16 July 2020 and Matthew Gregory has until 1 December 2020 to meet the shareholding requirement.

3 In the period 1 April to 1 June 2017, Tim O'Toole acquired 11,109 shares in the Company, increasing his shareholding to 950,405 shares. No other changes in Executive Directors' interests occurred in the period.

Since June 2015, Tim O'Toole has allocated £15,000 of his gross monthly base salary (equivalent to more than 20% of his base salary) to acquire shares in the Company, with shares being purchased from the post-tax and post-National Insurance (NI) amount.

All-employee share schemes

Executive Directors are eligible to participate in the Company's Sharesave (SAYE) and Share Incentive Plan (BAYE) on the same terms as other eligible employees.

SAYE

The maximum participation level in the SAYE plan is £500 per calendar month as per HMRC limits with participants granted linked share options, by reference to projected savings, with a 20% discount to the prevailing share price at the time of grant. In line with HMRC requirements, on the maturity of the savings contracts, participants can elect to use the accumulated savings to exercise their options or request the return of their savings.

BAYE

The maximum participation level in the BAYE is £150 per month, as per HMRC limits.

At present the Company provides two Matching Shares for every three Partnership Shares, subject to a maximum Company contribution of shares to the value of £20 a month. The shares are held in trust and become available for release with no tax or NI liability once held for five years. The Matching Shares will be forfeited if the corresponding Partnership Shares are removed from the trust within three years from award.

In accordance with the applicable legislation, shares that remain subject to the plan are held on behalf of participants in a UK-based trust.

Preventing rewards for failure

In respect of awards made under the EABP and the LTIP, from 2015 onwards, they are subject to both malus and clawback provisions. The triggering events for malus and clawback are the same and include material misstatement of accounts, awards being based on an error, misleading information or inaccurate assumptions, gross misconduct or computational error.

For the EABP, annual cash bonuses may be clawed back at any time up to the end of the third financial year after that in respect of which the payment is made and share awards will remain subject to clawback for three years following the date of grant. For the LTIP, awards will remain subject to clawback for two years following the end of the three-year performance period. As regards malus, under the EABP and the LTIP, share awards that are yet to vest can be reduced, including to zero.

In addition, prior to the vesting of awards made under the EABP and LTIP, in respect of awards made from 2014 onwards, the Committee may reduce awards to reflect any triggering event, such as material misstatement of accounts or gross misconduct.

The malus and clawback provisions which apply to our incentive plans are standard and in line with general practice.

Governance

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 2017, 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 and no shares had been issued in respect of the executive share plans.

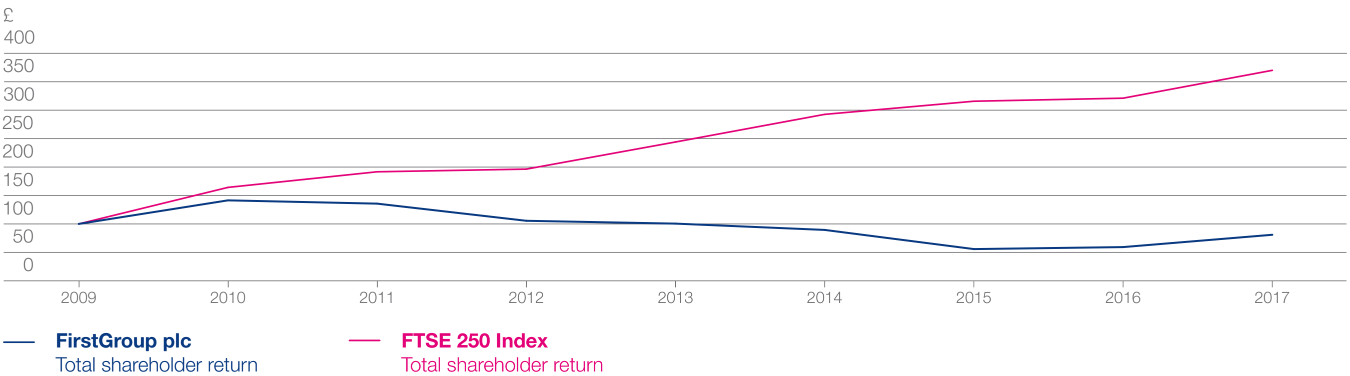
Employee Benefit Trust (EBT)

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 in respect of the FirstGroup shares held in the trust. As at 31 March 2017, 247,256 shares were held by the EBT to hedge outstanding awards of 33,817,830. This means that the EBT holds sufficient shares to satisfy 0.7% of outstanding awards.

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past eight years compared to an equivalent investment in the FTSE 250 and in our comparator group. 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 eight-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 nine 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.

	2009	2010	2011[1]	2012[2]	2013	2014	2015	2016	2017
Total remuneration (£000s)	1,017	802	503	1,055	1,068	1,986	1,647	1,243	1.260
Annual bonus (% maximum potential)	24	0	43.6	0[3]	0[3]	59.1	57	15.9	0[4]
LTIP vesting (%)	–	–	–	0	0	0	0	0	16.3

1 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 remuneration of £357,000.

2 Relates to the remuneration of Tim O'Toole who was appointed Chief Executive in November 2010.

3 Tim O'Toole waived his bonus in 2012 and 2013.

4 As mentioned in the Chair's Statement, a bonus was not paid to Tim O'Toole this year and instead will receive a conditional deferred share award.

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 Committee has chosen this comparator as it feels that it 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 2017/18 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	0%	14%	(100)%[1]
UK employees	1-3%[2]	(3)%	(14.9)%[3]

1 Last year the Chief Executive received an annual bonus of £161,796. For 2016/17 he has not received an annual bonus.

2 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. Typical increases for 2016/17 were in the range 1-3%.

3 This reflects the lower level of discretionary bonuses paid in some of our UK businesses in 2016/17 to the average UK employee compared to the previous year.

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.

	2016 £m	2017 £m	% change
Adjusted operating profit	301	339	13
Distributions to shareholders	–	–	–
Total employee pay	2,667	2,945	10

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 increase for the year includes c.£270m due to USD FX. The average monthly number of employees in 2016/17 was 100,891 (2015/16: 108,624).

Wider pay and benefits environment

In addition to a competitive base salary, FirstGroup offers a wide range of employee benefits tailored to local markets.

In the UK, this includes reduced price travel on our rail and bus services, and discounts on shopping, entertainment and eating out. We encourage saving for retirement through a variety of company pension arrangements and retirement plans, and regular opportunities to share in the growth and success of the business through our UK employee share plans. We also operate childcare voucher schemes across our UK businesses and our Employee Assistance programme offers all our 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 advisors 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 encourage early preparation for retirement through an attractive 401(k) retirement savings plan, and 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, we provide a range of company pension arrangements and retirement plans to support employees in saving for retirement. 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.

Non-Executive Directors' fees (audited)

The Chairman's fee was reviewed as part of the appointment of the new Chairman in 2015 and has not been increased since.

Non-Executive Directors' fees were reviewed in 2016 and increased to bring them to a more competitive level. From 1 August 2016, the standard fee for the NEDs was increased from £52,500 to £55,000. The fee for the Senior Independent Director was also increased from £7,500 to £10,000. The fee for the Chair of the Remuneration Committee was increased from £10,000 to £12,000. In addition, the fee for the Group Employee Director was increased to £55,000 to bring it in line with the NED basic fee.

The fees will be reviewed in 2017/18, with any changes reported in the 2018 Directors' Remuneration Report.

	Fees		Benefits		Totals	
Non-Executive Director	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s
Wolfhart Hauser[1]	208	280	0	0	208	280
Richard Adam[2]	–	6	–	0	–	6
Warwick Brady	53	54	0	0	53	54
Drummond Hall	60	63	0	0	60	63
Imelda Walsh	63	65	0	0	63	65
Jim Winestock	63	64	0	2	63	66

1 Wolfhart Hauser was appointed a Non-Executive Director on 18 May 2015 and became Chairman on 16 July 2015; the disclosure for 2016 reflects this. 2017 has been his first full year as Chairman.

2 Richard Adam was appointed on 24 February 2017.

Former Non-Executive Directors						
Mick Barker[1]	39	37	0	1	39	38
Brian Wallace[2]	65	67	0	0	65	67

1 Mick Barker resigned on 17 February 2017. In addition to his fee as a Non-Executive Director, he received earnings from the Group as an employee amounting to £45,000 (2015/16: £51,000). As a participant in the BAYE he received 218 matching shares during the financial year. Based on the middle market closing price of a share on 31 March 2017 of 132 pence, the value of these were £287.76. Mick Barker had also elected to receive 20% of his fees in the form of shares in the Company.

2 Brian Wallace retired on 24 February 2017.

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with the Group business, the individual Director is entitled to retain any fees received. For serving as a Director of CSX Corporation, Tim O'Toole received a fee of $75,000 per annum which was taken in CSX common shares and an annual grant of $150,000 also in CSX common shares. Both elements were deferred until Tim O'Toole left the board of CSX Corporation and therefore he received these deferred amounts when he retired in April 2017.

Non-Executive Directors' interest in ordinary shares (audited)

The beneficial interests of the Non-Executive Directors and their connected persons who held office at 31 March 2017 in the shares of the Company as at that date and 1 April 2016 are shown below. Shares are held outright with no attaching performance conditions. No further changes occurred between the end of the period under review and the date of this report.

	Ordinary shares beneficially owned at 1.4.16 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.17
Wolfhart Hauser	284,558	284,558
Richard Adam[1]	–	10,000
Warwick Brady	108,701	108,701
Drummond Hall	30,990	30,990
Imelda Walsh	19,429	19,429
Jim Winestock	64,743	64,743

1 Richard Adam was appointed on 24 February 2017.

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 serving as at 31 March 2017. They will all, including Jimmy Groombridge and Martha Poulter who joined the Board on 26 May 2017, put themselves forward for election or re-election at the next AGM, on 18 July 2017.

Non-Executive Director	Date of appointment
Wolfhart Hauser	18 May 2015
Richard Adam	24 February 2017
Warwick Brady	24 June 2014
Drummond Hall	24 June 2014
Imelda Walsh	24 June 2014
Jim Winestock	1 August 2012

Executive Directors' service agreements

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service contract	Notice period
Tim O'Toole	25 January 2011	12 months
Matthew Gregory	1 December 2015	12 months

Role of the Remuneration Committee

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of Executive Directors and senior managers.

The Committee's full terms of reference are available on the Company's website. The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures Executive Directors and senior managers 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;
- 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; and
- determining the terms of employment and remuneration of each Executive Director and senior executives, including recruitment and termination arrangements.

Membership

The current members of the Committee, who are all independent Non-Executive Directors, are: Imelda Walsh, who chairs it; Drummond Hall, the Senior Independent Director, and Richard Adam, who joined the Committee on 20 March 2017, following his appointment as Non-Executive Director.

Other attendees at the Committee meetings include the Chairman, the Chief Executive, the CFO, the Group Employee Director, the Group Corporate Services Director, the Group HR Director, the Group Pensions Director and PwC, our external adviser. The General Counsel & Company Secretary is the 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.

Committee activities

In line with its remit, amongst other matters, the Committee took the following actions during the year:

- assessed the level of achievement against objectives under the EABP and LTIP;
- reviewed the metrics, definitions, weightings and targets of the EABP and LTIP;
- confirmed that the LTIP awards granted in 2013 would lapse in full as a result of targets not being achieved;
- approved individual remuneration arrangements for Executive Directors and senior managers;
- approved the granting of awards under the EABP, LTIP and Executive Share Plan;
- reviewed and approved the Directors' Remuneration Report;
- reviewed the current trends in remuneration practice and corporate governance, including shareholders' representatives' guidelines and policies (ISS, PLSA, Executive Remuneration Working Group, Investment Association);
- reviewed and approved amendments to the structure of senior executive incentive schemes;
- reviewed its terms of reference;
- reviewed the performance of its advisors; and
- reviewed its performance.

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 its appointed adviser, PwC. PwC was appointed adviser to 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, the Committee reviewed the advice provided by PwC and confirmed that it was objective and independent.

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, corporate governance, incentive plan design and consulting with shareholders. PwC fees for advice provided to the Committee were £32,200 (2016: £121,750). Fees were 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 of the advice it has received from PwC. PwC has no other connection with the Company.

Shareholder engagement

When reviewing the remuneration framework of Executive Directors and senior managers, the Committee takes into account the views and guidance expressed by major institutional investors and their representative bodies.

Shareholder votes on remuneration matters

	2016 AGM Annual Report on Remuneration	2015 AGM Remuneration Policy	2015 AGM Annual Report on Remuneration
Votes for	799,235,216 (96.53%)	779,923,966 (93%)	800,928,123 (95%)
Votes against	28,761,378 (3.47%)	60,313,189 (7%)	39,629,864 (5%)
Total votes cast	827,996,594	840,237,155	840,557,987
Votes withheld*	118,668,660	31,366,783	31,045,951

*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.

Consideration of shareholder views

The Committee values its continued dialogue with shareholders and engages directly with them and their representative bodies at the earliest opportunity. Shareholder feedback received in relation to the AGM, as well as any additional feedback and guidance received during the year is considered by the Committee as it develops the Company's remuneration framework and practices.

Imelda Walsh
Chair, Remuneration Committee
1 June 2017

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 2017. 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 (FCA):

Information	Section	Page
Sustainability governance and greenhouse gas emissions	Corporate responsibility	38
Likely future developments in the business	Chief Executive's report	6
Risk factors and principal risks; going concern and viability statements	Principal risks and uncertainties	32
Governance arrangements; human rights and anti-corruption and bribery matters	Corporate Governance Report	48
Long-term incentive schemes	Directors' Remuneration Report	63
Financial instruments and related market transactions	Financial statements	114-118

Directors

The Directors of the Company who served during the year and their biographical details are shown on pages 44 and 45. Mick Barker and Brian Wallace stood down from the Board on 17 and 24 February 2017 respectively. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 63.

The Company's Articles provide that each Director who has been appointed by the Board since the last AGM must retire from office and stand for election by the shareholders at the first AGM after their appointment. Richard Adam, Jimmy Groombridge and Martha Poulter, having been appointed to the Board on 24 February and 26 May 2017 respectively, will be seeking election as Directors at the forthcoming AGM. In accordance with the Code, all other Directors will retire and submit themselves for re-election at the Company's AGM. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report on page 63.

The performance of each Director was reviewed and it was found that each of them continues to make an effective and valuable contribution to the deliberations of the Board and demonstrate commitment to the role. The performance evaluation of the Chairman was led by the Senior Independent Director.

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 Group 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 Group 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.

Annual General Meeting

The Company's AGM will be held at 1.30pm on Tuesday 18 July 2017 at the Aberdeen Exhibition and Conference Centre, Exhibition Avenue, Bridge of Don, Aberdeen, AB23 8BL. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of AGM which accompanies the Annual Report and Accounts.

A summary of the business carried out at the AGM will be published on the Company's website (www.firstgroupplc.com).

Share capital

As at 31 March 2017, the Company's issued share capital was 1,207,695,812 ordinary shares of 5 pence, each credited as fully paid. As at the date of this report, 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 1,207,914,353 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 28 to the Company's financial statements.

The Company's shares are listed on the London Stock Exchange.

A list of subsidiary undertakings is given in note 36 to the consolidated financial statements.

Substantial shareholdings

As at 1 June 2017, the Company had been notified under the FCA's Disclosure, Guidance and Transparency Rule 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	60,500,000	5.00
Vidacos Nominees Ltd	59,397,756	4.93

Results

The results for the year are set out in the consolidated income statement on page 86.

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. Details of the Company's issued share capital are set out in note 8 to the Company financial statements.

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. The Notice of the 2017 AGM accompanying this document specifies the deadlines for exercising voting rights.

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 33 to the consolidated financial statements. Kleinwort Benson (Guernsey) Trustees Limited, as trustee of the FirstGroup plc Employee Benefit Trust (EBT), holds shares in the Company in trust in order to satisfy awards made to participants under the Company's employee share plans. The EBT waives its rights to vote and to dividends on the shares it holds which are unallocated.

Under the rules of the FirstGroup plc Share Incentive Plan (BAYE), employees buy shares and receive free matching shares in the Company. In order to preserve certain tax benefits these shares are held in a trust by Computershare for employees. Whilst these shares are held in trust, the voting rights attached to them are exercised by the trustee, but only at the direction of the employees.

