





## Contents

### Strategic report

Summary of the year and financial highlights	02
Chairman's statement	04
Group overview	06
Chief Executive's strategic review	08
The world we live in	10
Business model	12
Strategic objectives	14
Key performance indicators	16
Business review	20
Corporate responsibility	40
Principal risks and uncertainties	44
Operating and financial review	50

### Governance

Board of Directors	56
Corporate governance report	58
Directors' remuneration report	76
Other statutory information	101

### Financial statements

Consolidated income statement	106
Consolidated statement of comprehensive income	107
Consolidated balance sheet	108
Consolidated statement of changes in equity	109
Consolidated cash flow statement	110
Notes to the consolidated financial statements	111
Independent auditor's report	160
Group financial summary	164
Company balance sheet	165
Notes to the Company financial statements	166
Shareholder information	174
Financial calendar	175
Glossary	176

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FirstGroup plc is the **leading transport operator** in the UK and North America. With approximately **£6 billion in revenues** and around **110,000 employees**, we transported around **2.4 billion passengers** last year.

In this Annual Report for the year to 31 March 2015 we **review our performance and plans** in line with our strategic objectives, focusing on the progress we have made with our **multi-year transformation programme**, which will deliver sustainable improvements in shareholder value.

## Summary of the year and financial highlights

- Overall trading for the Group in line with management's expectations
- First Student and UK Bus transformations delivered margin improvements, and First Transit and UK Rail outperformance offset reduced Greyhound demand
- Secured First Great Western until at least March 2019 and an additional year operating First TransPennine Express
- Underlying revenue increased by 4.1%<sup>1</sup>
- Further strong progress in non-rail businesses expected in the year ahead led by momentum in transformations of First Student and UK Bus, largely offsetting substantially lower UK Rail earnings
- Improved financial performance in the year demonstrates our multi-year transformation programme is making progress
- Wolfhart Hauser appointed to succeed John McFarlane as Chairman. Group Finance Director Chris Surch to retire in January 2016

### Revenue

**£6,050.7m** (9.9)%

2014: £6,717.4m

### Adjusted operating profit<sup>2</sup>

**£303.6m** +13.3%

2014: £268.0m

### Adjusted profit before tax<sup>2</sup>

**£163.9m** +46.5%

2014: £111.9m

### Adjusted attributable profit<sup>2</sup>

**£117.5m** +48.2%

2014: £79.3m

### Adjusted EPS<sup>2</sup>

**9.8p** +30.7%

2014: 7.5p

### Net debt<sup>4</sup>

**£1,407.3m** +7.9%

2014: £1,303.8m

### Adjusted EBITDA<sup>2,3</sup>

**£624.4m** +7.7%

2014: £579.8m

### Statutory operating profit

**£245.8m** +5.9%

2014: £232.2m

### Statutory profit before tax

**£105.8m** +80.9%

2014: £58.5m

### Statutory attributable profit

**£75.2m** +38.7%

2014: £54.2m

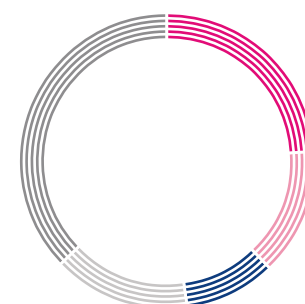
### Statutory EPS

**6.2p** +21.6%

2014: 5.1p

### Revenue

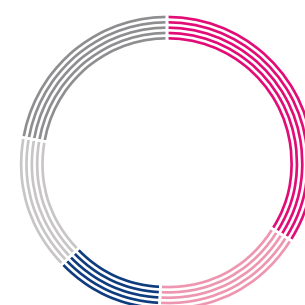
2015



First Student	24%
First Transit	14%
Greyhound	10%
UK Bus	15%
UK Rail	37%

### Adjusted operating profit

2015



First Student	34%
First Transit	17%
Greyhound	12%
UK Bus	15%
UK Rail	22%

<sup>1</sup> Underlying revenue increased by 4.1% (excluding impact of UK Rail franchise changes, non-recurring revenues in prior year from UK Bus operations now sold/closed and foreign exchange translation).

<sup>2</sup> Before amortisation charges and certain other items as set out in note 4 to the financial statements. All references to 'adjusted' figures throughout this document are defined in this way.

<sup>3</sup> EBITDA is adjusted operating profit less capital grant amortisation plus depreciation.

<sup>4</sup> Net debt is stated excluding accrued bond interest.





## Strategic report

We explain who we are, our business model and strategic objectives, the markets in which we operate, major events in the year and how we performed against our key performance indicators. We also set out the key risks that may affect our business and strategy.

Chairman's statement	04
Group overview	06
Chief Executive's strategic review	08
The world we live in	10
Business model	12
Strategic objectives	14
Key performance indicators	16
Business review	20
Corporate responsibility	40
Principal risks and uncertainties	44
Operating and financial review	50

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With a continued focus on execution and a commitment to change, I remain confident that the Group will succeed in turning its attractive portfolio of market-leading transport businesses into acceptable returns for shareholders as planned.

**John McFarlane**  
Chairman



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FirstGroup is a very important company to the customers and communities we serve. Operating in five major divisions, each a leader in its market, we provide vital transport links for millions of passengers across our core markets in the UK and North America. We are a significant corporate employer with around 110,000 staff, and our services make a vital contribution to linking people together, supporting the economic activity and social well-being of the communities in which we operate.

Innovative, efficient and customer-focused transport services play an increasingly important role in responding to the economic and environmental challenges of continued urbanisation, congestion and demographic change. FirstGroup's portfolio of leading transport businesses is well positioned to provide the transport solutions needed, and as such has opportunities for sustainable growth and good financial returns in all of its markets. All of this was clear to me when I took on the role of Chairman in January 2014, but it was also obvious that the Group had not been delivering fully on this potential for some time. Two divisions in particular, First Student and UK Bus, were delivering margins well short of their competitors, parts of the business had suffered from a lack of appropriate investment, and the Group as a whole was not achieving acceptable returns for shareholders. Turning this situation round has therefore been the key priority.

The multi-year turnaround programme we are executing is designed to sustainably improve the financial returns of the Group as a whole, mainly through more robust decision-making around pricing, productivity and capital allocation. These areas are of particular importance in First Student and UK Bus, which together account for around two thirds of our annual capital investment budget and have underperformed. With the support of shareholders through the 2013 rights issue, the Group has been able to reinvest in its future growth and commit to ambitious business plans that will deliver sustainable improvements in performance over the medium term, by addressing the Group's core challenges. With improved balance sheet stability, and a strong and experienced Board of Directors providing challenge and support, the executive team have the platform to make the disciplined, long term decisions necessary to improve the Group's sustainable returns on capital and cash generation. Over time this will reduce Group leverage and the associated interest burden towards its optimum long term level, and increase shareholder returns. As a matter of course, we continue to review alternative and additional actions to create shareholder value, but nothing compelling has become evident to date.