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.

Further details on the Company's employee share plans can be found in the Directors' Remuneration Report on page 63.

Purchase of own shares

At the AGM of the Company in 2016 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 120,400,000 ordinary shares. This authority remains in place until the AGM on 18 July 2017 when it is intended to seek a renewal.

Political donations

At the 2016 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 will expire at the 2017 AGM, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM. However, 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 caught. 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 or 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 $67,748 (2015/16: $26,250) in the support of their business goals. The Group has fully complied with jurisdictional reporting of these contributions.

No other political donations or expenditure was incurred by the Company and its subsidiaries during 2016/17.

Employee involvement

We are committed to keeping our employees informed about the progress of the business and developments affecting them at work. As well as more traditional forms of communication, employees can also access online facilities. The employee portal provides an opportunity for employees to share information and work in collaboration with other Group employees on areas of mutual interest and benefit to the Group. In addition, management teams work to ensure that communication is cascaded face to face throughout their business areas and employees are encouraged to discuss any issues with management at any time and events, such as executive roadshows, are arranged periodically to allow employees the chance to feed back to senior management.

Throughout the Group, regular dialogue with employee representatives, such as trade unions, is maintained. Each division has its own information and consultation arrangements. A significant proportion of the workforce belongs to trade unions, with our employees represented by more than 30 different unions. The majority of our employees in North America, First Bus, and First Rail are represented by unions.

As well as gathering feedback through formal and informal channels throughout the year, all employees are also given the opportunity to make their voice heard through regular employee surveys. These surveys at Group, divisional and local level provide a useful insight into what employees think about the Company and the way they are managed. The priorities identified by employees help to shape our people strategies.

Further information is available in the Corporate responsibility section on page 38.

Policies concerning disabled employees

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.

Change of control – significant agreements

(a) 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 22 March 2017. 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 4.26% notes due in two instalments of US$50m during 2017, the £250m 6.125% bonds due 2019, the £300m 8.125% bonds due 2018, 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. A change of control in respect of the £250m 6.125% bonds due 2019 may result in an increase of 1.5% per annum in the interest rate payable on those bonds. However, the interest rate on the bonds will only be so increased if certain further thresholds in relation to the credit rating of the bonds are also met. In respect of the £300m 8.125% bonds due 2018, 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 4.26% notes due from 2016 to 2017, 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 but without any 'yield maintenance' amount.

(b) First Rail

The Group's franchised passenger rail operators, First TransPennine Express Limited and First Greater Western Limited, are each party to a franchise agreement with the Secretary of State for Transport, as is First MTR South Western Trains Limited (jointly owned with MTR Corporation), scheduled to start operating the South Western rail franchise on 20 August 2017. These franchise agreements are subject to termination clauses which may apply on a change of control. 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, Porterbrook Leasing Company Limited and Angel Trains Limited. A material number of the individual leasing agreements include change of control provisions. First MTR South Western Trains Limited will also hold a railway licence, and be a party to track access and rolling stock agreements, each with comparable change of control provisions, by the time it commences operations in August 2017. 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.

(c) Significant shareholders' agreements

The Group, through First Rail Holdings Limited, has shareholders' agreements governing its relationship with MTR Corporation in relation to the recently awarded South Western rail franchise and with Trenitalia for the purposes of bidding for (and, if successful, operating) the West Coast Partnership and East Midlands franchises. As is customary, these agreements include provisions addressing change of control.

Financial risk management

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.

Auditor

Having reviewed the independence, objectivity and performance of the auditor, the Audit Committee has recommended to the Board that the existing auditor, Deloitte, be re-appointed. Ordinary resolutions re-appointing Deloitte as auditor and authorising the Directors to set their remuneration will be proposed at the 2017 AGM.

Audit information

The Directors who held office at 1 June 2017 confirm that so far as they each 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 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.

Payments policy

We recognise the importance of good supplier relationships to the overall success of our business. We manage dealings 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 is 32 days (2016: 34 days).

Post-balance sheet events

There have been no material post-balance sheet events as at the date of this report.

Management Report

The Strategic report and the Directors' report together are the management report for the purposes of the FCA's Disclosure, Guidance and Transparency Rule 4.1.5R.

Governance

Viability Statement

In accordance with provision C.2.2 of the Code, the Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks set out above. Based on this assessment, 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 2020.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, the period over which the Directors consider it possible to form a reasonable expectation as to the Group's longer-term is the three-year period to 31 March 2020. This period reflects the Group's corporate planning processes and is considered appropriate for a fast moving competitive environment such as passenger transport.

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 are that credit markets will be sufficiently fluid to enable the Group to refinance its bonds.

In making their assessment, the Directors took account of the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks which might threaten the Group's viability during the three-year period to 31 March 2020 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. The scenarios considered were: 1) a weak economy and adverse operating environment (reflecting a 'hard' Brexit); 2) a weak economy, heightened terrorism and increased environmental pressures; and 3) a situation where credit markets are effectively closed.

The Board confirms that in making this statement it 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.

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 2017 of 3.6 years (2016: 4.4 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 £800m (2016: £800m) was undrawn at the year end. This facility has a maturity of July 2021.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2018 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.

The Directors' Report was approved on behalf of the Board on 1 June 2017.

Michael Hampson
General Counsel & Company Secretary
1 June 2017
395 King Street, Aberdeen AB24 5RP

Directors' responsibilities statements

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 judgments 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; and
- 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; and
- 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; and
- 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 42 and the Governance section comprising pages 43 to 84, 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 Financial Officer
1 June 2017
395 King Street, Aberdeen AB24 5RP

Enhancing the customer experience

We are working hard to improve the experience for our passengers by examining every element of their journey

Terminal upgrades

We continue to invest in our Greyhound terminals, with renovations of existing locations and construction of brand-new sites, improving the experience for our passengers on departure and arrival at the destinations we serve. We work hard to ensure our terminals are appropriately sized both for the number of services we operate and customers we carry, and the facilities we offer are both sustainable and relevant to the needs of our passengers.

Passenger satisfaction

Hull Trains continues to lead the UK rail industry for service and satisfaction, coming top of the National Rail Passenger Survey for the fourth consecutive year with the highest ever satisfaction score recorded for any operator in the UK this decade. The feedback from customers highlighted high levels of satisfaction with their overall journey, attitude and helpfulness of staff, personal security and provision of information during the journey.

Journey Makers customer service training

Face-to-face customer interaction with our drivers in First Bus is a key part of the journey experience for our passengers. First Bus has introduced a range of initiatives to support and motivate employees, at the heart of which is our 'Journey Makers' programme, driving ownership of the customer experience. This training programme, launched in April, provides practical tools for drivers, supervisors and influencers in order to improve the experience for all of our customers.

Mobility Simplified

First Transit are developing a system called Mobility Simplified in order to fill a vital need in today's paratransit market. The new on-demand system will help transit agencies by providing access to the differing transportation solutions available, such as Uber or Lyft, while also providing paratransit riders with convenient and positive transport options, and improved on-time performance. First Transit will serve as the co-ordinator – administering an app, operating call centres, determining rider eligibility, processing fare payments, and contracting with the on-demand transportation providers to make this process simple for all, and thus retaining our leadership position in this key market space.

Consolidated income statement
For the year ended 31 March

Continuing Operations	Notes	2017 £m	2016 £m
Revenue	3,5	**5,653.3**	5,218.1
Operating costs		**(5,369.7)**	(4,971.8)
Operating profit	5,6	**283.6**	246.3
Investment income	8	**1.2**	1.4
Finance costs	8	**(132.2)**	(134.2)
Profit before tax		**152.6**	113.5
Tax	9	**(36.5)**	(17.1)
Profit for the year		**116.1**	96.4
Attributable to:			
Equity holders of the parent		**112.3**	90.3
Non-controlling interests		**3.8**	6.1
		116.1	96.4
Earnings per share			
Basic	10	**9.3p**	7.5p
Diluted	10	**9.2p**	7.5p
Adjusted results[1]			
Adjusted operating profit	4	**339.0**	300.7
Adjusted profit before tax	4	**207.0**	168.3
Adjusted EPS	10	**12.4p**	10.3p

[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	2017 £m	2016 £m
Profit for the year		**116.1**	96.4
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	34	**(89.7)**	(59.2)
Deferred tax on actuarial losses on defined benefit pension schemes		**7.3**	16.1
		(82.4)	(43.1)
Items that may be reclassified subsequently to profit or loss			
Derivative hedging instrument movements	28	**69.7**	(13.7)
Deferred tax on derivative hedging instrument movements		**(19.0)**	0.6
Exchange differences on translation of foreign operations		**356.2**	110.5
		406.9	97.4
Other comprehensive income for the year		**324.5**	54.3
Total comprehensive income for the year		**440.6**	150.7
Attributable to:			
Equity holders of the parent		**436.8**	144.6
Non-controlling interests		**3.8**	6.1
		440.6	150.7

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
As at 31 March

	Note	2017 £m	2016 £m
Non-current assets			
Goodwill	11	**1,956.1**	1,736.3
Other intangible assets	12	**150.6**	162.2
Property, plant and equipment	13	**2,276.5**	2,142.2
Deferred tax assets	25	**25.8**	62.7
Retirement benefit assets	34	**34.0**	31.0
Derivative financial instruments	24	**48.6**	41.5
Investments	14	**33.3**	25.4
		4,524.9	4,201.3
Current assets			
Inventories	16	**64.5**	61.4
Trade and other receivables	17	**790.9**	694.4
Current tax assets		**0.7**	–
Cash and cash equivalents	20	**400.9**	360.1
Assets held for sale	18	**2.9**	3.5
Derivative financial instruments	24	**1.7**	16.7
		1,261.6	1,136.1
Total assets		**5,786.5**	5,337.4
Current liabilities			
Trade and other payables	19	**1,155.3**	1,101.9
Tax liabilities – Current tax liabilities		**5.1**	16.4
– Other tax and social security		**20.3**	20.6
Borrowings	21	**204.4**	168.4
Derivative financial instruments	24	**29.5**	68.1
		1,414.6	1,375.4
Net current liabilities		**153.0**	239.3
Non-current liabilities			
Borrowings	21	**1,586.4**	1,712.1
Derivative financial instruments	24	**8.6**	35.5
Retirement benefit liabilities	34	**392.5**	301.9
Deferred tax liabilities	25	**24.3**	17.0
Provisions	26	**284.2**	262.3
		2,296.0	2,328.8
Total liabilities		**3,710.6**	3,704.2
Net assets		**2,075.9**	1,633.2
Equity			
Share capital	27	**60.4**	60.2
Share premium		**678.9**	676.4
Hedging reserve	28	**(17.9)**	(68.6)
Other reserves	28	**4.6**	4.6
Own shares	28	**(1.2)**	(1.4)
Translation reserve	29	**708.4**	352.2
Retained earnings		**621.9**	585.4
Equity attributable to equity holders of the parent		**2,055.1**	1,608.8
Non-controlling interests		**20.8**	24.4
Total equity		**2,075.9**	1,633.2

The accompanying notes form an integral part of this consolidated balance sheet.

Tim O'Toole
1 June 2017

Matthew Gregory
1 June 2017

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 2015	**60.2**	**676.4**	**(55.5)**	**4.6**	**(1.9)**	**241.7**	**533.1**	**1,458.6**	**27.6**	**1,486.2**
Total comprehensive income for the year	–	–	(13.1)	–	–	110.5	47.2	144.6	6.1	150.7
Dividends paid/other	–	–	–	–	–	–	–	–	(9.3)	(9.3)
Movement in EBT and treasury shares	–	–	–	–	0.5	–	(1.3)	(0.8)	–	(0.8)
Share-based payments	–	–	–	–	–	–	6.4	6.4	–	6.4
Balance at 31 March 2016	**60.2**	**676.4**	**(68.6)**	**4.6**	**(1.4)**	**352.2**	**585.4**	**1,608.8**	**24.4**	**1,633.2**
Balance at 1 April 2016	**60.2**	**676.4**	**(68.6)**	**4.6**	**(1.4)**	**352.2**	**585.4**	**1,608.8**	**24.4**	**1,633.2**
Total comprehensive income for the year	–	–	50.7	–	–	356.2	29.9	436.8	3.8	440.6
Shares issued	0.2	2.5	–	–	–	–	–	2.7	–	2.7
Dividends paid/other	–	–	–	–	–	–	–	–	(7.4)	(7.4)
Movement in EBT and treasury shares	–	–	–	–	0.2	–	(1.6)	(1.4)	–	(1.4)
Share-based payments	–	–	–	–	–	–	8.2	8.2	–	8.2
Balance at 31 March 2017	**60.4**	**678.9**	**(17.9)**	**4.6**	**(1.2)**	**708.4**	**621.9**	**2,055.1**	**20.8**	**2,075.9**

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated cash flow statement
Year ended 31 March

	Note	2017 £m	2016 £m
Net cash from operating activities	30	**520.4**	409.5
Investing activities			
Interest received		**1.2**	1.4
Proceeds from disposal of property, plant and equipment		**43.0**	19.5
Purchases of property, plant and equipment		**(374.1)**	(393.6)
Purchases of software		**(30.2)**	(11.6)
Net cash used in investing activities		**(360.1)**	(384.3)
Financing activities			
Dividends paid to non-controlling shareholders		**(11.9)**	(10.0)
Shares purchased by Employee Benefit Trust		**(1.5)**	–
Shares issued		**2.1**	–
Repayment of senior unsecured loans		**(41.0)**	–
Repayment of loan notes		**(0.1)**	–
Repayments under HP contracts and finance leases		**(75.0)**	(80.3)
Fees for bank facility amendments		**(1.8)**	–
Net cash flow used in financing activities		**(129.2)**	(90.3)
Net increase/(decrease) in cash and cash equivalents before foreign exchange movements		**31.1**	(65.1)
Cash and cash equivalents at beginning of year		**360.1**	420.5
Foreign exchange movements		**9.7**	4.7
Cash and cash equivalents at end of year per consolidated balance sheet		**400.9**	360.1

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

	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents in year	**31.1**	(65.1)
Decrease in debt and finance leases	**116.1**	80.3
Net cash flow	**147.2**	15.2
Foreign exchange movements	**(26.5)**	(15.3)
Other non-cash movements	**(0.4)**	(2.8)
Movement in net debt in year	**120.3**	(2.9)
Net debt at beginning of year	**(1,410.2)**	(1,407.3)
Net debt at end of year	**(1,289.9)**	(1,410.2)

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 42.

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 directors' report and additional disclosures on pages 80 to 83. The principal accounting policies adopted are set out below.

The financial statements for the year ended 31 March 2017 include the results and financial position of the First Rail business for the year ended 31 March 2017 and the results and financial position of all the other businesses for the 52 weeks ended 25 March 2017. The financial statements for the year ended 31 March 2016 include the results and financial position of the First Rail businesses for the year ended 31 March 2016 and the results and financial position of all the other businesses for the 52 weeks ended 26 March 2016.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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.

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.

Revenue is recognised by reference to the stage of completion of the customers' travel or services provided under contractual arrangements as the proportion of total services to be provided. Receipts for season tickets and travel cards are deferred within 'Season ticket deferred income' and recognised in the income statement over the period covered by the relevant ticket.

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. 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.

First Bus revenue principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided. Greyhound coach revenue mainly comprises of amounts receivable from ticket sales. Other Bus, including First Student and First Transit, and services revenue from contracts with government bodies and similar organisations is recognised as the services are provided.

Interest income is recognised on an accruals basis.

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.

2 Significant accounting policies continued

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 directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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 or actual 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 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 relating to the business turnarounds, property disposals, aged legal and self-insurance claims, revisions to onerous contracts and pension settlement gains or losses. 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 provide 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, property disposals and restructuring and reorganisation costs relating to the business turnarounds. In the prior year the non-GAAP adjusting items principally related to other intangible asset amortisation charges, pension past service gain, aged self-insurance and legal claims and business disposals.

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 retirement benefit schemes are charged as an expense as they fall due. There is no legal or constructive obligation to pay additional contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

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.

2 Significant accounting policies continued

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 the present value of available refunds.

Various TOCs in the First Rail business participate in the Railways Pension Scheme, 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.

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 with in 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.

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 treated as deferred income 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.

2 Significant accounting policies continued

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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

The Group measures financial assets on initial recognition at fair value, and determines the classification of such assets at initial recognition and on any subsequent reclassification event.

Where there is no active market for a financial asset, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flows. Otherwise financial assets are carried at amortised cost.

Financial assets are classified into one of three primary categories:

Fair value through profit and loss

This covers any financial asset designated on initial recognition to be measured at fair value with fair value changes to go through the profit and loss, and financial assets acquired principally for the purpose of trading in the short term.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified here when the Group has the intention and ability to hold to maturity. These financial assets are held at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired as well as through amortisation.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

The most significant financial assets under this category are trade receivables and bank deposits.

Trade receivables are measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank deposits are included within cash and cash equivalents. Cash and cash equivalents as defined for the cash flow statement comprise cash in hand, cash held at bank with immediate access, other short term investments and bank deposits with maturities of three months or less from the date of inception and bank overdrafts. In the consolidated balance sheet cash and cash equivalents exclude bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities. All are carried on the balance sheet at cost. Cash and cash equivalents includes ring-fenced cash. 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 the train operating companies up to the lower of the amount of 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 contractual liquidity ratio at the balance sheet date.

2 Significant accounting policies continued

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 adopted.

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 interest rate risks, foreign currency risks and fuel price risks. Use of such financial instruments is governed by policies and delegated authorities approved by the Board. The Group does not use derivative financial instruments for speculative 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.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting as cash flow hedges or foreign currency hedges of a foreign net investment are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

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. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within accruals.

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.

2 Significant accounting policies continued

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations for annual periods beginning on or after the effective dates as noted below:

IAS/IFRS standards		Effective for accounting periods starting on or after
Amendments to IAS 12 (January 2016)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[1]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[1]
Amendments to IFRS 12 (December 2016)	Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying scope)	1 January 2017[1]
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2 (June 2016)	Classification and Measurement of Share-Based Payment transactions	1 January 2018[1]
Amendments to IFRS 4	Applying IFRS 9 with IFRS 4 Insurance Contracts	1 January 2018[1]
Amendments to IAS 28 (December 2016)	Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying certain fair value measurements)	1 January 2018[1]
IFRS 16	Leases	1 January 2019[1]
Amendments to IFRS 10 and IAS 28 (September 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Immediately

[1] The mandatory adoption under EU adopting regulations has not yet been confirmed.

The Directors do not anticipate the adoption of these other standards will have a material impact on the Group's accounts in the period of initial application other than the following:

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and will replace IAS 39 Financial Instruments. This standard covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities, together with the new hedge accounting model. IFRS 9 may impact the measurement and disclosure of the Group's financial instruments.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and will replace IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers, and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard provides for one of two methods of transition: retrospective application to each prior period or recognition of the cumulative effects of retrospective recognition of the new standard. We have not yet decided which transition method we will use. While we continue to assess the impacts of the standard, we do not expect adoption to have a significant impact on the Group's revenue recognition.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement, and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. As at 31 March 2017, the Group holds a significant number of operating leases, which currently, under IAS 17, are expensed on a straight line basis over the lease term. An initial assessment is being performed and it is anticipated that transition to IFRS 16 will have a material impact on both assets and liabilities of the Group and will reduce operating costs and increase finance costs. The Group will continue to monitor the impact until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for a number of new and revised Standards and Interpretations which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

2 Significant accounting policies continued

Critical accounting judgments 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.

In the process of applying the Group's accounting policies which are described above, management has made the following judgments and estimates that have the most significant effect on the amounts recognised in the financial statements.

i) Critical accounting judgments

Defined benefit pension arrangements

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 judgment 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 judgments. The carrying amount of the Group's retirement benefit obligations at 31 March 2017 was a liability of £358.5m (2016: £270.9m). Further details and sensitivities are set our in note 34.

ii) Key sources of estimation uncertainty

Impairment of intangible assets (including goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £1,956.1m (2016: £1,736.3m) as set out in note 11 and the carrying amount of other intangible assets at the balance sheet date was £150.6m (2016: £162.2m) as set out in note 12.

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 is adjusted as required. The self-insurance reserve is most sensitive to favourable or adverse developments on individual significant claims. The Group's total self-insurance provisions, including those classified within accruals, as at the balance sheet date were £391.0m (2016: £363.8m) as set out in note 26.

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.

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 judgments 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

	2017 £m	2016 £m
Services rendered	**5,653.3**	5,197.7
Rail franchise subsidy receipts	**–**	20.4
Revenue	**5,653.3**	5,218.1
Finance income	**1.2**	1.4
Total revenue as defined by IAS 18	**5,654.5**	5,219.5

4 Reconciliation to non-gaap measures and performance

In measuring the Group 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 relating to the business turnarounds, property disposals, aged legal and self-insurance claims, revisions to onerous contracts and pension settlement gains or losses. 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 provide a better understanding of the key performance indicators of the business.

Reconciliation of operating profit to adjusted operating profit	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Operating profit	**283.6**	246.3
Adjustments for:		
Other intangible asset amortisation charges	**60.2**	51.9
Gain on disposal of property	**(21.6)**	–
Restructuring and reorganisation costs	**16.8**	–
Legal claims	**–**	1.0
First Bus depot sales and closures	**–**	1.8
Pensions past service gain	**–**	(10.8)
North America insurance reserves	**–**	10.5
Total operating profit adjustments	**55.4**	54.4
Adjusted operating profit (note 5)	**339.0**	300.7

Reconciliation of profit before tax to adjusted profit before tax	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Profit before tax	**152.6**	113.5
Operating profit adjustments (see table above)	**55.4**	54.4
Ineffectiveness on financial derivatives	**(1.0)**	0.4
Adjusted profit before tax	**207.0**	168.3
Adjusted tax charge	**(53.8)**	(38.7)
Non-controlling interests	**(3.8)**	(6.1)
Adjusted earnings	**149.4**	123.5

The adjusting items are as follows:

Other intangible asset amortisation charges
The amortisation charge for the year was £60.2m (2016: £51.9m). The increase primarily reflects a higher charge in the North America divisions due to the impact of foreign exchange and an incremental £6.6m software intangible amortisation this year, partly offset by a lower charge in First Rail as the GWR franchise intangible was fully expensed at the end of its first Direct Award period.

Gain on disposal of property
During the year the sale of a Greyhound terminal in San Jose, California was completed which resulted in a gain on sale of £21.6m (2016: £nil).

Restructuring and reorganisation costs
There was a charge of £16.8m (2016: £nil) in the year for restructuring and reorganisation costs across the Group relating to the business turnarounds.

Ineffectiveness on financial derivatives
There was a £1.0m non-cash credit (2016: £0.4m charge) during the year due to ineffectiveness on financial derivatives.

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 2017 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,780.3	1,042.0	684.7	861.7	1,268.8	15.8	5,653.3
EBITDA[2]	348.7	91.9	79.4	104.5	98.8	(36.7)	686.6
Depreciation	(177.6)	(18.6)	(36.8)	(67.5)	(50.3)	(2.1)	(352.9)
Capital grant amortisation	–	–	–	–	5.3	–	5.3
Segment results[2]	171.1	73.3	42.6	37.0	53.8	(38.8)	339.0
Other intangible asset amortisation charges	(49.6)	(1.8)	(8.5)	–	(0.3)	–	(60.2)
Other adjustments (note 4)	(2.5)	(0.2)	19.6	(10.9)	–	(1.2)	4.8
Operating profit[3]	119.0	71.3	53.7	26.1	53.5	(40.0)	283.6
Investment income							1.2
Finance costs							(132.2)
Profit before tax							152.6
Tax							(36.5)
Profit after tax							116.1

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	165.9	17.8	31.7	63.9	75.4	2.9	357.6

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,918.4	(414.9)	2,503.5
First Transit	600.6	(161.1)	439.5
Greyhound	694.5	(363.7)	330.8
First Bus	769.5	(364.6)	404.9
First Rail	245.8	(482.8)	(237.0)
	5,228.8	(1,787.1)	3,441.7
Group items[1]	130.3	(183.0)	(52.7)
Net debt	400.9	(1,690.8)	(1,289.9)
Taxation	26.5	(49.7)	(23.2)
Total	5,786.5	(3,710.6)	2,075.9

[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 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.

5 Business segments and geographical information continued

The segment results for the year to 31 March 2016 are as follows:

	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Revenue	1,553.5	864.8	605.1	870.9	1,308.4	15.4	5,218.1
EBITDA[2]	266.4	74.7	69.7	113.4	122.4	(30.7)	615.9
Depreciation	(153.8)	(14.6)	(34.2)	(61.4)	(60.0)	(1.7)	(325.7)
Capital grant amortisation	–	–	–	–	10.5	–	10.5
Segment results[2]	112.6	60.1	35.5	52.0	72.9	(32.4)	300.7
Other intangible asset amortisation charges	(42.1)	(3.4)	(3.1)	–	(3.3)	–	(51.9)
Other adjustments (note 4)	(2.8)	(7.2)	(1.5)	(1.8)	–	10.8	(2.5)
Operating profit[3]	67.7	49.5	30.9	50.2	69.6	(21.6)	246.3
Investment income							1.4
Finance costs							(134.2)
Profit before tax							113.5
Tax							(17.1)
Profit after tax							96.4

Other information	First Student £m	First Transit £m	Greyhound £m	First Bus £m	First Rail £m	Group items[1] £m	Total £m
Capital additions	207.5	20.6	24.8	91.3	65.6	2.2	412.0

Balance sheet[4]	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,656.0	(421.9)	2,234.1
First Transit	501.6	(151.6)	350.0
Greyhound	632.9	(328.4)	304.5
First Bus	776.6	(296.5)	480.1
First Rail	212.1	(424.1)	(212.0)
	4,779.2	(1,622.5)	3,156.7
Group items[1]	135.4	(257.4)	(122.0)
Net debt	360.1	(1,770.3)	(1,410.2)
Taxation	62.7	(54.0)	8.7
Total	5,337.4	(3,704.2)	1,633.2

[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 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.

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	**2017 £m**	2016 £m
United Kingdom	**2,146.3**	2,194.7
United States of America	**3,092.6**	2,634.5
Canada	**414.4**	388.9
	5,653.3	5,218.1

5 Business segments and geographical information continued

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	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
United Kingdom	**803.1**	788.5	**142.4**	159.0	**1,505.6**	1,489.1
United States of America	**3,270.6**	2,939.8	**208.9**	242.3	**3,845.2**	3,383.1
Canada	**342.8**	337.8	**6.3**	10.7	**409.2**	402.5
Unallocated corporate items	**–**	–	**–**	–	**26.5**	62.7
	4,416.5	4,066.1	**357.6**	412.0	**5,786.5**	5,337.4

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2017 £m	2016 £m
Depreciation of property, plant and equipment (note 13)	**352.9**	325.7
Operating lease charges (note 32)	**300.9**	267.5
Other intangible asset amortisation charges (note 12)	**60.2**	51.9
Capital grant amortisation	**(5.3)**	(10.5)
Cost of inventories recognised as an expense	**571.6**	600.0
Employee costs (note 7)	**2,944.6**	2,667.5
Profit on disposal of property, plant and equipment	**(18.9)**	–
First Bus impairment charges	**4.5**	–
Auditor's remuneration (see below)	**2.0**	1.6
Rail franchise payments	**140.8**	105.8
Other operating costs[1]	**1,016.4**	962.3
	5,369.7	4,971.8

[1] Includes £66.1m (2016: £66.6m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

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:

	2017 £m	2016 £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	**1.7**	1.3
Total audit fees	**1.8**	1.4
Audit-related assurance services	**0.2**	0.2
Total non-audit fees	**0.2**	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 59 to 60. No services were provided pursuant to contingent fee arrangements.

7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2017 Number	2016 Number
Operational	**95,402**	102,287
Administration	**5,489**	6,337
	100,891	108,624

The aggregate remuneration (including Executive Directors) comprised:

	2017 £m	2016 £m
Wages and salaries	**2,587.2**	2,340.5
Social security costs	**286.1**	253.6
Other pension costs (note 34)	**71.3**	73.4
	2,944.6	2,667.5

Wages and salaries include a charge in respect of share-based payments of £8.2m (2016: £6.4m).

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 63 to 79 and form part of these audited financial statements.

8 Investment income and finance costs

	2017 £m	2016 £m
Investment income		
Bank interest receivable	**(1.2)**	(1.4)
Finance costs		
Bonds	**83.7**	84.2
Bank borrowings	**11.4**	13.0
Senior unsecured loan notes	**4.3**	4.3
Loan notes	**1.0**	1.0
Finance charges payable in respect of HP contracts and finance leases	**6.4**	8.9
Notional interest on long term provisions	**17.5**	14.8
Notional interest on pensions	**8.9**	7.6
Finance costs before adjustments	**133.2**	133.8
Hedge ineffectiveness on financial derivatives	**(1.0)**	0.4
Total finance costs	**132.2**	134.2

	2017 £m	2016 £m
Finance costs before adjustments	**133.2**	133.8
Investment income	**(1.2)**	(1.4)
Net finance cost before adjustments	**132.0**	132.4

Finance costs are stated after charging fee expenses of £2.5m (2016: £2.5m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2017 or 31 March 2016.

9 Tax on profit on ordinary activities

	2017 £m	2016 £m
Current tax	**9.5**	7.0
Adjustments with respect to prior years	**(13.8)**	14.1
Total current tax (credit)/charge	**(4.3)**	21.1
Origination and reversal of temporary differences	**50.4**	22.4
Adjustments with respect to prior years	**(9.6)**	(26.4)
Total deferred tax charge/(credit) (note 25)	**40.8**	(4.0)
Total tax charge	**36.5**	17.1

The adjustments with respect to prior years mainly comprises the release of tax provisions.

UK corporation tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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 for the year can be reconciled to the UK corporation tax rate as follows:

	2017 £m	2017 %	2016 £m	2016 %
Profit before tax	**152.6**	**100.0**	113.5	100.0
Tax at the UK corporation tax rate of 20% (2016: 20%)	**30.5**	**20.0**	22.7	20.0
Recurring items:				
Non deductible expenditure	**1.4**	**0.9**	2.2	1.9
Non taxable income	**(0.3)**	**(0.2)**	(0.2)	(0.2)
Tax rates outside of the UK	**26.0**	**17.0**	7.6	6.7
Unrecognised losses	**3.1**	**2.0**	3.8	3.4
Financing deductions	**(5.6)**	**(3.6)**	(6.3)	(5.5)
Non-recurring items:				
Unrecognised losses	**4.6**	**3.0**	–	–
Impact of reduction in UK tax rate	**0.2**	**0.1**	(1.1)	(1.0)
Reduction in tax provisions for uncertain tax positions relating to prior years	**(20.7)**	**(13.5)**	(10.6)	(9.3)
Other adjustments in relation to prior years	**(2.7)**	**(1.8)**	(1.0)	(0.9)
Tax charge and effective tax rate for the year	**36.5**	**23.9**	17.1	15.1

The Group recognises provisions in respect of tax for items which are considered to have a range of possible tax outcomes in its open tax returns and its ongoing tax audits in respect of multiple years. These uncertainties exist due to a number of factors including differing interpretations of local tax laws. The nature of the assumptions made by management when calculating the carrying amounts relate to the estimated tax which could be payable as a result of differing interpretations and decisions by tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. 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 comprises adjustments to both current tax and deferred tax. The current tax prior year adjustments primarily relates to the release of tax provisions resulting from the closure of tax audits during the year to 31 March 2017. The deferred tax prior year adjustments arise from the closure of earlier tax years as a result of the passage of time leading to a reduction in tax provisions and additional deferred tax assets. Should certain tax returns be closed as a result of the passage of time in the next financial year then the amount required to be provided in deferred tax could reduce by up to £5m.

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. At the balance sheet date changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted.

In addition to the amount (credited)/charged to the income statement, deferred tax relating to actuarial losses on defined benefit pension schemes £(7.3)m (2016: £(16.1)m) and cash flow and net investment hedges £19.0m (2016: £(0.6)m), amounting to a total charge/(credit) of £11.7m (2016: £(16.7)m) has been recognised in other comprehensive income.