During the year the Group has made important progress in several key areas. In this respect, I would highlight in particular the success of First Student's contract portfolio pricing strategy, as well as the ongoing execution of the UK Bus turnaround plan, which has successfully stimulated renewed passenger volume growth and is beginning to capture yield. Both of these key divisions have taken important strategic steps to reposition themselves in their markets for the medium term, while also executing significant cost reduction programmes. Continued disciplined execution over the coming years will be required to deliver the full benefits of these important changes, but we are encouraged by the margin improvements these divisions have delivered in the year. Although Greyhound's performance this year has been significantly affected by the sharp fall in fuel prices in the second half, we remain on track with its transformation into a yield-managed, customer-oriented business, which will enhance returns from this division in the future, whatever the oil price.

In the year the Department for Transport (DfT) awarded us a contract to continue operating our largest rail franchise, First Great Western, to at least March 2019, and a contract to run First TransPennine Express for an additional year. We were disappointed not to secure the renewal of the First ScotRail franchise, and were unsuccessful in four other bids but these were awarded at economic levels that were unacceptable to us. We were and will remain disciplined in our approach to bidding for these significant contracts.

Overall, the Group is broadly where we expected to be at this stage of the transformation plan, and has begun to demonstrate the improvements in financial performance that were clearly required. Underlying<sup>1</sup> Group revenue increased by 4.1%, but more importantly operating profit<sup>2</sup> increased by 13.3%, adjusted profit before tax improved by 46.5%, and adjusted profit attributable to ordinary shareholders increased by 48.2%. Adjusted EPS increased by 30.7%, less than attributable profit because of the increased number of shares following the rights issue. Group ROCE was 7.8%, or 8.5% at constant exchange rates, a 0.3 percentage point improvement compared with 8.2% in 2013/14. Group cash flow, though still significantly below our potential, was better than our initial expectations, and we expect the actions we are taking will increase this substantially over time. In due course, the Board is confident that the business plans being executed will return the Group to a sustainable cash generative position, with the potential to resume payment of a dividend. However at this stage of the Group's transformation, and having regard to the commitment to the capital investment programme and the importance of strengthening the balance sheet further, the Board considers it appropriate to continue to refrain from reinstating a dividend at this point.

In some respects, the significant improvements in financial results this year are a reflection of past underperformance, and there remain a number of headwinds to navigate, but I am confident that we are executing the most appropriate actions to return the Group to a sustainably stronger long term position. We have made encouraging progress in the year, and some of the most important actions have yet to manifest themselves fully in the financial results. The improving financial results from First Student and UK Bus, our most capital intensive businesses, reinforce our confidence in the future. With a continued focus on execution and a commitment to change, I remain confident that the Group will succeed in turning its attractive portfolio of market-leading transport businesses into acceptable returns for shareholders as planned.

Of course all of this progress is only made possible by the continued commitment of our employees to delivering quality services for our customers and communities. On behalf of the Board I would like to extend my sincere gratitude to all our employees for their hard work and dedication.

Chris Surch will be retiring from the role of Group Finance Director on 8 January 2016, following his decision to step down from a full-time executive role for personal reasons. The Board has commenced a formal search for his replacement. On behalf of the Board and everyone at FirstGroup I would like to thank Chris for his commitment to the transformation of the Group over the last three years. We respect his decision to step down and he will be leaving with our good wishes for the future.

In May I was pleased to welcome Wolfhart Hauser to the Board as a Non-Executive Director and Chairman Designate. He has an exemplary track record of sustained value creation and is a highly experienced Non-Executive Director. It is with regret that I am required to step down from the Chairmanship of FirstGroup at the AGM in July, in order to fully dedicate myself to the task of bringing Barclays to full health. However, with Wolfhart succeeding me as Chairman, I will be leaving FirstGroup in capable hands. I wish him and all at FirstGroup well for the future.

**John McFarlane**  
Chairman  
10 June 2015

<sup>1</sup> Excluding impact of UK Rail franchise changes, non-recurring revenues in prior year from UK Bus operations now sold/closed and foreign exchange translation.

<sup>2</sup> Operating profit referred to throughout this document refers to operating profit before amortisation charges and certain other items as set out in note 4 to the financial statements.

## Group overview

We have five operating divisions and leading positions in all of our markets.



### First Student

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

- \$24bn marketplace, of which 37% is outsourced
- We operate a fleet of approximately 49,000 school buses, and carry around 6m students per school day throughout the US and Canada
- Around 1,300 multi-year contracts in more than 500 locations
- Our industry-leading safety programmes, strong customer relationships and service record are key differentiators



### First Transit

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

- \$30bn marketplace in North America, of which around 30% is outsourced
- Transporting almost 350m passengers a year, we operate and manage more than 12,500 vehicles and maintain a further 36,000
- Nearly 350 contracts from around 320 locations, delivering fixed route, paratransit, shuttle and vehicle maintenance services
- Mainly capital-light operating model; our managerial and bidding expertise and technology are key differentiators



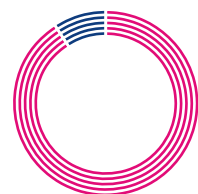
### Greyhound

The only national operator of scheduled intercity coach transportation services in the US and Canada, serving 48 US States and ten Canadian Provinces and Territories.

- 3,800 destinations served via a fleet of approximately 1,700 vehicles
- Point-to-point Greyhound Express now serves 1,000 city pairs in more than 135 markets
- Our unique nationwide network is a significant competitive advantage
- Yield management, real-time pricing and customer relationship management tools operational in 2015/16 financial year

#### 2014/15

Approximate revenue by type



Contract	91%
School and third party charter	9%

Revenue  
**\$2,369m**

Operating margin  
**7.5%**

Operating profit  
**\$177m**

Employees  
**57,000**

#### 2014/15

Approximate revenue by type



Fixed route	37%
Paratransit	27%
Shuttle	26%
Vehicle Services	10%

Revenue  
**\$1,362m**

Operating margin  
**7.1%**

Operating profit  
**\$96m**

Employees  
**19,000**

#### 2014/15

Approximate revenue by type



Passenger revenue	80%
Package Express	8%
Food service	2%
Charter	1%
Other	9%

Revenue  
**\$986m**

Operating margin  
**6.9%**

Operating profit  
**\$69m**

Employees  
**7,500**



## Read more in the Business review

First Student	Pages 20-23
First Transit	Pages 24-27
Greyhound	Pages 28-31
UK Bus	Pages 32-35
UK Rail	Pages 36-39



## UK Bus

One of the largest bus operators in the UK, with around a fifth of the deregulated market.