10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £112.3m (Basic profit) (2016: £90.3m) by the weighted average number of ordinary shares of 1,204.8m (2016: 1,204.0m). 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.

	2017 Number m	2016 Number m
Weighted average number of shares used in basic calculation	**1,204.8**	1,204.0
Executive share options	**11.5**	8.0
Weighted average number of shares used in the diluted calculation	**1,216.3**	1,212.0

The adjusted EPS is intended to highlight the recurring operating results of the Group before amortisation charges, ineffectiveness on financial derivatives and certain other adjustments as set out in note 4. A reconciliation is set out below:

		2017		2016
	£m	**EPS (p)**	£m	EPS (p)
Basic profit/EPS	**112.3**	**9.3**	90.3	7.5
Amortisation charges (note 12)	**60.2**	**5.0**	51.9	4.4
Ineffectiveness on financial derivatives	**(1.0)**	**(0.1)**	0.4	–
Other adjustments (note 4)	**(4.8)**	**(0.4)**	2.5	0.2
Tax effect of above adjustments	**(17.3)**	**(1.4)**	(21.6)	(1.8)
Adjusted profit/EPS	**149.4**	**12.4**	123.5	10.3

Diluted EPS	**2017 pence**	2016 pence
Diluted EPS	**9.2**	7.5
Adjusted diluted EPS	**12.3**	10.2

11 Goodwill

	2017 £m	2016 £m
Cost		
At 1 April	**1,740.3**	1,663.2
Foreign exchange movements	**219.8**	77.1
At 31 March	**1,960.1**	1,740.3
Accumulated impairment losses		
At 1 April and 31 March	**4.0**	4.0
Carrying amount		
At 31 March	**1,956.1**	1,736.3

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:

	2017 £m	2016 £m
Carrying amount		
First Student	**1,271.1**	1,123.0
First Transit	**309.5**	273.2
Greyhound	**291.9**	257.6
First Bus	**78.0**	76.9
First Rail	**5.6**	5.6
	1,956.1	1,736.3

11 Goodwill continued

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 2017/18 and Three Year Plan projections up to 2019/20 (2016: Three Year Plan projections up to 2018/19) which take account of both past performance and expectations for future market developments. The projections for First Student assume the incremental benefits of the existing recovery plan, the programme to address contract portfolio pricing together with an economic recovery. Cash flows beyond the plan period are extrapolated using estimated growth rates of 2.5% (2016: 2.5%) for the United Kingdom and 3.0% (2016: 3.0%) 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 7.3% (2016: 8.1%) for the United Kingdom CGUs and 8.7% (2016: 8.9%) 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, Greyhound, First Bus and First Rail divisions.

The value in use of the First Student division exceeds its carrying amount by £709.2m (2016: £232.3m). The sensitivity analysis indicates that the First Student margin or growth rates would need to fall in excess of 218 or 184 basis points respectively compared to medium term double digit margin expectations for there to be an impairment to the carrying value of net assets in this business. An increase in the discount rate in excess of 161 basis points would lead to the value in use of the division being less than its carrying amount.

Following their review of goodwill the Directors have concluded that there is no impairment to any of the CGUs.

12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Software £m	Total £m
Cost					
At 1 April 2015	414.8	63.3	36.1	–	514.2
Additions	–	–	–	11.6	11.6
Cessation of franchise	–	–	(30.6)	–	(30.6)
Foreign exchange movements	19.0	2.7	–	–	21.7
At 31 March 2016	433.8	66.0	5.5	11.6	516.9
Additions	–	–	–	30.2	30.2
Cessation of franchise	–	–	(5.5)	–	(5.5)
Foreign exchange movements	57.2	8.7	–	1.1	67.0
At 31 March 2017	**491.0**	**74.7**	**–**	**42.9**	**608.6**
Amortisation					
At 1 April 2015	260.3	24.0	32.9	–	317.2
Charge for year	45.6	3.1	3.2	–	51.9
Cessation of franchise	–	–	(30.6)	–	(30.6)
Foreign exchange movements	15.0	1.2	–	–	16.2
At 31 March 2016	320.9	28.3	5.5	–	354.7
Charge for year	50.1	3.5	–	6.6	60.2
Cessation of franchise	–	–	(5.5)	–	(5.5)
Foreign exchange movements	44.5	3.9	–	0.2	48.6
At 31 March 2017	**415.5**	**35.7**	**–**	**6.8**	**458.0**
Carrying amount					
At 31 March 2017	**75.5**	**39.0**	**–**	**36.1**	**150.6**
At 31 March 2016	112.9	37.7	–	11.6	162.2

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.

The rail franchise agreements' intangible asset represents the part of the economic benefit that is realised as a result of recognising our share of the rail pension deficit on the date of commencement of each respective franchise and is amortised on a straight-line basis over the initial term of each respective franchise.

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 2015	497.1	2,978.2	842.4	4,317.7
Additions in the year	16.7	285.3	98.4	400.4
Disposals	(41.3)	(96.5)	(281.2)	(419.0)
Reclassified as held for sale	(1.8)	(100.4)	–	(102.2)
Foreign exchange movements	12.3	117.3	14.6	144.2
At 31 March 2016	483.0	3,183.9	674.2	4,341.1
Additions in the year	13.3	218.0	96.1	327.4
Disposals	(11.1)	(97.4)	(33.5)	(142.0)
Reclassified as held for sale	–	(148.0)	–	(148.0)
Foreign exchange movements	36.9	312.8	41.1	390.8
At 31 March 2017	**522.1**	**3,469.3**	**777.9**	**4,769.3**
Accumulated depreciation and impairment				
At 1 April 2015	104.2	1,510.7	675.7	2,290.6
Charge for year	9.3	225.8	90.6	325.7
Disposals	(33.7)	(87.2)	(274.9)	(395.8)
Reclassified as held for sale	(0.2)	(98.5)	–	(98.7)
Foreign exchange movements	2.6	64.0	10.5	77.1
At 31 March 2016	82.2	1,614.8	501.9	2,198.9
Charge for year	12.8	249.6	90.5	352.9
Disposals	(2.8)	(97.4)	(18.6)	(118.8)
Impairment[1]	–	4.5	–	4.5
Reclassified as held for sale	–	(147.6)	–	(147.6)
Foreign exchange movements	7.9	165.7	29.3	202.9
At 31 March 2017	**100.1**	**1,789.6**	**603.1**	**2,492.8**
Carrying amount				
At 31 March 2017	**422.0**	**1,679.7**	**174.8**	**2,276.5**
At 31 March 2016	400.8	1,569.1	172.3	2,142.2

[1] The impairment charge of £4.5m relates to a unique type of bus within the First Bus division which is no longer considered fit for purpose.

An amount of £0.2m (2016: £1.2m) in respect of assets under construction is included in the carrying amount of land and buildings, plant and equipment.

At 31 March 2017 the Group had entered into contractual capital commitments amounting to £128.8m (2016: £168.0m), principally representing buses ordered in the United Kingdom and North America and commitments under the Great Western Railway franchise.

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2017 £m	2016 £m
Passenger carrying vehicle fleet – cost	**456.9**	465.5
– depreciation	**(192.9)**	(188.2)
Net passenger carrying vehicle fleet	**264.0**	277.3
Other plant and equipment – cost	**0.6**	0.7
– depreciation	**(0.5)**	(0.5)
Net other plant and equipment	**0.1**	0.2
Total net book value	**264.1**	277.5

The title to the assets under HP contracts and finance leases is held by the lenders.

14 Investments

	2017 £m	2016 £m
US deferred compensation plan assets	**30.3**	22.4
Other investments	**3.0**	3.0
	33.3	25.4

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 36.

UK local bus and coach operators

First Aberdeen Limited[1]
First Beeline Buses Limited
First Bristol Limited
First Cymru Buses Limited
First Eastern Counties Buses Limited
First Essex Buses Limited
First Glasgow (No. 1) Limited[1]
First Glasgow (No. 2) Limited[1]
First Hampshire and Dorset Limited
First Manchester Limited
First Midland Red Buses Limited
First Potteries Limited
First Scotland East Limited[1]
First Somerset & Avon Limited
First South West Limited
First South Yorkshire Limited
First West Yorkshire Limited
First York Limited
Leicester CityBus Limited (94%)
Midland Bluebird Limited[1]

Rail companies

First Greater Western Limited
First TransPennine Express Limited
Hull Trains Company Limited

North American school bus operators

First Canada ULC[2]
First Student, Inc[3]

Transit contracting and fleet maintenance

First Transit, Inc[3]
First Vehicle Services, Inc[3]

North American coach operators

Americanos USA, Inc[3]
Greyhound Lines, Inc[3]
Greyhound Canada Transportation ULC[2]

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

	2017 £m	2016 £m
Spare parts and consumables	**64.5**	61.4

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	2017 £m	2016 £m
Trade receivables	**457.3**	381.2
Provision for doubtful receivables	**(4.2)**	(4.3)
Other receivables	**74.6**	72.7
Prepayments	**79.0**	88.2
Accrued income	**184.2**	156.6
	790.9	694.4

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 £790.9m (2016: £694.4m), cash and cash equivalents of £400.9m (2016: £360.1m) and derivative financial instruments of £50.3m (2016: £58.2m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,242.1m (2016: £1,112.7m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £62.0m (2016: £75.0m) 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 £4.2m (2016: £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 £75m, and limits the maximum term to three months.

An analysis of financial assets which are past due but not impaired and movements in the provision for doubtful receivables are set out below:

Aging past due but not impaired trade receivables	2017 £m	2016 £m
Less than 30 days	**23.0**	21.9
30 – 90 days	**11.9**	5.6
90 – 180 days	**4.1**	7.4
180+ days	**7.4**	4.0
Total	**46.4**	38.9

Movement in the provision for doubtful receivables	2017 £m	2016 £m
At 1 April	**4.3**	2.3
Amounts written off during the year	**(3.0)**	(1.9)
Amounts recovered during the year	**(0.7)**	(0.1)
Increase in allowance recognised in the income statement	**3.2**	3.8
Foreign exchange movements	**0.4**	0.2
At 31 March	**4.2**	4.3

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Assets held for sale

	2017 £m	2016 £m
Assets held for sale	**2.9**	3.5

The 2016 balance includes £1.8m in relation to a Greyhound property which was sold in April 2016. There are also 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 2016	3.5
Net book value of additions	9.4
Net book value of disposals	(10.3)
Foreign exchange movements	0.3
At 31 March 2017	**2.9**

19 Trade and other payables

Amounts falling due within one year	2017 £m	2016 £m
Trade payables	**255.6**	242.6
Other payables	**217.6**	239.6
Accruals	**607.3**	554.3
Deferred income	**49.7**	39.4
Season ticket deferred income	**25.1**	26.0
	1,155.3	1,101.9

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 32 days (2016: 34 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

	2017 £m	2016 £m
Cash and cash equivalents	**400.9**	360.1

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £259.8m (2016: £219.9m). 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 £4.0m (2016: £2.4m) are held outside the First Rail subsidiaries.

21 Borrowings

	2017 £m	2016 £m
On demand or within 1 year		
Finance leases (note 22)	**65.3**	73.9
Senior unsecured loan notes	**80.0**	35.4
Bond 8.125% (repayable 2018)[1]	**12.9**	12.9
Bond 6.125% (repayable 2019)[1]	**3.0**	3.0
Bond 8.75% (repayable 2021)[1]	**30.2**	30.2
Bond 5.25% (repayable 2022)[1]	**5.8**	5.8
Bond 6.875% (repayable 2024)[1]	**7.2**	7.2
Total current liabilities	**204.4**	168.4
Within 1 – 2 years		
Finance leases (note 22)	**53.5**	58.3
Loan notes (note 23)	**9.5**	9.7
Senior unsecured loan notes	**–**	70.5
Bond 8.125% (repayable 2018)	**298.8**	–
Bond 6.125% (repayable 2019)	**270.0**	–
	631.8	138.5
Within 2 – 5 years		
Finance leases (note 22)	**64.8**	106.1
Bond 8.125% (repayable 2018)	**–**	298.3
Bond 6.125% (repayable 2019)	**–**	279.0
Bond 8.75% (repayable 2021)	**369.0**	–
	433.8	683.4
Over 5 years		
Finance leases (note 22)	**0.1**	–
Bond 8.75% (repayable 2021)	**–**	370.1
Bond 5.25% (repayable 2022)	**321.1**	320.5
Bond 6.875% (repayable 2024)	**199.6**	199.6
	520.8	890.2
Total non-current liabilities at amortised cost	**1,586.4**	1,712.1

Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2017 Fair value £m	2016 Fair value £m
Bond 8.125% (repayable 2018)	300.0	Annually	September	**342.6**	352.3
Bond 6.125% (repayable 2019)	250.0	Annually	January	**274.1**	275.9
Bond 8.75% (repayable 2021)	350.0	Annually	April	**474.1**	464.0
Bond 5.25% (repayable 2022)	325.0	Annually	November	**384.9**	363.5
Bond 6.875% (repayable 2024)	200.0	Annually	September	**266.4**	248.4
	$m			**£m**	£m
Senior unsecured loan notes	100.0 (2016: $150m)	Semi-annually	April & October	**82.0**	110.4

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.

[1] Relates to accrued interest.

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21 Borrowings continued

Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2017	2016
Bank overdraft	**LIBOR + 1%**	LIBOR + 1%
Bank borrowings	**LIBOR + 0.6%**	LIBOR + 0.7%
Bond 2018	**8.32%**	8.32%
Bond 2019[1]	**6.18%**	6.18%
Bond 2021[1]	**8.87%**	8.87%
Bond 2022	**5.49%**	5.49%
Bond 2024	**6.95%**	6.95%
Senior unsecured loan notes	**4.39%**	4.39%
HP contracts and finance leases	**LIBOR + 0.6% up to average fixed rate of 4.2%**	LIBOR + 0.6% up to average fixed rate of 4.2%
Loan notes	**LIBOR + 1.0% up to total fixed rate of 11.0%**	LIBOR + 1.0% up to total fixed rate of 11.0%

[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	2017 £m	2016 £m
Sterling	**1,541.5**	1,563.5
US Dollar	**239.2**	305.9
Canadian Dollar	**10.1**	11.2
	1,790.8	1,880.6

Borrowing facilities

The Group had £800.0m (2016: £800.0m) of undrawn committed borrowing facilities as at year end. Total bank borrowing facilities at year end stood at £816.4m (2016: £815.7m) of which £800.0m (2016: £800.0m) was committed and £16.4m (2016: £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 1.9 times as at March 2017 (2016: 2.3 times).

Liquidity within the Group has remained strong. At year end there was £941.1m (2016: £940.2m) 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 2017, was £1,289.9m (2016: £1,410.2m) as set out on page 27 of the Financial review.

22 HP contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	2017 Minimum payments £m	2017 Present value of payments £m	2016 Minimum payments £m	2016 Present value of payments £m
Due in less than one year	**66.9**	**65.3**	75.9	73.9
Due in more than one year but not more than two years	**56.4**	**53.5**	61.5	58.3
Due in more than two years but not more than five years	**70.2**	**64.8**	116.8	106.1
Due in more than five years	**0.1**	**0.1**	–	–
	193.6	**183.7**	254.2	238.3
Less future financing charges	**(9.9)**	**–**	(15.9)	–
	183.7	**183.7**	238.3	238.3

HP lease obligations

Sterling denominated fixed rate leases	2017	2016
Sterling fixed rate leases	**£11.1m**	£8.8m
Average remaining lives	**2 years**	2 years
Effective borrowing rate	**2.96%**	3.60%

US Dollar denominated fixed rate leases	2017	2016
US Dollar fixed rate leases	**£159.2m**	£200.0m
Average remaining lives	**2 years**	2 years
Effective borrowing rate	**2.57%**	2.80%

Canadian Dollar denominated fixed rate leases	2017	2016
Canadian Dollar fixed rate leases	**£10.1m**	£11.2m
Average remaining lives	**2 years**	2 years
Effective borrowing rate	**4.13%**	4.13%

The Group considers there to be no material difference between the fair values of the Sterling and Canadian Dollar finance leases and the carrying amount in the balance sheet. The US Dollar finance leases have a fair value of £156.8m (2016: £203.2m). 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:

	2017 £m	2016 £m
Due in more than one year but not more than two years	**9.5**	9.7

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 (2016: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2016: 10.1%) and an average remaining term of 4 years (2016: 4 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £12.3m (2016: £12.9m). This has been calculated by discounting future cash flows that will arise under the loan notes.

24 Derivative financial instruments

	2017 £m	2016 £m
Total derivatives		
Total non-current assets	**48.6**	41.5
Total current assets	**1.7**	16.7
Total assets	**50.3**	58.2
Total current liabilities	**29.5**	68.1
Total non-current liabilities	**8.6**	35.5
Total liabilities	**38.1**	103.6
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**48.6**	41.3
Fuel derivatives (cash flow hedge)	**–**	0.2
	48.6	41.5
Current assets		
Coupon swaps (fair value hedge)	**–**	16.4
Fuel derivatives (cash flow hedge)	**0.6**	0.3
Currency forwards (cash flow hedge)	**0.7**	–
	1.3	16.7
Current liabilities		
Fuel derivatives (cash flow hedge)	**29.4**	66.9
Currency forwards (cash flow hedge)	**0.1**	–
	29.5	66.9
Non-current liabilities		
Fuel derivatives (cash flow hedge)	**8.6**	35.5
	8.6	35.5
Derivatives classified as held for trading		
Current assets		
Currency forwards	**0.4**	–
Current liabilities		
Interest rate swaps	**–**	1.2

Total cash flow hedges are a liability of £36.8m (2016: £101.9m liability). Total fair value hedges are an asset of £48.6m (2016: £57.7m).

During the year £13.3m was credited to the hedging reserve in respect of cash flow hedges (2016: £106.6m charge[1]).

The following losses transferred from equity into profit or loss during the year are included in line items in the consolidated income statement:

	2017 £m	2016 £m
Operating losses[1]	**(56.4)**	(92.9)

[1] Prior year amount updated to reflect more accurate valuation which is consistent with current year methodology. No overall impact on prior year hedging reserve.

24 Derivative financial instruments continued

Fair value of the Group's financial assets and financial liabilities (including cash, trade and other receivables, trade and other payables) that are measured at fair value on a recurring basis:

					2017
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets					
Cash and cash equivalents	**400.9**	**–**	**–**	**400.9**	**400.9**
Trade and other receivables	**–**	**527.7**	**–**	**527.7**	**527.7**
Derivative financial instruments	**–**	**50.3**	**–**	**50.3**	**50.3**
Financial liabilities and derivatives					
Borrowings	**–**	**1,958.7**	**–**	**1,958.7**	**1,790.8**
Trade and other payables	**–**	**1,155.3**	**–**	**1,155.3**	**1,155.3**
Derivative financial instruments	**–**	**38.1**	**–**	**38.1**	**38.1**

					2016
				Fair value	Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Financial assets					
Cash and cash equivalents	360.1	–	–	360.1	360.1
Trade and other receivables	–	449.6	–	449.6	449.6
Derivative financial instruments	–	58.2	–	58.2	58.2
Financial liabilities and derivatives					
Borrowings	–	2,068.9	–	2,068.9	1,880.6
Trade and other payables	–	1,101.9	–	1,101.9	1,101.9
Derivative financial instruments	–	103.6	–	103.6	103.6

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 2017 £m**	Fair values at 31 March 2016 £m	Fair value hierarchy	Valuation technique(s) and key inputs
Derivative contracts				
1) Interest rate swaps	**48.6**	56.5	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	**(37.4)**	(101.9)	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	**1.0**	–	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	**527.7**	449.6	Level 2	Carried at amortised cost using the effective interest rate method.
5) Trade and other payables	**1,155.3**	1,101.9	Level 2	Initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.
6) Borrowings	**1,958.7**	2,068.9	Level 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 Derivative financial instruments continued

The following gains and losses on derivatives designated for hedge accounting have been charged through the consolidated income statement in the year:

	2017 £m	2016 £m
Losses on hedging instruments in fair value hedges	(9.5)	(4.1)
Gains on hedged item attributable to hedged risk fair value hedges	10.2	3.8
Change in the fair value of derivatives classified as held for trading	0.3	–
	1.0	(0.3)

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 (2016: £800.0m), and committed headroom was £800.0m (2016: £800.0m), in addition to free cash balances of £141.1m (2016: £140.2m). The next material contractual expiry of revolver bank facilities is in July 2021. 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 2017 was 3.6 years (2016: 4.4 years).

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments and trade and other payables. The amounts in these tables are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

2017	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	–	–	–	–	–
Coupon swaps	–	(30.6)	(38.7)	–	(69.3)
Coupon swaps	–	9.4	10.4	–	19.8
Fuel derivatives	28.8	7.8	0.8	–	37.4
Currency forwards	(1.0)	–	–	–	(1.0)
Trade and other payables	1,155.3	–	–	–	1,155.3
	1,183.1	(13.4)	(27.5)	–	1,142.2

2016	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	1.2	–	–	–	1.2
Coupon swaps	(23.1)	(23.1)	(38.5)	(7.7)	(92.4)
Coupon swaps	6.6	7.1	17.7	1.1	32.5
Fuel derivatives	66.6	27.7	7.6	–	101.9
Trade and other payables	1,101.9	–	–	–	1,101.9
	1,153.2	11.7	(13.2)	(6.6)	1,145.1

Total amounts payable per the tables are £1,212.5m (2016: £1,237.5m). Total amounts receivable per the tables are £70.3m (2016: £92.4m).

No derivative financial instruments had collateral requirements or were due on demand in any of the years.

24 Derivative financial instruments continued

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 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.

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 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 Sterling strengthens against the US Dollar.

	2017 £m	2016 £m
Impact on profit after tax	4.8	9.9
Impact on hedging reserve	2.2	6.8

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 2017, 84% (2016: 82%) of net debt was fixed. This fixed rate protection had an average duration of 3.7 years (2016: 4.6 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 £250.0m 2019 and 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.

	2017 £m	2016 £m
Impact on profit after tax	(1.9)	(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	2017 %	2016 %	2017 £m	2016 £m	2017 £m	2016 £m
One to two years	6.13	–	250	–	20.1	–
Two to five years	2.21	3.84	350	600	20.4	50.0

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24 Derivative financial instruments continued

Fuel price risk

The Group purchases diesel fuel on a floating price basis in its First Bus, First Rail, US and Canadian bus operations and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group's policy objective is to maintain a significant degree of fixed price protection in the short term with lower levels of protection over 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. The Group primarily uses fixed rate swap instruments to achieve significant fixed price certainty. During the year to 31 March 2017, the Group was hedged 81% on fuel price risk.

The Group has also entered into swaps for periods from April 2017 to March 2020 with the majority of these swaps relating to the year to 31 March 2018. 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 to the income statement 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 crude oil had been $10 per barrel higher at the year end:

	2017 £m	2016 £m
Impact on profit after tax	**(3.2)**	(2.5)
Impact on hedging reserve	**23.7**	27.3

Volume at risk for the year to 31 March 2018 is 3.2m (year to 31 March 2017: 3.2m) barrels for which 75% 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 2015	162.7	(67.4)	80.6	(195.7)	(19.8)
(Credit)/charge to income statement	4.7	8.1	(10.7)	(6.1)	(4.0)
Credit to other comprehensive income	–	(16.1)	(0.6)	–	(16.7)
Foreign exchange and other movements	6.8	(2.9)	1.4	(10.5)	(5.2)
At 31 March 2016	174.2	(78.3)	70.7	(212.3)	(45.7)
Charge/(credit) to income statement	22.6	8.5	(19.2)	28.9	40.8
Charge/(credit) to other comprehensive income	–	(7.3)	19.0	–	11.7
Foreign exchange and other movements	21.2	(8.8)	11.7	(32.4)	(8.3)
At 31 March 2017	**218.0**	**(85.9)**	**82.2**	**(215.8)**	**(1.5)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax assets	**(25.8)**	(62.7)
Deferred tax liabilities	**24.3**	17.0
	(1.5)	(45.7)

No deferred tax has been recognised on deductible temporary differences of £62.1m (2016: £51.3m) and tax losses of £141.1m (2016: £113.3m). The earliest period in which some of the assets will expire is year ended 31 March 2027.

No deferred tax asset has been recognised in respect of £2.4m (2016: £2.3m) of capital losses.

26 Provisions

	2017 £m	2016 £m
Insurance claims	**236.1**	219.9
Legal and other	**45.7**	39.6
Pensions	**2.4**	2.8
Non-current liabilities	**284.2**	262.3

	Insurance claims £m	Legal and other £m	Pensions £m	Total £m
At 1 April 2016	363.8	44.0	2.8	410.6
Charged to the income statement	162.5	13.4	–	175.9
Transfer from accruals	–	7.5	–	7.5
Utilised in the year	(194.3)	(7.9)	(0.4)	(202.6)
Notional interest	17.5	–	–	17.5
Foreign exchange movements	41.5	3.4	–	44.9
At 31 March 2017	**391.0**	**60.4**	**2.4**	**453.8**
Current liabilities	**154.9**	**14.7**	**–**	**169.6**
Non-current liabilities	**236.1**	**45.7**	**2.4**	**284.2**
At 31 March 2017	**391.0**	**60.4**	**2.4**	**453.8**
Current liabilities	143.9	4.4	–	148.3
Non-current liabilities	219.9	39.6	2.8	262.3
At 31 March 2016	363.8	44.0	2.8	410.6

The current liabilities above are included within accruals in note 19.

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 six years although certain liabilities in respect of lifetime obligations of £21.7m (2016: £20.3m) can extend for up to 30 years. The utilisation of £194.3m (2016: £153.6m) represents payments made largely against the current liability of the preceding year.

Amounts charged to the income statement for insurance claims contains £27.7m 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 and other provisions in respect of contractual obligations under rail franchises. The dilapidation provisions are expected to be settled at the end of the respective franchise.

The pension's provision relates to unfunded obligations that arose on the acquisition of certain First Bus companies. It is anticipated that this will be utilised over five to 10 years.

27 Called up share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
1,207.7m (2016: 1,204.9m) ordinary shares of 5p each	**60.4**	60.2

The Company has one class of ordinary shares which carries no right to fixed income.

During the year 2.8m 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:

	2017 £m	2016 £m
Balance at 1 April	**(68.6)**	(55.5)
Gains/(losses) recognised:		
Fuel derivatives[1]	**12.7**	(106.6)
Currency forwards	**0.6**	–
Charged/(credited) to income statement:		
Fuel derivatives[1]	**56.4**	92.9
Tax on derivative hedging instrument movements	**(19.0)**	0.6
Balance at 31 March	**(17.9)**	(68.6)

[1] Prior year amount updated to reflect more accurate valuation which is consistent with current year methodology. No overall impact on prior year hedging reserve.

Own shares

The number of own shares held by the Group at the end of the year was 437,005 (2016: 669,374) FirstGroup plc ordinary shares of 5p each. Of these, 247,256 (2016: 479,625) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2016: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2016: 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 2017 was £0.6m (2016: £0.6m).

Other reserves	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2017 and 31 March 2016	**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 2017. 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.

29 Translation reserve

	£m
At 1 April 2016	352.2
Movement for the financial year	356.2
At 31 March 2017	**708.4**

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.

30 Net cash from operating activities

	2017 £m	2016 £m
Operating profit	**283.6**	246.3
Adjustments for:		
Depreciation charges	**352.9**	325.7
Capital grant amortisation	**(5.3)**	(10.5)
Amortisation charges	**60.2**	51.9
Impairment charges	**4.5**	–
Share-based payments	**8.2**	6.4
Profit on disposal of property, plant and equipment	**(18.9)**	–
Operating cash flows before working capital and pensions	**685.2**	619.8
Decrease in inventories	**1.3**	10.0
(Increase)/decrease in receivables	**(36.7)**	29.3
Increase/(decrease) in payables	**56.3**	(73.6)
Decrease in provisions	**(30.6)**	(18.6)
Defined benefit pension payments in excess of income statement charge	**(37.6)**	(33.6)
Cash generated by operations	**637.9**	533.3
Tax paid	**(10.2)**	(7.0)
Interest paid	**(100.9)**	(107.9)
Interest element of HP contracts and finance leases	**(6.4)**	(8.9)
Net cash from operating activities	**520.4**	409.5

31 Contingent liabilities

Various investigations into the Croydon tram incident are currently being undertaken and it is uncertain when they will be concluded. The tram was operated by Tram Operations Limited (TOL), a subsidiary of the Group, 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. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

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 £710.4m (2016: £505.4m) and letters of credit for £369.0m (2016: £310.4m). The performance bonds relate to the North American businesses of £570.1m (2016: £462.2m) and the First Rail franchise operations of £140.3m (2016: £43.2m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

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.

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.

In its normal course of business First Rail has ongoing contractual negotiations with government and other organisations.

32 Operating lease arrangements

	2017 £m	2016 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:		
Plant and machinery	**22.0**	21.0
Track and station access	**110.1**	103.8
Hire of rolling stock	**89.8**	80.8
Other assets	**79.0**	61.9
	300.9	267.5

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:

	2017 £m	2016 £m
Within one year	**405.1**	278.2
In the second to fifth years inclusive	**995.6**	1,043.9
After five years	**70.4**	164.7
	1,471.1	1,486.8

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 £348.5m (2016: £343.8m). They also have contracts under which they lease rolling stock of £845.4m (2016: £848.8m).

33 Share-based payments

Equity-settled share option plans

The Group recognised total expenses of £8.2m (2016: £6.4m) 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 2012 Options Number	SAYE Dec 2013 Options Number	SAYE Dec 2014 Options Number	SAYE Dec 2015 Options Number	SAYE Dec 2016 Options Number
Outstanding at the beginning of the year	1,503,645	4,451,357	6,462,838	7,571,005	–
Awarded during the year	–	–	–	–	7,741,832
Exercised during the year	(705)	(2,198,762)	(24,884)	(8,079)	(92)
Lapsed during the year	(1,502,940)	(477,941)	(766,614)	(853,245)	(146,220)
Outstanding at the end of the year	–	1,774,654	5,671,340	6,709,681	7,595,520
Exercisable at the end of the year	–	1,774,654	–	–	–
Weighted average exercise price (pence)	117.3	94.1	97.0	85.0	86.0
Weighted average share price at date of exercise (pence)	108.0	112.3	109.9	112.0	124.9

(b) Deferred bonus shares (DBS)

	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number
Outstanding at the beginning of the year	23,958	119,578	58,558	42,234	98,658
Granted during the year	–	–	–	–	–
Forfeited during the year	(1,387)	–	–	–	–
Exercised during the year	(22,571)	(100,747)	(11,797)	(11,125)	(35,508)
Outstanding at the end of the year	–	18,831	46,761	31,109	63,150
Exercisable at the end of the year	–	18,831	46,761	31,109	63,150
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	98.8	118.6	112.3	107.5	104.2

33 Share-based payments continued

	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number	DBS 2015 Options Number	DBS 2016 Options Number
Outstanding at the beginning of the year	167,451	295,426	1,860,482	2,110,524	3,266,820	–
Granted during the year	–	–	–	–	–	1,611,644
Forfeited during the year	–	–	–	(96,919)	(196,906)	(25,296)
Exercised during the year	(49,616)	(130,454)	(1,152,151)	(52,915)	(566,299)	–
Outstanding at the end of the year	117,835	164,972	708,331	1,960,690	2,503,615	1,586,348
Exercisable at the end of the year	117,835	164,972	708,331	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	105.5	106.7	105.1	105.0	100.8	N/A

(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 2017 there were 4,275 (2016: 5,658) participants in the BAYE scheme who have cumulatively purchased 16,702,455 (2016: 14,438,419) shares with the Company contributing 5,535,678 (2016: 4,783,319) matching shares on a cumulative basis.