- £4.4bn deregulated market (outside London)
- 6,300 buses, carrying around 1.7m passengers per day
- We serve seven of the 12 most densely populated cities in the UK, with opportunities to continue to grow patronage in our key markets
- We have invested to enhance our commercial proposition and improve service quality, which is delivering increased volumes, yield and margins



## UK Rail

One of the UK's most experienced rail operators, carrying around 280m passengers and operating over a fifth of the UK's passenger rail network in the year.

- Experienced operator of all types of rail network, including intercity, commuter and regional franchises
- We currently operate the First Great Western and First TransPennine Express franchises and First Hull Trains, an open access passenger rail service
- Highly experienced management team well placed to bid for the two thirds of UK rail franchises by revenue to be let before 2020

## 2014/15

Approximate revenue by type



Passenger revenue	64%
Concessions	25%
Tenders	5%
Other	6%

## Revenue

**£896m**

## Operating profit

**£52m**

## Operating margin

**5.8%**

## Employees

**18,000**

## 2014/15

Approximate revenue by type



Passenger revenue	78%
Government funding <sup>1</sup>	15%
Other revenue	7%

Revenue<sup>1</sup>

**£2,207m**

## Operating profit

**£74m**

## Operating margin

**3.4%**

## Employees

**7,500**

<sup>1</sup> Includes subsidies but does not take into account total premium payments made to Government during the year of £170.3m.

Contribution by division  
Revenue

(as % of Group)



First Student	24%
First Transit	14%
Greyhound	10%
UK Bus	15%
UK Rail	37%

## Operating profit

(as % of Group)



First Student	34%
First Transit	17%
Greyhound	12%
UK Bus	15%
UK Rail	22%

## Number of employees

(as % of Group)



First Student	52%
First Transit	17%
Greyhound	7%
UK Bus	17%
UK Rail	7%

Employee numbers are calculated on a monthly average basis, excluding the First Capital Connect and First ScotRail franchises which ended during the year.

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Our improved financial performance this year demonstrates that our multi-year transformation programme is making progress, though we must maintain the momentum of change to meet our medium term financial targets.

**Tim O'Toole**  
Chief Executive



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### We keep customers moving and communities prospering by providing solutions for today's transportation challenges.

The demands placed on transport systems both within and between cities are becoming increasingly complex, and customer expectations for safety and punctuality, value for money, comfort and connectivity are higher than ever. In meeting these challenges we have a unique competitive advantage: the scale, diversity and track record of our portfolio of transport businesses means we have a huge range of expertise and experience across the Group to draw on.

Our strategy is designed to leverage our scale by harnessing all of our international expertise and experience for the benefit of our local markets. We focus on five strategic objectives where our strengths and capabilities across the Group have the most potential to add value: these are 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.

In this strategic report we set out our business model, strategy and objectives in detail and review how we performed operationally and financially in the year against our plans. We explain how we measure our progress against a range of financial and non-financial indicators, and review the principal risks and uncertainties that we face, together with the approach we take to managing them. Effective transport links play a vital role in the prosperity of any economy, and responsible partnerships with our customers and communities are therefore one of our strategic objectives. The corporate responsibility section of our website expands on the summary contained in this report.

### Progress with our transformation plans

In 2013 we put forward a multi-year programme to reposition the Group for improved financial performance and to restore us to a profile of consistent financial returns, more reflective of our leading market positions and our international capabilities. We strengthened the balance sheet to give us the flexibility to invest in this transformation, and set out detailed medium term financial targets. We are confident that this programme represents the most compelling way to drive a sustained improvement in returns for our shareholders while continuing to deliver for our other stakeholders.

I am pleased to say that the Group as a whole has made good progress in our transformation over the last two years, notwithstanding some unexpected external challenges since that time. In First Student we continue to make progress in renewing our contract portfolio at prices more reflective of the capital we employ whilst delivering significant cost efficiencies, despite the unusually severe winter in North America in 2013/14. In UK Bus our tailored market-by-market approach has restored our ability to deliver passenger volume growth and market-based pricing yields whilst also reducing our cost base. In Greyhound our programme to adopt yield management and customer relationship management systems is on track – and the importance of having these tools has been amply highlighted by the impact of fuel price volatility on passenger demand this year. We have secured

continued operation of First Great Western until at least March 2019, which provides us with an important foundation to build on in the UK rail industry. We were disappointed with the outcome of recent franchise competitions, but we remain confident that our disciplined bidding process is the most appropriate approach for us. Moreover, our track record of operational delivery stands us in good stead as the remaining two thirds of the franchises by value are awarded over the next five years. Importantly during a period when we have been reinvesting in the business, our cash generation is ahead of our initial expectations.

As our transformation plans move forward, we will continue to build on the improvements in our revenue and profitability towards our medium term growth and margin targets. We expect to continue to invest across the Group at similar absolute levels for the medium term, with our free cash flow improving over time as our operating earnings increase. We also expect our financing costs to continue to reduce, as cash generation increases and our relatively high coupon bonds mature over time. We continue to target a ROCE of 10-12% and a net debt:EBITDA ratio of two times in the medium term, and remain committed to reinstating a sustainable dividend policy at the appropriate time.

## People

In March 2015 we were pleased to announce that Wolfhart Hauser would join the Board from May, and will become Chairman following our AGM in July. Wolfhart recently retired after ten years as CEO of Intertek Group plc, the international quality and safety services provider and FTSE 100 constituent. Under his leadership, Intertek developed from a medium-sized group of separate testing businesses into an integrated global organisation with more than 38,000 employees and operations in more than 100 countries. Wolfhart's track record of sustained value creation and his experience and counsel will be invaluable as we continue to drive forward the transformation of the Group. On behalf of the Board and our employees, I would also like to thank John McFarlane for the important contribution he has made during his tenure as Chairman and we wish him every success as Chairman of Barclays.

I would like to echo the sentiments of the Chairman in thanking Chris Surch for his contribution to the Group since he joined in 2012. During this time of significant transformation he has played a key role in placing the business on a stronger footing and he will leave with our good wishes in all his future endeavours.

During the year our former colleagues at First Capital Connect and First ScotRail transferred into new franchise owners. We worked hard to ensure smooth transitions and we wish them well for the future.

We continue to invest in our people throughout the Group, giving them the leadership, professional development and other tools which are strengthening our ability to deliver our transformation plans and leverage the extraordinary breadth of expertise across our business.

## Outlook

We intend to deliver further progress from our multi-year transformation plans in our 2015/16 financial year. We currently anticipate strong progression in our non-rail businesses, driven mainly by the ongoing turnarounds of First Student and UK Bus, to largely offset the substantially lower contribution from UK Rail as a result of the end of the First ScotRail and First Capital Connect franchises.

First Student will continue to seek higher pricing with the resultant risk of some contract losses during the 2015 bid season, though with just over half of the negotiations completed so far, we are encouraged by our progress, with average price increases achieved to date of over 5%. We anticipate this improvement together with further cost efficiencies to result in further margin progress for First Student in 2015/16, despite an impact of approximately \$17m to operating profit as a result of the lower number of operating days compared with the prior year. We expect First Transit to continue to bid for contracts offering good margins with modest capital investment, though we expect some reductions in demand for our shuttle services in the Canadian oil sands region as a result of lower oil prices. In Greyhound we expect our yield management systems to be operational from the middle of our 2015/16 financial year, with the financial benefits building over time. If recent oil prices are sustained throughout the year, we would expect Greyhound passenger demand to remain relatively muted, and we will continue to manage our variable costs in response. In UK Bus we will continue to drive overall volume growth and market-based yield enhancements while targeting further cost efficiencies in 2015/16, tailoring our actions to local conditions in the light of the progress each market has made through our turnaround plan. UK Rail's contribution to Group earnings will be substantially lower in 2015/16, as a result of the First Capital Connect and First ScotRail franchises coming to an end. As previously indicated, we expect cash flow in our 2015/16 year to be broadly flat before the remaining UK Rail end of franchise outflows of approximately £30m.

Our improved financial performance this year demonstrates that our multi-year transformation programme is making progress, though we must maintain the momentum of change to meet our medium term financial targets. Accordingly we will continue to work hard to deliver the considerable potential of the Group and return to a consistent profile of cash generation and sustainable value creation.

**Tim O'Toole**  
Chief Executive  
10 June 2015

## The world we live in

Keeping people moving and communities prospering in an increasingly congested world is ever more important.

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Meeting the diverse needs of passengers in our increasingly complex and congested world will require ever more sophisticated transport solutions.

Improvements in personal mobility and efficient transportation of goods and services have always been important for economic growth, at least as long ago as the catalytic effect of the steam train on the industrial revolution. People need to travel for a wide range of reasons – business, education, healthcare, social and recreational – and the ease, speed and efficiency with which they do so has a major impact on the prosperity of their local economy and the flourishing of their community. As the time, effort and financial costs of travel reduce, the addressable market of a business increases, the catchment area of an employer widens, and the coverage range of highly specialised institutions such as universities, healthcare services or cultural centres grows. As a result, the need for efficiency and innovation in transport at all levels is a critical enabler of prosperity.

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### Urbanisation

The influence of transport availability can be seen most clearly on two scales – efficiency and density. The falling costs of long distance transport have resulted in an increasingly efficient, globalised economy. In addition, cities and mega-cities continue to grow in importance because their high densities allow so many more people to interact with each other. As a result cities are centres of innovation and change, social mobility, and economic growth. More than half of global GDP is generated in just the largest 600 cities globally, a proportion that is expected to increase. More than half of the world's population today already live in urban areas, up a quarter from as recently as 1950. Despite the advent of 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.

### Congestion, quality of life and complexity

Urbanisation and the prosperity it brings also create new challenges. With 1.5 million people moving into urban areas every week worldwide, it is becoming increasingly critical that transport services both within and between cities innovate and change to keep pace with demand. Increasing congestion and poor connectivity threaten the rationale for living closer together, and exact an increasing cost in lost productivity – for example, some estimates<sup>2</sup> put the annual cost of traffic congestion in the hundreds of billions for the US by the 2030s.

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### Our core 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<sup>1</sup>. High and increasing proportions of both populations are either in education or retirement age, demographic bands where use of our services is proportionately higher – just over 40% currently, rising to more than 45% by 2050<sup>3</sup> in both. Although car ownership is relatively high (53 passenger vehicles per 100 people in the UK and 78 per 100 in the US<sup>4</sup>), national and local authorities in both markets are actively seeking to encourage greater use of alternatives. Indeed some analysts believe that 'peak car' has already occurred in the UK and potentially in the US<sup>5</sup>. Both markets also have a long history of transport deregulation, with mature business models and regulatory frameworks that encourage partnering with the private sector for transport infrastructure and services.

<sup>1</sup> UN Population Division, World Urbanization Prospects (2014).

Centre for Economics and Business Research (CEBR).

<sup>2</sup> 2013 report by transportation analytics provider INRIX in collaboration with the

<sup>3</sup> UN Population Division, World Population Prospects (2013).

<sup>4</sup> OECD: Environment at a Glance (2013).

<sup>5</sup> "Have we really reached 'peak car'?", The Guardian, 30 April 2015.

<sup>6</sup> UK data from DfT National Travel Survey (2012). US data from US Department of Commerce, Census Bureau (2011).



Every week 1.5m people move into urban areas<sup>1</sup>



Congestion is expected to cost the UK nearly £33bn a year by 2030<sup>2</sup>

In many cities which continue to rely heavily on the passenger car, the cost of urbanisation is also counted in air quality degradation and an increasing contribution to carbon emissions. Where alternative modes of transportation to the car do exist, they are under increasing pressure as demographic and social changes increase the proportion of city dwellers who are reliant on mass transportation, such as those in education, retired, or unable to drive themselves. In addition, more and more (particularly young) urban dwellers are choosing not to drive, given the costs of buying and maintaining a car and the issues of parking congestion and sustainability concerns. The digital economy is also offering more opportunities to access 'transport as a service', through car sharing and other applications.

In response national and local governments have encouraged a range of measures to improve the connectivity and efficiency of transport networks, such as a multiplication of the number of transport modes, investment in improved infrastructure and increased interconnectivity between modes. Passengers are being encouraged to use a broader range of travel options than ever before, but with this complexity comes additional challenges in terms of interconnecting the various options and giving passengers access to the information necessary to make best use of them all. Employing a range of measures such as differentiated pricing, advertising and loyalty programmes to manage demand for different transport options has also become increasingly important.

### Meeting a diverse range of needs

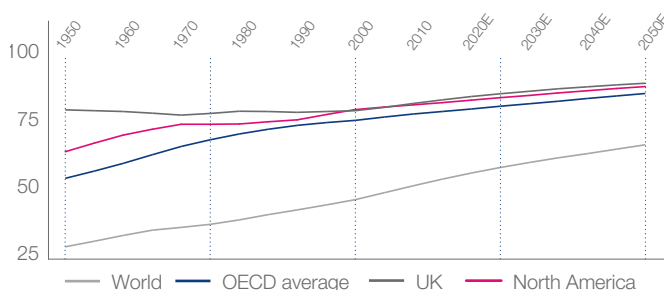
While urban areas continue to grow and the range of transport options becomes more complex, passenger requirements for safety, comfort and convenience are continuing to increase. Competition between different transport options and amongst different operators continues to drive up quality and performance standards throughout the industry. It is becoming increasingly important to deliver services that are highly responsive to changing passenger needs, especially as value for money remains an important criterion for passengers and taxpayers. Travellers often use more than one mode of transport to complete their journeys, so thinking on a transport system-wide level is also increasingly vital.