(d) Long Term Incentive Plan (LTIP)

	LTIP 2013 Options Number	LTIP 2014 Options Number	LTIP 2015 Options Number	LTIP 2016 Options Number
Outstanding at the beginning of the year	10,747,384	9,830,902	3,458,103	–
Granted during the year	–	–	–	3,584,210
Forfeited during the year	–	(685,527)	(90,197)	–
Lapsed during the year	(10,747,384)	–	–	–
Outstanding at the end of the year	–	9,145,375	3,367,906	3,584,210
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

(e) Divisional Incentive Plan (DIP)

	DIP 2015 Options Number
Outstanding at the beginning of the year	8,540,850
Granted during the year	–
Forfeited during the year	(759,602)
Exercised during the year	–
Outstanding at the end of the year	7,781,248
Exercisable at the end of the year	–
Weighted average exercise price (pence)	Nil
Weighted average share price at date of exercise (pence)	–

(f) Executive Share Plan (ESP)

	ESP 2015 Options Number	ESP 2016 Options Number
Outstanding at the beginning of the year	1,446,677	–
Granted during the year	–	1,838,431
Forfeited during the year	(136,210)	(91,661)
Exercised during the year	(299,350)	–
Outstanding at the end of the year	1,011,117	1,746,770
Exercisable at the end of the year	184,050	–
Weighted average exercise price (pence)	Nil	Nil
Weighted average share price at date of exercise (pence)	104.5	N/A

33 Share-based payments continued

The fair values of the options granted during the last two years were measured using a Black-Scholes or other appropriate valuation models. The inputs into the models were as follows:

	2017	2016
Weighted average share price at grant date (pence)		
– DBS	92.6	123.1/105.1
– SAYE December 2015	–	103.1
– SAYE December 2016	107.6	–
– LTIP	92.6	105.1
– ESP	92.6	105.1
Weighted average exercise price at grant date (pence)		
– DBS	–	–
– SAYE December 2015	–	85.0
– SAYE December 2016	86.1	–
– LTIP	–	–
– ESP	–	–
Expected volatility (%)		
– DBS	N/A	N/A
– SAYE December 2015	–	35
– SAYE December 2016	35	–
– LTIP	37	35
– ESP	N/A	N/A
Expected life (years)		
– DBS	2.75	2.8/2.3
– SAYE schemes	3	3
– LTIP	2.75	2.3
– ESP	3.0	2.5
Rate of interest (%)		
– DBS	N/A	N/A
– SAYE December 2015	–	0.8
– SAYE December 2016	0.3	–
– LTIP	–	–
– ESP	–	–
Expected dividend yield (%)		
– DBS	–	–
– SAYE December 2015	–	–
– SAYE December 2016	–	–
– LTIP	–	–
– EPS	–	–

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.

	2017 pence	2016 pence
Weighted average fair value of options at grant date		
– DBS	92.6	123.1/105.1
– SAYE December 2015	–	34.0
– SAYE December 2016	36.0	–
– LTIP	80.6	86.9
– EPS	92.6	105.1

34 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 legal or constructive obligation to pay additional contributions into a defined contribution plan if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

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 or Western 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.

The total expense recognised in the consolidated income statement of £23.0m (2016: £18.2m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors 12 funded defined benefit plans across its non-rail operations, covering approximately 50,000 former and current employees.

UK

The majority of defined benefit provision is through trust-based schemes. These arrangements are closed to new entrants.

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 Company 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 Company 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.

In most arrangements, any surplus after benefits have been paid/secured, can be repaid to the employer.

The First UK 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 funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme will close to defined benefit accrual on 5 April 2018.

A smaller Group scheme provides defined benefit pensions to Group employees. This scheme is closed to new entrants and the Company intends to close to defined benefit accrual on 5 April 2018.

Local Government Pension Schemes

The Group participates in five Local Government Pension Schemes (LGPS), three 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. Typically, the Group has less control over the investment strategy adopted by the LGPS compared to the trust-based schemes.

Contribution rates are agreed for the three-year period until the next valuation. The Group only recognises existing surpluses relating to the LGPS when determining the balance sheet position, to the extent that these surpluses could be recouped by the reduction of future company contributions.

34 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 now 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 74.4% and 105.4% (2016: 76.2% and 105.4%). The market value of the assets at 31 March 2017 for all non-rail operation defined benefit schemes totalled £3,123m (2016: £2,737m).

Rail

The Railways Pension Scheme (RPS)

The Group currently sponsors four sections of the RPS, relating to its franchising obligations for its TOCs, and 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. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period.

Since the contributions being paid to each TOC section are lower than the share of the service cost that would normally be calculated under IAS19, the Group does not make any contribution towards the sections' 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.

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 2017 %	**First Rail 2017 %**	**North America 2017 %**	First Bus 2016 %	First Rail 2016 %	North America 2016 %
Key assumptions used:						
Discount rate	**2.80**	**2.80**	**3.65**	3.70	3.70	3.60
Expected rate of salary increases	**2.00**	**3.35**	**2.50**	1.75	3.10	2.50
Inflation – CPI	**2.00**	**2.00**	**2.00**	1.75	1.75	2.00
Future pension increases	**2.00**	**2.00**	**–**	1.75	1.75	–

A 0.1% movement in the discount rate would impact 2017/18 operating profit and the balance sheet position by approximately £1m and £38m respectively. A 0.1% movement in the inflation rate would impact 2017/18 operating profit and the balance sheet position by approximately £1m and £32m respectively.

34 Retirement benefit schemes continued

(a) Income statement

Amounts (charged)/credited to the income statement in respect of these defined benefit schemes are as follows:

Year to 31 March 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	**(16.7)**	**(9.9)**	**(26.6)**	**(37.1)**	**(63.7)**
Impact of franchise adjustment on operating cost	**–**	**–**	**–**	**11.3**	**11.3**
Past service gain on TOC schemes	**–**	**–**	**–**	**4.1**	**4.1**
Net interest cost	**(1.1)**	**(7.7)**	**(8.8)**	**(5.8)**	**(14.6)**
Impact of franchise adjustment on net interest cost	**–**	**–**	**–**	**5.8**	**5.8**
	(17.8)	**(17.6)**	**(35.4)**	**(21.7)**	**(57.1)**

Year to 31 March 2016	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Current service cost	(20.2)	(7.6)	(27.8)	(46.0)	(73.8)
Impact of franchise adjustment on operating cost	–	–	–	(10.2)	(10.2)
Past service gain on TOC schemes	–	–	–	28.8	28.8
Past service gain on Group scheme (note 4)	10.8	–	10.8	–	10.8
Net interest cost	(1.4)	(6.1)	(7.5)	(8.8)	(16.3)
Impact of franchise adjustment on net interest cost	–	–	–	8.7	8.7
	(10.8)	(13.7)	(24.5)	(27.5)	(52.0)

Net interest comprises:

	2017 £m	2016 £m
Interest cost (table (c))	**(130.1)**	(127.7)
Interest income on assets (table (d))	**120.3**	114.2
Interest on irrecoverable surplus (table (i))	**(4.8)**	(2.8)
	(14.6)	(16.3)

During the year £11.5m (2016: £9.7m) of administrative expenses were incurred.

Actuarial gains and losses have been reported in the consolidated statement of comprehensive income.

The actual return on scheme assets was:

	2017 £m	2016 £m
First Bus	**413.2**	(6.9)
First Rail	**146.0**	73.3
North America	**106.0**	(4.1)
	665.2	62.3

Reconciliation of the actual return on scheme assets:

	2017 £m	2016 £m
Interest income on assets	**120.3**	114.2
Employee share of return on assets (First Rail)	**58.4**	29.7
Actuarial gain/(loss) on assets	**428.0**	(93.5)
Currency gain	**58.5**	11.9
Actual return on scheme assets	**665.2**	62.3

34 Retirement benefit schemes continued

(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:

At 31 March 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,614.5	508.7	3,123.2	1,018.0	4,141.2
Present value of defined benefit obligations	(2,586.6)	(725.4)	(3,312.0)	(1,519.9)	(4,831.9)
(Deficit)/surplus before adjustments	27.9	(216.7)	(188.8)	(501.9)	(690.7)
Adjustment for irrecoverable surplus[1] (table (i))	(167.7)	–	(167.7)	–	(167.7)
First Rail franchise adjustment (table (e)) (60%)	–	–	–	299.1	299.1
Adjustment for employee share of RPS deficits (40%)	–	–	–	200.8	200.8
Deficit in schemes	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)
Liability recognised in the balance sheet	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	34.0	–	34.0	–	34.0
Non-current liabilities	(173.8)	(216.7)	(390.5)	(2.0)	(392.5)
	(139.8)	(216.7)	(356.5)	(2.0)	(358.5)

At 31 March 2016	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Fair value of schemes' assets	2,281.3	455.4	2,736.7	875.5	3,612.2
Present value of defined benefit obligations	(2,208.9)	(667.9)	(2,876.8)	(1,168.5)	(4,045.3)
(Deficit)/surplus before adjustments	72.4	(212.5)	(140.1)	(293.0)	(433.1)
Adjustment for irrecoverable surplus[1] (table (i))	(129.9)	–	(129.9)	–	(129.9)
First Rail franchise adjustment (table (e)) (60%)	–	–	–	174.9	174.9
Adjustment for employee share of RPS deficits (40%)	–	–	–	117.2	117.2
Deficit in schemes	(57.5)	(212.5)	(270.0)	(0.9)	(270.9)
Liability recognised in the balance sheet	(57.5)	(212.5)	(270.0)	(0.9)	(270.9)
The amount is presented in the consolidated balance sheet as follows:					
Non-current assets	31.0	–	31.0	–	31.0
Non-current liabilities	(88.5)	(212.5)	(301.0)	(0.9)	(301.9)
	(57.5)	(212.5)	270.0	(0.9)	(270.9)

[1] The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

(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 2016	2,208.9	667.9	2,876.8	1,168.5	4,045.3
Current service cost	12.7	3.4	16.1	36.1	52.2
Past service costs and curtailments	–	–	–	(0.3)	(0.3)
Effect of settlements	–	–	–	(10.9)	(10.9)
Interest cost	79.9	24.9	104.8	25.3	130.1
Employee share of change in DBO (not attributable to franchise adjustment)	13.3	1.3	14.6	33.5	48.1
Experience loss/(gain) on DBO	(43.3)	2.7	(40.6)	(21.0)	(61.6)
(Gain)/loss on change of assumptions (demographic)	1.9	(4.3)	(2.4)	–	(2.4)
Loss on change of assumptions (financial)	452.6	5.7	458.3	316.0	774.3
Benefit payments	(139.4)	(61.3)	(200.7)	(27.3)	(228.0)
Currency loss	–	85.1	85.1	–	85.1
At 31 March 2017	2,586.6	725.4	3,312.0	1,519.9	4,831.9

34 Retirement benefit schemes continued

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2015	2,302.3	698.7	3,001.0	1,904.3	4,905.3
Cessation of franchise (First ScotRail)	–	–	–	(724.2)	(724.2)
Current service cost	16.2	4.3	20.5	44.9	65.4
Past service costs and curtailments	(10.8)	–	(10.8)	(28.8)	(39.6)
Effect of settlements	–	(16.5)	(16.5)	–	(16.5)
Interest cost	79.6	22.8	102.4	25.3	127.7
Employee share of change in DBO (not attributable to franchise adjustment)	13.7	1.1	14.8	46.8	61.6
Experience loss/(gain) on DBO	11.8	(1.5)	10.3	(5.6)	4.7
Loss on change of assumptions (demographic)	–	5.8	5.8	–	5.8
Gain on change of assumptions (financial)	(111.7)	(12.1)	(123.8)	(72.3)	(196.1)
Benefit payments	(92.2)	(55.7)	(147.9)	(21.9)	(169.8)
Currency loss	–	21.0	21.0	–	21.0
At 31 March 2016	2,208.9	667.9	2,876.8	1,168.5	4,045.3

(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 2016	**2,281.3**	**455.4**	**2,736.7**	**875.5**	**3,612.2**
Settlement impact on assets	**–**	**–**	**–**	**(7.1)**	**(7.1)**
Interest income on assets	**83.6**	**17.2**	**100.8**	**19.5**	**120.3**
Company contributions	**50.0**	**14.0**	**64.0**	**21.9**	**85.9**
Employee contributions	**13.3**	**1.3**	**14.6**	**14.6**	**29.2**
Employee share of return on assets	**–**	**–**	**–**	**53.7**	**53.7**
Actuarial gain on assets	**329.6**	**30.3**	**359.9**	**68.1**	**428.0**
Benefit paid from schemes	**(139.4)**	**(61.3)**	**(200.7)**	**(27.2)**	**(227.9)**
Employer administration expenses	**(3.9)**	**(6.5)**	**(10.4)**	**(1.0)**	**(11.4)**
Currency gain	**–**	**58.3**	**58.3**	**–**	**58.3**
At 31 March 2017	**2,614.5**	**508.7**	**3,123.2**	**1,018.0**	**4,141.2**

	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
At 1 April 2015	2,329.2	513.9	2,843.1	1,302.8	4,145.9
Cessation of franchise (First ScotRail)	–	–	–	(525.1)	(525.1)
Settlement impact on assets	–	(15.3)	(15.3)	–	(15.3)
Interest income on assets	81.0	16.7	97.7	16.5	114.2
Company contributions	41.6	20.1	61.7	27.1	88.8
Employee contributions	13.6	1.1	14.7	21.1	35.8
Employee share of return on assets	–	–	–	29.0	29.0
Actuarial (loss)/gain on assets	(87.9)	(32.7)	(120.6)	27.1	(93.5)
Benefit paid from schemes	(92.2)	(55.7)	(147.9)	(21.9)	(169.8)
Employer administration expenses	(4.0)	(4.6)	(8.6)	(1.1)	(9.7)
Currency gain	–	11.9	11.9	–	11.9
At 31 March 2016	2,281.3	455.4	2,736.7	875.5	3,612.2

34 Retirement benefit schemes continued

(e) First Rail franchise adjustment

Movements in the total First Rail franchise adjustment were as follows:

	2017 £m	2016 £m
At 1 April	**292.1**	599.7
First ScotRail	**–**	(199.1)
Interest on franchise adjustment	**6.5**	8.7
Employee share of change in franchise adjustment	**21.1**	16.3
Actuarial gain/(loss) on franchise adjustment	**180.2**	(133.5)
At 31 March	**499.9**	292.1

Under the terms of the RPS cost sharing this franchise adjustment is split 60:40 between the employer and the employees. This is reflected in table (b) which shows the Group's 60% share of the franchise adjustment.

(f) 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 2017	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	851.8	190.3	1,042.1	–	1,042.1
Private equity	99.3	29.7	129.0	111.7	240.7
Fixed income/liability driven	1,239.6	232.5	1,472.1	–	1,472.1
Other return seeking assets	275.2	6.3	281.5	871.8	1,153.3
Real estate	92.7	37.2	129.9	32.5	162.4
Cash and cash equivalents	55.9	12.7	68.6	2.0	70.6
	2,614.5	508.7	3,123.2	1,018.0	4,141.2

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 2016	First Bus £m	North America £m	Total non-rail £m	First Rail £m	Total £m
Global equity	872.9	230.6	1,103.5	222.6	1,326.1
Private equity	58.8	–	58.8	–	58.8
Fixed income/liability driven	841.9	175.9	1,017.8	248.1	1,265.9
Other return seeking assets	434.5	18.4	452.9	234.5	687.4
Real estate	69.0	23.0	92.0	82.7	174.7
Cash and cash equivalents	4.2	7.5	11.7	87.6	99.3
	2,281.3	455.4	2,736.7	875.5	3,612.2

34 Retirement benefit schemes continued

(g) Accounting for First Rail pension arrangements

Had the Group accounted for First Rail pensions as if the respective franchises had an indefinite duration, the impact on the financial statements would have been as follows:

	2017 £m	2016 £m
Balance sheet		
Pension deficit	**(291.1)**	(174.9)
Deferred tax	**49.5**	31.5
Impact on net assets	**(241.6)**	(143.4)
Income statement		
Unwinding of discount on franchise adjustment	**(5.8)**	(27.4)
Past service gain	**4.1**	28.8
Deferred tax	**0.3**	(0.3)
Impact on profit for the year from continuing operations	**(1.4)**	1.1
Consolidated statement of comprehensive income		
Actuarial (gain)/loss on franchise adjustment	**(180.2)**	133.5
Deferred tax on actuarial (gain)/loss	**30.6**	(24.0)
	(149.6)	109.5

(h) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2017 £m	2016 £m
Actuarial (loss)/gain on DBO	**(710.3)**	185.6
Actuarial gain/(loss) on assets	**473.4**	(64.5)
Actuarial gain/(loss) on franchise adjustment	**180.2**	(133.5)
Adjustment for irrecoverable surplus	**(33.0)**	(46.8)
Actuarial losses on defined benefit schemes	**(89.7)**	(59.2)

(i) Adjustment for First UK Bus irrecoverable surplus

Movements in the adjustment for the First UK Bus irrecoverable surplus were as follows:

	2017 £m	2016 £m
At 1 April	**(129.9)**	(80.4)
Interest on irrecoverable surplus	**(4.8)**	(2.7)
Actuarial loss on irrecoverable surplus	**(33.0)**	(46.8)
At 31 March	**(167.7)**	(129.9)

34 Retirement benefit schemes continued

Cash contributions

As at 31 March 2017 the Group is committed to make deficit recovery payments with a net present value of £131m (2016: £136m), over the period to 5 April 2029, in respect of the First UK 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 2017 is £152.8m (2016: £64.9m). 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 2017 is £86.0m (year to 31 March 2016: £94.8m).