### The future

Access to efficient and attractive transport solutions will continue to play a vitally important role in keeping people moving to and from the activities that they value and need. Their quality of life and the prosperity of their communities is enabled by the transport options linking people together. Increasing urbanisation will continue to create challenges of congestion, environmental impact and complexity, and more and more people will become reliant on mass transport solutions. An increasingly broad range of skills, expertise and capabilities – and the ability to link them together – is becoming more and more important to the delivery of the transport services passengers will want and need in the future.

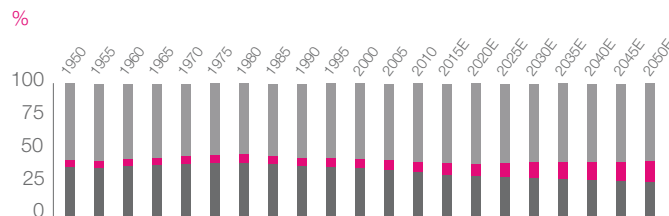
### Share of global population living in cities<sup>1</sup>

Annual % of population residing in urban areas, 1950-2050E

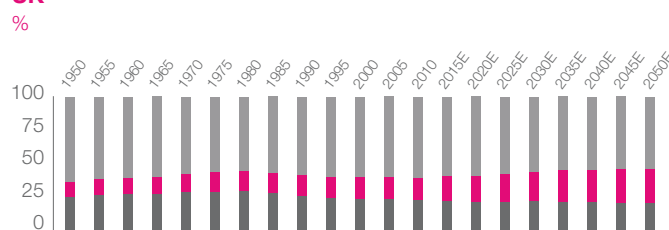


### Share of global population by age group<sup>3</sup>

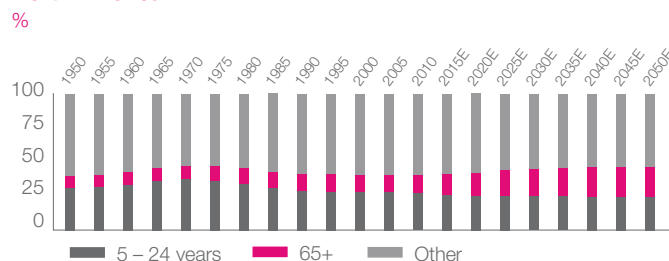
World



UK



North America



### Number of trips by main mode<sup>6</sup>

Percentage of trips per person per year

UK



US



Car	65%	Car	90%
Bus	7%	Public transport	5%
Rail (inc. London Underground)	3%	Walk/cycle	4%
Walk/cycle	24%	Other	1%
Other	1%		



## Business model

Our services help to create strong, vibrant and sustainable local economies and our opportunity is to be the provider of choice for the customers and communities we serve.

## Our vision

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

FirstGroup has a competitive advantage as a result of our scale and the diversity of our market-leading portfolio of transport businesses: we design and operate more networks in partnership with more communities, we hire, train and manage more employees, we procure, maintain and deploy more vehicles, and we transport more passengers than any other operator.

Our overall strategy is to leverage our scale and the breadth of our global expertise for the benefit of our local markets. Through this strategy we are ideally placed to provide the transport solutions increasingly needed by our customers (see pages 10-11), and to deliver the promises embodied in our vision and underpinned by our values.

Each of our five divisions are exposed to different geographies, customers, revenue models, demand drivers and competitors within the overall transport industry, and are therefore run in a decentralised way so as to be responsive to the needs of our local customers. The diversity of our revenues by geography and customer type typically makes the overall Group relatively resilient through the business cycle. Our lean corporate centre focuses on fostering a high performance culture, sets the strategic direction, raises and allocates capital, establishes key targets and standards, monitors performance and provides challenge.

While the detailed drivers differ by division, and are reviewed in depth in the business review (see pages 20-39), the business model of any transport operator is in principle simple. Revenues are generated either from passengers paying for the transportation service directly, or the service is procured on behalf of passengers by government or other parties. The operator must ensure appropriate vehicles are available where and when they are needed, staffed by suitably qualified and engaged employees, and that the service provided meets the safety, reliability, environmental and other needs of the passengers and communities served. Successful execution of this business model delivers gains for a wide range of stakeholders: passengers get where they want to go via attractive, modern services; employees have a rewarding career; governments facilitate increased economic activity; local communities limit congestion and other environmental costs of transport; suppliers are part of a successful ecosystem; and shareholders receive an appropriate return, even after the substantial reinvestment necessary to sustain the business model for the long term.

Successful delivery of our financial targets, and sustained value creation as a Group in the longer term, depend on our five strategic objectives. With the strategic objectives guiding our actions, and our values underpinning the way we work together as a Group, we will deliver the promises made to our customers and communities as embodied in our vision, and the commitments made to our other stakeholders including shareholders.

## 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.

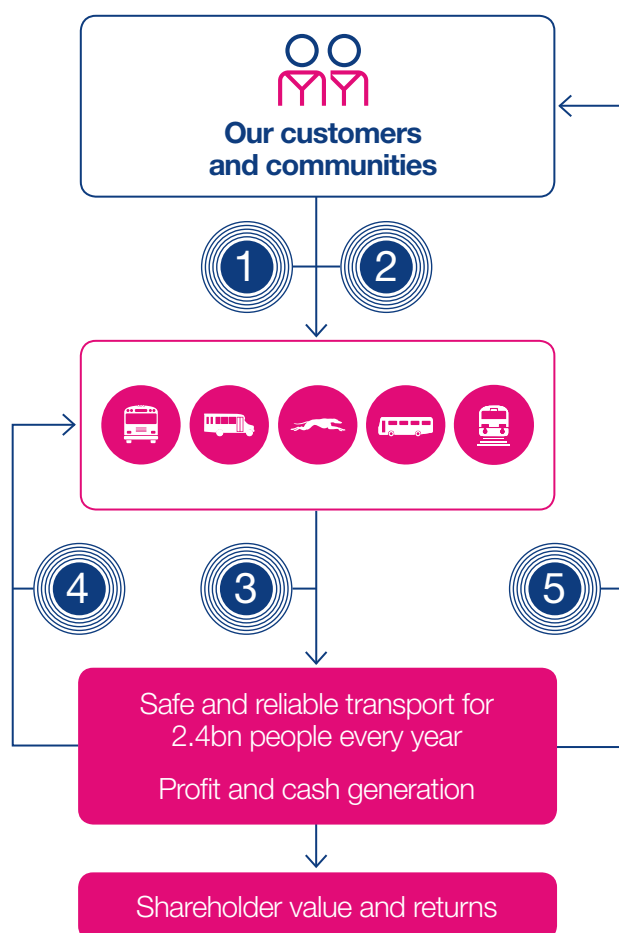
### Setting the highest standards

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

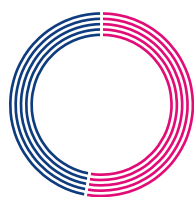
## For more information

Strategic objectives	Pages 14-15
Chief Executive's strategic review	Pages 08-09
Business review	Pages 20-39
Corporate responsibility	Pages 40-43

## Our business model



## Approximate Group revenue by type



Passenger revenue	53%
Contract or franchise revenue	47%

## Approximate Group revenue by geography



UK	51%
US	41%
Canada	8%

## 1 Focused and disciplined bidding in our contract businesses

Approximately half our revenues are backed by contracts or franchise agreements with national government, regional and local authorities in the UK, and state and municipal authorities, local school boards, universities and private companies in North America. Across the Group we manage over 1,600 such contracts, which are typically competitively tendered, and of multi-year duration. Continuing to build on our many years of experience formulating successful bids at appropriate levels of risk, and managing the delivery of the resulting contracts, is critically important for our business.

## 2 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 very broad demographic mix and use our services for a wide range of business, commuting, educational, medical, social and recreational purposes. All of our markets are highly competitive, and therefore a strong understanding of the changing needs of our local customers is vital to ensure our services continue to grow. Offering a responsive range of destinations, frequencies and ticket options at competitive prices is a key objective in our passenger revenue businesses.

## 3 Continuous improvement in operating and financial performance

By its nature, the transport industry involves the risk of injury to employees, passengers and third parties, which is why it is central to our culture and values to keep safety front of mind. No less important for our customers is delivering a consistent and attractive service on which they can rely. In both areas we constantly reinforce standards and seek out best practice from across the Group and beyond in order to strive for ever more stretching improvement targets. This focus on disciplined operations and continuous improvement is also brought to bear on our financial performance, where we must manage employee productivity, asset/fuel efficiency, procurement, overheads, insurance and other costs to ensure efficient use of our resources.

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

Through successful execution of the first three strategic objectives, we delivered safe and reliable transportation services for around 2.4 billion people last year, and generated profits and substantial operating cash flow. To continue to deliver for all of our stakeholders over the longer term, reinvesting appropriately in the future is vital. Our most important assets are our 110,000 people – we invest heavily in hiring, supporting and developing our employees to ensure we continue to have the best people delivering our services. We also invest to ensure our fleets of nearly 60,000 vehicles across the Group are fit for purpose and offer the safety systems and other services that passengers want (such as smart ticketing, real-time information and Wi-Fi). We also invest in our systems and processes to support other strategic objectives, such as the current programme to transform Greyhound's pricing, seat management and ticketing systems, for example.

## 5 Maintain responsible partnerships with our customers and communities

Our final strategic objective is to invest time, energy and capital in what matters to our key stakeholders. We focus on building long term partnerships with our customers and communities, learning what they want and striving to deliver it for them. Our long term success is built on being a responsible partner to all our stakeholders, an approach that is about much more than meeting certain 'licence to operate' contractual stipulations. In reality we act as a responsible corporate citizen because the long term success of our business is tightly entwined with the aspirations, opportunities and success of our customers and communities. We can only create value and deliver sustainable returns to our shareholders if our services help to create strong, vibrant and sustainable local economies, where we are the provider of choice for the customers and the communities we serve.

## Strategic objectives

We have five strategic objectives which will drive progress towards our key medium term financial targets.



**1** Focused and disciplined bidding in our contract businesses



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



**3** Continuous improvement in operating and financial performance

### 2014/15 progress

- First Student achieved average price increases of approximately 4.5% in the 2014 bid season whilst maintaining contract retention rate of 90%
- First Transit won more than 20 contracts; core contract retention rate was just under 90%
- UK Rail secured First Great Western franchise to at least 2019 and additional year on First TransPennine Express; disappointed not to win in recent franchise competitions but bid discipline maintained
- UK Bus delivered 2.6% commercial passenger volume growth, with many parts of the business beginning to deliver positive yield from market-based price increases
- Greyhound customer-facing website and apps upgraded to add functionality
- Greyhound Express like-for-like growth of 3.0%; in addition new routes in Texas, Arizona, Nevada and New Mexico added in the year
- First Student improved margins by one percentage point, with \$19m in cost savings despite localised driver shortages
- UK Bus improved margins by one percentage point through operational leverage to volume and £15m in cost efficiencies
- Greyhound actively managed mileage, timetables and pricing to mitigate contraction in passenger demand from cheaper fuel

### Future priorities

- First Student to maintain strategy of requiring pricing that fairly reflects capital deployed
- Maintain First Transit's track record of winning capital-light, profitable contracts from a range of outsourcing opportunities and develop additional business in new markets
- UK Rail to continue to participate in UK Government rail franchise opportunities to increase rail portfolio, with a disciplined approach aiming to balance appropriate returns at acceptable levels of risk
- Drive continued UK Bus passenger volume growth through ongoing engagement with local customer needs, and maintain market-based pricing discipline
- Complete the transformation of traditional Greyhound to deliver real-time pricing and customer relationship management tools to sustainably increase patronage
- Continue profitable expansion of Greyhound Express and other point-to-point coach brands
- Capture and sustain remainder of \$50m per annum cost efficiency target in First Student
- Continue to drive maintenance, driver cost management and procurement efficiency programmes in UK Bus
- Maintain focus on disciplined operations and cost control throughout the Group, and continue developing cross-divisional sharing of expertise
- Augment Group-wide safety culture, led in 2015/16 by a programme to reinforce safety as a personal core value of our employees

### Key Performance Indicators

- First Student and First Transit contract retention
- Group revenue
- Greyhound, UK Bus and UK Rail change in like-for-like revenues
- Group revenue
- Punctuality/on time performance
- Employee lost time injuries
- Passenger injury rate
- Adjusted operating profit
- Adjusted EPS

### Principal risks and uncertainties

- Economic conditions
- Contracted businesses
- Competition
- Rail franchises/bidding
- Treasury risks
- Fuel costs
- Employee costs and relations
- Economic conditions
- Political and regulatory issues
- Competition
- Information technology
- Customer service
- Attraction and retention of key management
- Employee costs and relations
- Economic conditions
- Political and regulatory issues
- Contracted businesses
- Competition
- Information technology
- Rail franchises/bidding
- Treasury risks
- Pensions
- Fuel costs
- Customer service
- Litigation and claims
- Attraction and retention of key management
- Employee costs and relations
- Environmental
- Severe weather and natural disasters