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 many cases to future accrual. Consequently, the number of defined contribution members is increasing.

The First UK Bus Pension Scheme will close 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.

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.
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 UK Bus Pension Scheme and LGPS) has mitigated this risk to some extent.
Trapped surplus	At termination of LGPS arrangements there is no right for the company to receive any surplus that exists within the scheme. Therefore there is a risk of overfunding the schemes.	This issue is discussed with the Administering Authorities when contribution schedules are set, and the Group receives professional advice on potential ways of mitigating some of this risk.
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.

35 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 63 to 79.

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Basic salaries[1]	**1.6**	1.6
Performance-related bonuses	**0.5**	0.3
Benefits in kind	**0.0**	0.1
Fees	**0.6**	0.6
Share-based payment	**0.8**	0.3
	3.5	2.9

[1] Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

36 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 2017 is disclosed below:

Subsidiaries – wholly owned and incorporated in the United Kingdom

A E & F R Brewer Limited, Heol Gwyrosydd, Penlan, Swansea, SA5 7BN

Airport Buses Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Airport Coaches Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Badgerline Group Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Bolton Coachways and Travel Limited, Wallshaw Street, Oldham, OL1 3TR

Bristol Bus Station Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Butler Woodhouse Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Cawlett Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

CCB Holdings Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

CCB TV Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

CentreWest Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

CentreWest London Buses Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

CentreWest ESOP Trustees (UK) Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Chester City Transport Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Crosville Limited, Bus Depot, Wallshaw Street, Oldham, OL1 3TR

Don Valley Buses Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

East Coast Trains Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

East West Rail Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Eastern Scottish Omnibuses Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

ECOC (Holdings) Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

FB Canada Holdings Limited, 395 King Street, Aberdeen, AB24 5RP

FG Canada Investments Limited, 395 King Street, Aberdeen, AB24 5RP

FG Learning & Development Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FG Properties Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

FGI Canada Holdings Limited, 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 Bristol Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Caledonian Sleeper Limited, 395 King Street, Aberdeen, AB24 5RP

First Capital Connect Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Capital East Limited, Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

First Capital North Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First CentreWest Buses Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First Cross Country Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Cymru Buses Limited, Heol Gwyrosydd, Penlan, Swansea, West Glamorgan, SA5 7BN

First Dublin Metro Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First East Anglia Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First East Midlands Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Games Transport Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Glasgow Limited[1], 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 Northern Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Great Western Link Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

First Great Western Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Great Western Trains Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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[1], 395 King Street, Aberdeen, AB24 5RP

First International (Holdings) Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

First International No.1 Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Manchester Limited, Wallshaw Street, Oldham, OL1 3TR

First Merging Pension Schemes Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Metro Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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, Wallshaw Street, Oldham, OL1 3TR

First Northern Ireland Limited, 21 Arthur Street, Belfast, BT1 4GA

First Northern Railway Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Northern Railway Holdings Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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 Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Scotland East Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

First ScotRail Limited, 395 King Street, Aberdeen, AB24 5RP

First ScotRailRailways Limited, 395 King Street, Aberdeen, AB24 5RP

First Shared Services Limited, 395 King Street, Aberdeen, AB24 5RP

First Somerset & Avon Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

First South West Limited, Union Street, Camborne, Cornwall, TR14 8HF

First South Yorkshire Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

First Student UK Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Thameslink Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Trains Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

First TransPennine Express Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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 Coast Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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) Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstBus (South) Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstBus Group Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstBus Investments Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstGroup American Investments, 395 King Street, Aberdeen, AB24 5RP

FirstGroup Canadian Finance Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstGroup CIF Trustees Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstGroup Construction Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstGroup Holdings Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

36 Information about related undertakings continued

FirstGroup (QUEST) Trustees Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

FirstGroup US Finance Limited[1], 395 King Street, Aberdeen, AB24 5RP

FirstGroup US Holdings, 395 King Street, Aberdeen, AB24 5RP

Fleetrisk Management Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

G.E. Mair Hire Services Limited, 395 King Street, Aberdeen, AB24 5RP

G.A.G. Limited[1], Enterprise House, Easton Road, Bristol, BS5 0DZ

GB Extended Ventures Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

GB Railways Group Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

GB Railways Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

GMBN Employees' Share Scheme Trustee Limited, Bus Depot, Wallshaw Street, Oldham, Lancashire, OL1 3TR

Great Western Holdings Limited[1], Milford House, 1 Milford Street, Swindon, SN1 1HL

Great Western Trains Company Limited[3], 15 Canada Square, Canary Wharf, London, E14 5GL

Great Western Trustees Limited, Milford House, 1 Milford Street, Swindon, SN1 1HL

Grenville Motors Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Greyhound Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Greyhound UK Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

GRT Bus Group Limited[1], 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

Horizon Trains Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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 & 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, Midland Road, Rotherham, South Yorkshire, S61 1TF

Mainline ESOP Trustees (No 2) Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

Mainline Partnership Limited[1], Midland Road, Rotherham, South Yorkshire, S61 1TF

Mainline Partnership Pension Trustees Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Mainline Employees' Shareholding Trustees Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

Midland Bluebird Limited, Carmuirs House, 300 Stirling Road Larbert, Stirlingshire, FK5 3NJ

Midland Travellers Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

North Devon Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

North Western Trains Company Limited[3], 15 Canada Square Canary Wharf, London, E14 5GL

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 Venture Properties Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reiver Ventures Limited, Carmuirs House, 300 Stirling Road, Larbert, Stirlingshire, FK5 3NJ

Reynard Buses Limited, Hunslet Park Depot, Donisthorpe Street, Leeds, Yorkshire, LS10 1PL

Rider Holdings Limited, 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, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Sheafline (S.U.T.) Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

Sheffield & District Traction Company Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

Sheffield United Transport Limited, Midland Road, Rotherham, South Yorkshire, S61 1TF

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, Carmuirs 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, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Strathclyde Buses Limited, 100 Cathcart Road, Glasgow, G42 7BH

Streamline Buses (Bath) Limited[1], Enterprise House, Easton Road, Bristol, BS5 0DZ

Taylors Coaches Limited, Enterprise House, Easton Road, Bristol, BS5 0DZ

The FirstGroup Midlands & East Anglia Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The FirstGroup North West Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The FirstGroup Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The FirstGroup Scottish Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The First South & Wales Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The First UK Bus Pension Scheme Trustee Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

The New Great Eastern Railway Company Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

Totaljourney Limited[1], 50 Eastbourne Terrace, Paddington, London, W2 6LG

Tram Operations Limited, Tramlink Depot, Coomber Way, Croydon, CR0 4TQ

Transportation Claims Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Turonian Limited, 50 Eastbourne Terrace, Paddington, London, W2 6LG

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, 50 Eastbourne Terrace, Paddington, London, W2 6LG

Subsidiaries – wholly owned and incorporated in the United States of America

Americanos USA, LLC, 350 N. St. Paul Street, Dallas, TX 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, TX 75201

Berkshire Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Central Mass Transit Management Co, Inc. 287 Grove St, Worcester, MA 01606

Central Virginia 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 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 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, TX, 76007

36 Information about related undertakings continued

Franklin Transit Management, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

GLI Corporate Risk Solutions, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Greyhound Lines, Inc. 350 N. St. Paul Street, Dallas, TX 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, Wlimington, DE 19801

Laredo Transit Management, Inc. 2221 E Lamar Blvd, Suite 500, Arlington, TX, 76007

LSX Delivery, LLC, 350 N. St. Paul Street, Dallas, TX 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, VT 05401

On Time Delivery Service, Inc. 350 N. St. Paul Street, Dallas, TX 75201

Paratransit Management of Berkshire, Inc. 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Paratransit Brokerage Services TM, Inc. 287 Grove Street, Worchester, MA 01606

Safe Transport LLC, 600 Vine Street, Suite 1400, Cincinnati, Ohio 45202

Safe Ride Services, Inc. 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

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 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 Central Maryland, 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 Montgomery, 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, TX 75201

Valley Garage Co, 350 N. St. Paul Street, Dallas, TX 75201

Valley Transit Co, Inc. 350 N. St. Paul Street, Dallas, TX 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

First Mile Square 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

Primaisla, Inc. 1 Estate Hope, St. Croix, Virgin Islands

Subsidiaries – wholly owned and incorporated in Ireland

Aeroporto Limited, 25-28 North Wall Quay, Dublin

FirstGroup Treasury Finance (Ireland) DAC, 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, QC

FirstCanada ULC, Blake, Cassels & Graydon LLP, 3500, 855 – 2 Street SW, Calgary, AB, 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 Bentall Centre, Vancouver, BC V7X 1L3

Greyhound Courier Express Limited, Blake, Cassels & Graydon LLP, 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3

Manhattan Equipment Supply Company Limited, 1111 International Blvd, Suite 700, Burlington, ON, L7L 6W1

Subsidiaries not wholly owned but incorporated in Canada

Greyhound and Coach Canada Terminal Operation Limited (50%), 130 King Street West, #1600, Toronto, ON, 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, Puerto Rico

Subsidiary – wholly owned and incorporated in Mexico

Greyhound Lines Mexico, S.A. de R.L. de C.V.
350 N. St. Paul Street, Dallas, TX 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], 50 Eastbourne Terrace, Paddington, London, W2 6LG

First/Keolis TransPennine Holdings Limited (55%), 50 Eastbourne Terrace, Paddington, London, W2 6LG

First/Keolis TransPennine Limited (55%) **50 Eastbourne Terrace**, Paddington, London, W2 6LG

First MTR South Western Trains Limited (70%), 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Trenitalia East Midlands Rail Limited (70%), 50 Eastbourne Terrace, Paddington, London, W2 6LG

First Trenitalia West Coast Rail Limited (70%), 50 Eastbourne Terrace, Paddington, London, W2 6LG

PTI Website Limited (20%)[1,] 50 Eastbourne Terrace, Paddington, London, W2 6LG

Leicester City Bus Limited (94%)[2], Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

LCB Engineering Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Leicester City Bus Benefits Limited (94%), Bus Depot, Westway, Chelmsford, Essex, CM1 3AR

Nicecon Limited (50%), 395 King Street, Aberdeen, AB24 5RP

Somerset Passenger Solutions Limited (50%), 50 Eastbourne Terrace, Paddington, London, W2 6LG

[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.

Independent auditor's report to the members of FirstGroup plc

Opinion on financial statements of FirstGroup plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 and of the Group's profit 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 FRS101 "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.

The financial statements that we have audited comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Company balance sheets;
- the Consolidated cash flow statement;
- the Consolidated and Company statements of changes in equity; and
- the related notes 1 to 36 of the Consolidated results and 1 to 10 of the Company results.

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 (United Kingdom Generally Accepted Accounting Practice), including FRS101 "Reduced Disclosure Framework".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: ▪ the assessment of the carrying value of First Student goodwill (£1,271 million); ▪ valuation of the self-insurance provision (£323 million) in North America; ▪ valuation of pension scheme liabilities (£4,832 million); ▪ accuracy of manual adjustments to revenue recognition processes; and ▪ accounting for rail franchise contracts. Within this report, any new risks are identified with ↑ and any risks which are the same as the prior year identified with ↔.
Materiality	The materiality that we used in the current year was £9.0 million which was determined on the basis of 4.3% of adjusted profit before tax.
Scoping	Full audit procedures were performed over 97% of the Group's net assets, 99% of the Group's revenue, and 94% of the Group's adjusted profit before tax.
Significant changes in our approach	In the prior year we identified a risk in relation to revenue recognition including contract accounting while in the current year, we have more closely focused our revenue recognition risk to be specifically around manual adjustments to revenue and we have broadened our risk in relation to rail franchise contract accounting. We have isolated the risk of third party claims to be specific to the North America self insurance balance rather than also including legal claims due to the reduction in material litigation exposures.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained with the directors' report and additional disclosures on pages 80 to 83 and note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained within the directors' report and additional disclosures on pages 80 to 83.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 83 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;
- the disclosures on pages 32 to 37 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement within the directors' report and additional disclosures on pages 80 to 83 and note 2 to the financial statements 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 ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 83 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 confirm that we have nothing material to add or draw attention to in respect of the above matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk description	How the scope of our audit responded to the risk	Key observations
The assessment of the carrying value of First Student goodwill (£1,271m) The assessment of the carrying value of goodwill and intangibles, as described in note 2, involves judgment in relation to forecasting future cash flows and is sensitive to growth rates and the discount rate applied to the future cash flows. The Cash Generating Unit (CGU) most sensitive to variation in these assumptions is the First Student CGU, as described in note 11 to the financial statements, where headroom has increased from £232m at 31 March 2016 to £709m at 31 March 2017. Management has highlighted impairment of intangible assets (including goodwill) as a key source of estimation uncertainty in note 2. The Audit Committee report on page 61 refers to the carrying value of First Student goodwill and intangible assets as one of the significant issues and judgments considered by the Audit Committee.	We challenged management's assumptions used in their impairment model for goodwill, specifically including the cash flow projections, discount rates and growth rates applied. Our procedures included: ▪ considering the identification of appropriate cash generating units; ▪ assessing cash flow projections with reference to historical trading performance and forecasting accuracy; ▪ comparing the discount rate applied against a comparator group as well as involving our internal valuation specialists to review underlying calculations; ▪ comparing the growth rates applied to the long term average growth rate of the relevant jurisdiction, as well as comparing historical growth rates to relevant historic rates; ▪ 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 disclosure on reasonably possible changes.	We concluded that taken together the assumptions applied in the impairment model are reasonable and no impairment has been identified. We consider the disclosure around the sensitivity to be proportionate to the level of judgment.

Risk description	How the scope of our audit responded to the risk	Key observations
Valuation of the self-insurance provision (£323m) in North America The underlying calculation of the North American self-insurance reserves of £323 million (see note 26) remains subject to significant judgment and fluctuation based on the volume and severity of the claims within the portfolio and the discount rate applied to the external settlement values. Management has highlighted self-insurance as a key source of estimation uncertainty in note 2. The Audit Committee report on page 61 refers to North America self-insurance provisions as one of the significant issues and judgments considered by the Audit Committee.	The audit procedures we performed in respect of this risk included: ▪ working with our actuarial specialists to test the estimates determined by Management and their external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience; ▪ independently developing an actuarial calculation and comparing the provision recorded to the actuarial range calculated by the external actuary; ▪ testing a sample of the underlying data used to develop the provision for completeness and accuracy; and ▪ challenging the appropriateness of the discount rate used through comparison to prior years and market rates.	We are satisfied that taken together the assumptions used are reasonable and that the valuation of the North American self-insurance reserve is reasonable.
Valuation of pension scheme liabilities (£4,832m) 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 34, is materially sensitive to changes in the underlying assumptions adopted. Management exercise significant judgment when determining those assumptions, particularly in respect of the discount rate, inflation, and mortality rates. Management has highlighted defined benefit pension arrangements as a critical accounting judgment in note 2. The Audit Committee report on page 61 refers to Pensions as one of the significant issues and judgments considered by the Audit Committee.	The audit procedures we performed in respect of this risk included: ▪ 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; and ▪ testing the underlying data used to develop the provision through analytical procedures and challenging the appropriateness of the discount rate used through comparison to prior years and those used by similar entities.	We are satisfied that taken together the assumptions applied in respect of the valuation of the liabilities are reasonable and that the valuation of the pension scheme liabilities is reasonable. We consider the disclosure around the sensitivity to be proportionate to the level of judgment.
Accuracy of manual adjustments to revenue recognition processes 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 adjustments to revenue related transactions may represent a key risk of material misstatement to revenue. This includes manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement. The Audit Committee report on page 61 refers to Revenue recognition as one of the significant issues and judgments considered by the Audit Committee.	The audit procedures we performed in respect of this risk included: ▪ at a Group and component level, 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; and ▪ recalculating the accuracy of material accrued income balances.	The results of our procedures were satisfactory and we did not identify inappropriate manual adjustments to revenue.

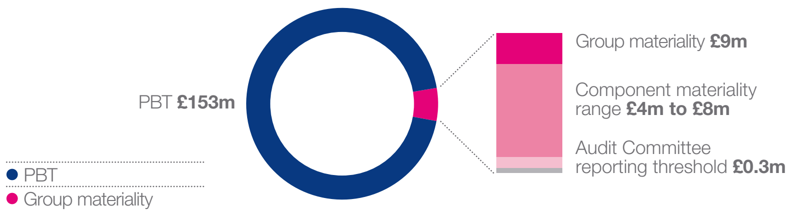
Risk description	How the scope of our audit responded to the risk	Key observations
Accounting for rail franchise contracts The Group operates a number of complex contracts, especially the First Rail franchises. Judgment is particularly required in relation to the valuation of certain performance related amounts the Group is entitled to under these arrangements. Management judgment is also applied in the evaluation of the overall profitability of contracts across the Group in particular determining whether new rail contracts are onerous recognising such contracts include sensitive assumptions. Management has highlighted contract and franchise accounting as a key source of estimation uncertainty in note 2. The Audit Committee report on page 61 refers to Revenue recognition as one of the significant issues and judgments considered by the Audit Committee.	The audit procedures we performed in respect of this risk included: ▪ assessing the judgments taken by Management in determining the valuation and timing of recognition of certain performance related amounts received under the rail contracts and the accuracy of the associated deferred income; and ▪ considering the new rail franchise contract outturn projections by reference to current activities and the assumptions being made.	The results of our procedures were satisfactory and we concurred with the judgments made and the resulting accounting for rail franchise contracts.

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.

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.

We determined materiality for the Group to be £9.0m (2016: £8.0m), which is 4.3% (2016: 4.8%) of adjusted pre-tax profit (as defined in note 4). We consider a profit measure the most appropriate basis for determining materiality as this is the measure on which business performance is analysed. The adjusted profit before tax measure has been used to exclude the volatility of non-recurring items. In addition, the exclusion of amortisation and the income statement effect of ineffective and unhedged financial derivative valuation is consistent with the key measure used by the Group for internal and external reporting. This measure has been used to facilitate a better understanding of the trading performance of the Group.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300,000 (2016: £160,000) 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, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the two UK Bus operating regions (following a restructuring from four in the prior year), two significant Train Operating Companies being GWR and TPE, the operations in North America and the Bus division and Group corporate head office functions as well as the UK Shared Service Centre. We performed specified audit procedures at the Rail Division head office function representing less than 2% of the Group's net assets, revenue or adjusted profit before tax. The locations subject to full audit procedures represent the principal business units and account for 97% (2016: 97%) of the Group's net assets, 99% (2016: 99%) of the Group's revenue and 94% (2016: 94%) of the Group's adjusted profit before tax. 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 materiality of between £4.5m and £8.0m applicable to each individual location, while the principal Group corporate holding company audits were executed at their statutory materiality levels ranging between £1.1m and £1.5m.

At the parent entity 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 or audit of specified account balances.

We include all component audit teams in our team briefing, discuss their risk assessment and a senior member of the Group audit team has visited all locations to review documentation of the findings from their work. In relation to the current year the Senior Statutory Auditor visited North America twice.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Mullins, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London

1 June 2017

Group financial summary
Unaudited

Consolidated income statement	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Group revenue	**5,653.3**	5,218.1	6,050.7	6,717.4	6,900.9
Operating profit before amortisation charges and other adjustments	**339.0**	300.7	303.6	268.0	254.1
Amortisation charges	**(60.2)**	(51.9)	(54.3)	(53.4)	(52.0)
Other adjustments	**4.8**	(2.5)	(3.5)	17.6	(62.3)
Operating profit	**283.6**	246.3	245.8	232.2	139.8
Net finance cost	**(132.0)**	(132.4)	(139.7)	(156.1)	(163.2)
Ineffectiveness on financial derivatives	**1.0**	(0.4)	(0.3)	(17.6)	(5.5)
Profit/(loss) before tax	**152.6**	113.5	105.8	58.5	(28.9)
Tax	**(36.5)**	(17.1)	(20.3)	5.7	23.9
Profit/(loss) for the year	**116.1**	96.4	85.5	64.2	(5.0)
EBITDA	**686.6**	615.9	624.4	579.8	585.7
Earnings per share	**pence**	pence	pence	pence	pence
Adjusted	**12.4**	10.3	9.8	7.5	11.0
Basic	**9.3**	7.5	6.2	5.1	(3.0)
Consolidated balance sheet	**£m**	£m	£m	£m	£m
Non-current assets	**4,524.9**	4,201.3	4,025.1	3,686.7	4,060.3
Net current liabilities	**(153.0)**	(239.3)	(160.9)	(78.4)	(320.4)
Non-current liabilities	**(2,011.8)**	(2,066.5)	(2,141.3)	(2,123.7)	(2,602.3)
Provisions	**(284.2)**	(262.3)	(236.7)	(261.6)	(323.1)
Net assets	**2,075.9**	1,633.2	1,486.2	1,223.0	814.5
Share data Number of shares in issue (excluding treasury shares and shares in trusts)	**millions**	millions	millions	millions	millions
At year end	**1,207.7**	1,204.3	1,203.7	1,204.2	591.2
Average	**1,204.8**	1,204.0	1,204.0	1,059.3	590.8
Share price	**pence**	pence	pence	pence	pence
At year end	**132**	97	91	146	201
High	**133**	128	140	224	261
Low	**89**	81	91	92	176
Market capitalisation	**£m**	£m	£m	£m	£m
At year end	**1,594**	1,168	1,095	1,757	969

Company balance sheet
As at 31 March

		Note	2017 £m	2016 £m
Fixed assets				
Investments		3	**2,011.6**	1,847.0
Current assets				
Cash and cash equivalents			**18.9**	62.1
Derivative financial instruments	– due within one year	4	**1.7**	16.7
	– due after more than one year	4	**48.6**	41.5
Debtors	– due within one year	5	**2,468.7**	2,393.8
	– due after more than one year	5	**2.5**	1.6
			2,540.4	2,515.7
Current liabilities				
Creditors – amounts falling due within one year		7	**(471.3)**	(376.3)
Derivative financial instruments		4	**(29.5)**	(68.1)
			(500.8)	(444.4)
Net current assets			**2,039.6**	2,071.3
Total assets less current liabilities			**4,051.2**	3,918.3
Non-current liabilities				
Creditors – amounts falling due after more than one year		7	**(1,458.5)**	(1,538.0)
Derivative financial instruments		4	**(8.6)**	(35.5)
Net assets			**2,584.1**	2,344.8
Capital and reserves				
Called up share capital		8	**60.4**	60.2
Share premium			**678.9**	676.4
Other reserves			**269.6**	268.8
Own shares		9	**(1.5)**	(1.6)
Profit and loss account			**1,576.7**	1,341.0
Shareholders' funds			**2,584.1**	2,344.8

The Company reported a profit for the financial year ended 31 March 2017 of £229.7m (2016: £231.9m).

Tim O'Toole
1 June 2017

Matthew Gregory
1 June 2017

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 2015	**60.2**	**676.4**	**(1.9)**	**6.7**	**166.4**	**93.8**	**1.9**	**1,104.7**	**2,108.2**
Total comprehensive income for the year	–	–	–	–	–	–	–	231.9	231.9
Movement in EBT and treasury shares	–	–	0.3	–	–	–	–	(2.0)	(1.7)
Share-based payments	–	–	–	–	–	–	–	6.4	6.4
Balance at 31 March 2016	**60.2**	**676.4**	**(1.6)**	**6.7**	**166.4**	**93.8**	**1.9**	**1,341.0**	**2,344.8**
Total comprehensive income for the year	–	–	–	0.8	–	–	–	229.7	230.5
Shares issued	0.2	2.5	–	–	–	–	–	–	2.7
Movement in EBT and treasury shares	–	–	0.1	–	–	–	–	(2.2)	(2.1)
Share-based payments	–	–	–	–	–	–	–	8.2	8.2
Balance at 31 March 2017	**60.4**	**678.9**	**(1.5)**	**7.5**	**166.4**	**93.8**	**1.9**	**1,576.7**	**2,584.1**

Notes to the Company financial statements

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 directors' report and additional disclosures on pages 80 to 83.

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 2017 include the results and financial position of the Company for the 52 weeks ended 25 March 2017 and the financial statements for the year ended 31 March 2016 include the results and financial position of the Company for the 52 weeks ended 26 March 2016.

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.

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 profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

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 2016	1,862.9
Additions	164.6
At 31 March 2017	**2,027.5**
Provisions for impairment	
At 1 April 2016 and 31 March 2017	(15.9)
Net book value	
At 31 March 2017	**2,011.6**
At 31 March 2016	1,847.0

A full list of subsidiaries and investments can be found in note 36 to the Group accounts.

4 Derivative financial instruments

	2017 £m	2016 £m
Total derivatives		
Total assets – due after more than one year	**48.6**	41.5
Total assets – due within one year	**1.7**	16.7
Total assets	**50.3**	58.2
Total creditors – amounts falling due within one year	**29.5**	68.1
Total creditors – amounts falling due after more than one year	**8.6**	35.5
Total creditors	**38.1**	103.6

	2017 £m	2016 £m
Derivatives designated and effective as hedging instruments carried at fair value		
Non-current assets		
Coupon swaps (fair value hedge)	**48.6**	41.3
Current assets		
Coupon swaps (fair value hedge)	**–**	16.4
Total assets	**48.6**	57.7

	2017 £m	2016 £m
Derivatives classified as held for trading		
Non-current assets		
Fuel derivatives	**–**	0.2
Current assets		
Currency forwards	**1.1**	–
Fuel derivatives	**0.6**	0.3
	1.7	0.3
Total assets	**1.7**	0.5

	2017 £m	2016 £m
Current liabilities		
Interest rate swaps	**–**	1.2
Currency forwards	**0.1**	–
Fuel derivatives	**29.4**	66.9
	29.5	68.1
Non-current liabilities		
Fuel derivatives	**8.6**	35.5
Total liabilities	**38.1**	103.6

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

	2017 £m	2016 £m
Amounts due within one year		
Amounts due from subsidiary undertakings	**2,468.6**	2,387.6
Deferred tax asset (note 6)	**–**	6.2
Other debtors	**0.1**	–
	2,468.7	2,393.8
Amounts due after more than one year		
Deferred tax asset (note 6)	**2.5**	1.6

6 Deferred tax

The major deferred tax 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 2016	(7.8)
Charge to income statement	5.3
At 31 March 2017	(2.5)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax asset due within one year	–	(6.2)
Deferred tax assets due after more than one year	(2.5)	(1.6)
	(2.5)	(7.8)

7 Creditors

	2017 £m	2016 £m
Amounts falling due within one year		
Bank loans and overdrafts	54.3	56.4
Senior unsecured loan notes	80.0	35.4
Bond interest accrual	59.1	59.2
Corporation tax	1.7	0.6
Amounts due to subsidiary undertakings	269.6	214.0
Accruals and deferred income	6.6	10.7
	471.3	376.3
Amounts falling due after more than one year		
£300.0m Sterling bond – 8.125% 2018	298.8	298.3
£250.0m Sterling bond – 6.125% 2019	270.0	279.0
£350.0m Sterling bond – 8.750% 2021	369.0	370.1
£325.0m Sterling bond – 5.250% 2022	321.1	320.5
£200.0m Sterling bond – 6.875% 2024	199.6	199.6
Senior unsecured loan notes	–	70.5
	1,458.5	1,538.0

Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2017 £m	2016 £m
Facilities maturing:		
Due in more than two years	800.0	800.0

Details of the Company's borrowing facilities are given in note 21 to the Group accounts.

8 Called up share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
1,207.7m (2016: 1,204.9m) ordinary shares of 5p each	**60.4**	60.2

The number of ordinary shares of 5p in issue, excluding treasury shares held in trust for employees, at the end of the period was 1,207.3m (2016: 1,204.2m). At the end of the period 0.4m shares (2016: 0.7m shares) were being held as treasury shares and own shares held in trust for employees.

9 Own shares

	Own shares £m
At 1 April 2016	(1.6)
Movement in EBT, QUEST and treasury shares during the year	0.1
At 31 March 2017	**(1.5)**

The number of own shares held by the Group at the end of the year was 437,005 (2016: 669,374) FirstGroup plc ordinary shares of 5p each. Of these, 247,256 (2016: 479,625) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2016: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2016: 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 2017 was £0.6m (2016: £0.6m).

10 Contingent liabilities

Various investigations into the Croydon tram incident are currently being undertaken 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. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

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 £710.4m (2016: £505.4m) and letters of credit for £369.0m (2016: £310.4m). The performance bonds relate to the North American businesses of £570.1m (2016: £462.2m) and the First Rail franchise operations of £140.3m (2016: £43.2m). The letters of credit relate substantially to insurance arrangements in the UK and North America.

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.

Shareholder information

Annual General Meeting (AGM) and electronic voting

The AGM of the Company will be held at 1.30pm on Tuesday 18 July 2017 at the Aberdeen Exhibition and Conference Centre, Exhibition Avenue, Bridge of Don, Aberdeen, AB23 8BL.

The Notice of AGM (Notice) and Form of Proxy are enclosed with this Annual Report and Accounts. The Notice can also be found on the Company's website (www.firstgroupplc.com).

Shareholders can submit proxies for the 2017 AGM electronically by logging on to www.sharevote.co.uk. Electronic proxy appointments must be received by the Company's Registrar, Equiniti, no later than 1.30pm on Friday 14 July 2017 (or not less than 48 hours, excluding non-business days, before the time fixed for any adjourned meeting).

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; and
- 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; and
- 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 securely email Equiniti 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 offer a postal dealing facility for buying and selling FirstGroup plc ordinary shares; please write to them at the address quoted 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, who provide 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 telephone calls and correspondence

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 turns 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 2017

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
By category of shareholders				
Individual	33,169	97.08	50,013,441	4.14
Institutional	997	2.92	1,157,682,371	95.86
Total	**34,166**	**100.00**	**1,207,695,812**	**100.00**
By size of holding				
1-1,000	24,566	71.90	6,109,468	0.51
1,001-5,000	7,069	20.69	16,919,288	1.40
5,001-10,000	1,411	4.13	9,908,085	0.82
10,001-100,000	843	2.47	20,318,710	1.68
Over 100,000	277	0.81	1,154,440,261	95.59
Total	**34,166**	**100.00**	**1,207,695,812**	**100.00**

Financial calendar

AGM	**18 July 2017**
Half-yearly results	**November 2017**
Q3 trading update	**January 2018**

Contact information

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FirstGroup plc
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Registered in Scotland
Registered number:
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25 Bank Street
Canary Wharf
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Auditor
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2 New Street Square
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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.

Glossary

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

APB
Auditing Practices Board, part of the Financial Reporting Council

BAYE
Buy As You Earn

The Board
The Board of Directors of the Company

BRT
Bus Rapid Transit

CGU
Cash Generating Unit

CO_2(e)
Carbon dioxide equivalent, allowing other greenhouse gas emissions to be expressed in terms of carbon dioxide based on their relative global warming potential

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

DECC
Department of Energy & Climate Change (UK Government), which became part of the Department for Business, Energy & Industrial Strategy in July 2016

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

FTA
Freight Transport Association

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, severe weather and other factors 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 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

ROCE
Return on capital employed is a measure of capital efficiency and is calculated by dividing adjusted operating profit after tax by all assets and liabilities excluding debt items

SAYE
Save As You Earn

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

WRI/WBCSD
The Greenhouse Gas Protocol was developed by World Resources Institute and World Business Council on Sustainable Development

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