**For more information**

Chief Executive's strategic review	Pages 08-09
Business review	Pages 20-39
Key performance indicators	Pages 16-19
Principal risks and uncertainties	Pages 44-49
Directors' remuneration report	Pages 76-100



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

- Gross capital investment of £425.1m including largest ever UK Bus order; vast majority of Greyhound fleet now new or refurbished
- Existing Greyhound pricing and routing infrastructure upgrade completed to plan
- UK Bus mobile ticketing roll out completed, First Transit investing in real-time analytics, First Student FOCUS system fully deployed
- Employee engagement score increased by 15 points to 72% compared with last Group-wide survey



## Maintain responsible partnerships with our customers and communities

- Customer satisfaction trends improved in First Student, First Transit and most of our UK Rail operations while UK Bus repeated record satisfaction levels and a second year of improvement in value for money
- Greyhound satisfaction was affected by disruption to timetables and First TransPennine Express dipped due to service issues after introduction of a new timetable
- UK Bus and Rail delivered critical transport services for Scotland's summer of sport
- Greyhound investment in yield management and other tools to stimulate demand and manage costs on line by middle of 2015/16
- Continue investment in real-time passenger information systems, smart ticketing and passenger Wi-Fi in First Student, First Transit and UK Bus
- Continue investment to enhance recruitment, retention and development of people at all levels throughout the Group
- Maintain appropriate levels of capital investment in our fleets to meet legal commitments and customer expectations

- Employee engagement
- Average fleet age
- Group ROCE

- Customer and passenger satisfaction
- FirstGroup community investment
- Greenhouse gas emissions

- Political and regulatory issues
- Information technology
- Treasury risks
- Pensions
- Fuel costs
- Attraction and retention of key management
- Employee costs and relations
- Environmental

- Political and regulatory issues
- Contracted businesses
- Information technology
- Rail franchises/bidding
- Terrorism
- Customer service
- Attraction and retention of key management
- Employee costs and relations
- Environmental

## Key medium term financial targets

- Increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve
- Improve First Student and UK Bus margins to double-digit levels
- Improve Greyhound margins to approximately 12%
- Increase Group post-tax ROCE to between 10-12%
- Maintain investment grade credit rating and reduce net debt:EBITDA ratio to approximately two times

## Remuneration

A key principle underpinning the Group's remuneration policy is to ensure it is aligned with these strategic objectives and our transformation plans. 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.

## Key performance indicators

We measure our performance through a series of financial and non-financial key performance indicators.



### 1 Focused and disciplined bidding in our contract businesses

#### First Student and First Transit contract retention

(%)



In our North American contract businesses we typically expect to maintain contract retention levels of around 90% by revenue.

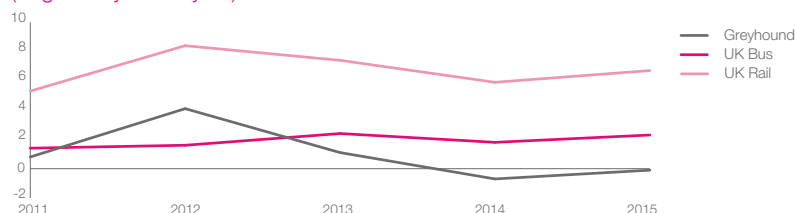
In First Student, our contract retention rate during the 2014 bid season was 90% of all contracts up for bid, towards the upper end of our expectations given our focus on improving contract returns, which yielded an average price increase of 4.5%. In First Transit, our contract retention rate was just below 90% in the year, after adjusting for the loss of one of our larger contracts which was delivering margins below the divisional average.



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

#### Greyhound, UK Bus and UK Rail change in like-for-like revenue

(% growth year-on-year)



Like-for-like revenue adjusts for changes in the composition of the divisional portfolio and other factors that distort the underlying year-on-year trends in our passenger revenue businesses. Greyhound's like-for-like revenue decreased by 0.1% in 2014/15, due to the adverse effect on customer demand from sharply lower fuel prices. UK Bus like-for-like passenger revenue increased by 2.3% in 2015, as a result of further passenger volume growth and some yield from local market-based pricing strategies. UK Rail like-for-like revenue (up 6.7%) continued to benefit from growth in passenger volume.

#### Group revenue

(£m)



Reported Group revenue decreased by 9.9% in the period to £6,050.7m, although adjusting for UK Rail franchise changes, non-recurring revenues from UK Bus operations sold or closed in the prior year and foreign exchange translation, underlying Group revenue increased by 4.1%.



## Strategic objectives

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



## Continuous improvement in operating and financial performance

### Punctuality

#### Greyhound on time performance (%)

2015	91.0%
2014	89.3%
2013	91.4%
2012	89.1%
2011	87.1%

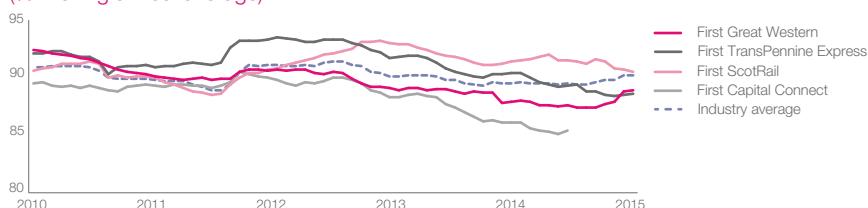
#### UK Bus punctuality (%)

2015	91.7%
2014	93.0%
2013	92.2%
2012	92.2%
2011	90.5%

Greyhound's on time performance (percentage of services leaving within 15 minutes of scheduled departure from origin) improved during 2014/15 as we introduced service processes modelled on best practice at Greyhound Express. Enhanced boarding processes and new technology will also drive this measurement going forwards.

Our UK Bus punctuality (percentage of services no more than one minute early or five minutes late) has been affected by road repair programmes in a number of urban areas. We are working with local authorities on these temporary issues, and in the worst affected areas we have increased the number of buses and drivers deployed.

#### UK Rail Public Performance Measure (PPM) (% moving annual average)



Our UK Rail PPM scores of punctuality and reliability suffered from disruption caused by infrastructure failures affecting our networks, whilst First ScotRail was also affected by congestion during the Commonwealth Games. First TransPennine Express's score was affected by service issues following the implementation of a new timetable, but by the end of the year performance had recovered.

### Safety

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

2015	8.1
2014	8.4
2013	8.3
2012	8.9
2011	10.8

#### Passenger injury rate (per million miles)

2015	4.5
2014	4.3
2013	4.1
2012	4.1
2011	3.8

Our lost time injury rate reduced by 3% to 8.1 instances per 1,000 employees in 2014/15. This was better than target in all divisions except UK Bus, where this KPI remains an important focus.

The rate of passenger injuries per million miles improved significantly across all of our North American divisions in 2014/15, but was below target in the UK, resulting in an overall adverse trend of 5% year on year. Plans for augmenting our safety culture are ongoing, led in the coming year by a programme to reinforce safety as a personal core value for all employees throughout the Group.

### Financial performance

#### Adjusted operating profit (£m)

2015	303.6
2014	268.0
2013	254.1
2012	361.0
2011	403.1

#### Adjusted EPS (p)

2015	9.8
2014	7.5
2013	11.0
2012	24.4
2011	26.6

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.

Group adjusted operating profit increased by 13.3%, while adjusted EPS increased by 30.7%, reflecting increased operating profit and lower net finance costs, partly offset by the increased number of shares in issue following the rights issue completed in the prior year.

## Key performance indicators

### continued



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

#### Employee engagement

##### Your Voice employee engagement score (%)

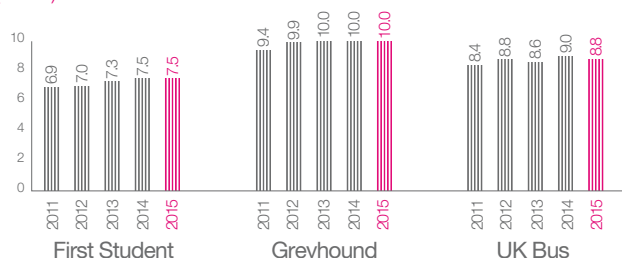


Employee engagement, as measured through our 'Your Voice' employee survey and pulse checks, has continued to increase year-on-year. Our Group-wide engagement score is now at 72%, demonstrating our commitment to listening and acting on employee feedback.

A number of parts of the Group are above the norm for employee engagement, including in Greyhound, who were listed for the first time in the Forbes magazine 'America's Best Employers' list in 2015.

#### Average fleet age

(Years)



In First Student our average fleet age remains around 7.5 years, with the cost of our continued investment in our fleets partially offset by cascading some buses released from completed contracts to fulfil roles elsewhere in the division.

The vast majority of Greyhound's active fleet is either new or has been extensively refurbished in recent years – such that while the reported age is 10.0 years, the effective average age is 7.9 years.

Having increased with the disposal of our London operations in 2013/14, UK Bus average fleet age has begun to reduce in 2014/15, reflecting ongoing reinvestment in our fleet.

#### Group ROCE

(%)



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

Group ROCE was 7.8% in 2015, reflecting increased adjusted operating profit offset by an increase in capital employed as translated at year-end currency rates. On a constant currency basis, ROCE improved to 8.5% in the 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)



Customer satisfaction in both First Student and First Transit has continued to increase, with First Student making gains for the sixth year in a row.

As well as strong overall satisfaction scores, both divisions saw continued gains in other key metrics, such as likelihood to recommend, commitment to safety and satisfaction with local teams.

## Strategic objectives

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

## Customer and passenger satisfaction, continued

## Greyhound

(% of passengers who would recommend our services)

## 'Traditional' Greyhound



## Greyhound Express



## Greyhound – BoltBus



## UK Bus

(% very or fairly satisfied)

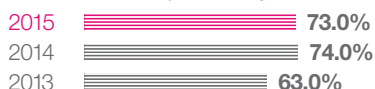
## Overall satisfaction



## Satisfaction with value for money



## Satisfaction with punctuality

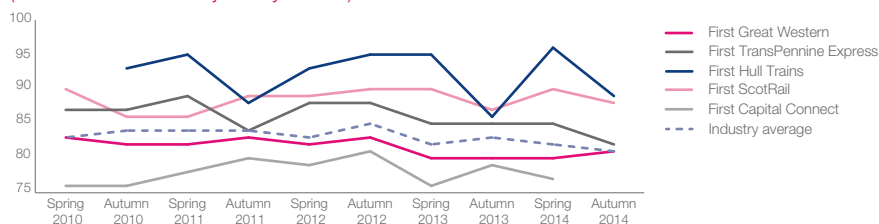


Satisfaction with our Greyhound brands remained high in 2014/15, particularly in Greyhound Express, with a majority of passengers across Greyhound stating that they would recommend our services to others. Nonetheless, bad weather again affected scheduling this winter which reduced levels of customer satisfaction, especially in the traditional business.

Our UK Bus division achieved an 86% overall passenger satisfaction score. This equals our record, following a 5 percentage point rise in 2013. We also scored record value for money satisfaction, which is key to our strategy, increasing 17 percentage points over two years to 65%, which is 2% above the national average. Satisfaction with punctuality reduced slightly due, in part, to the impact of local authority roadworks mentioned above. As we deliver further improvements to service performance, investment in our bus fleet and smart and mobile ticketing options, it is expected that these satisfaction numbers will increase further.

## UK Rail

(% satisfied with their journey overall)



A national average of 81% of train passengers were satisfied in autumn 2014 according to the latest figures published by Transport Focus. Their poll of 27,000 people looked at topics ranging from reliability to staff attitudes and value for money. All our train operating companies scored the average or higher, with First ScotRail scoring 88% satisfaction overall and with just 3% saying they were dissatisfied with their service. 82% of passengers were satisfied on First TransPennine Express, 81% satisfied on First Great Western and 89% satisfied on First Hull Trains.

## Total FirstGroup community investment

(£m measured using the London Benchmarking Group criteria)



This year we contributed £1.7m to our communities across the UK and North America, as measured by the London Benchmarking Group model. This includes cash contributions made directly by the Company (such as donations and matched funding), time (including over 3,600 hours of employee volunteering), in kind support (of items like travel tickets or advertising space), and leverage (including contributions from other sources such as employees, customers and suppliers). Overall, more than 1,500 organisations benefited from our support. Read more on page 43.

## Environmental

## Greenhouse gas emissions

(Tonnes of carbon dioxide equivalent per £1m of revenue)



Our emissions are quantified and reported in line with the WRI/WBCSD Greenhouse Gas Protocol. We report our emissions from all activities for which we are responsible across our global operations expressed in tonnes of carbon dioxide equivalent (CO<sub>2</sub>(e)), normalised per £1m of revenue. All data now excludes First Capital Connect, which we no longer operate.

In 2014/15 our normalised emissions increased by 5.95% to 464 tonnes of CO<sub>2</sub>(e) per £1m of revenue. The longer term trend shows a 0.09% reduction against our 2010/11 baseline. Read more on page 42.

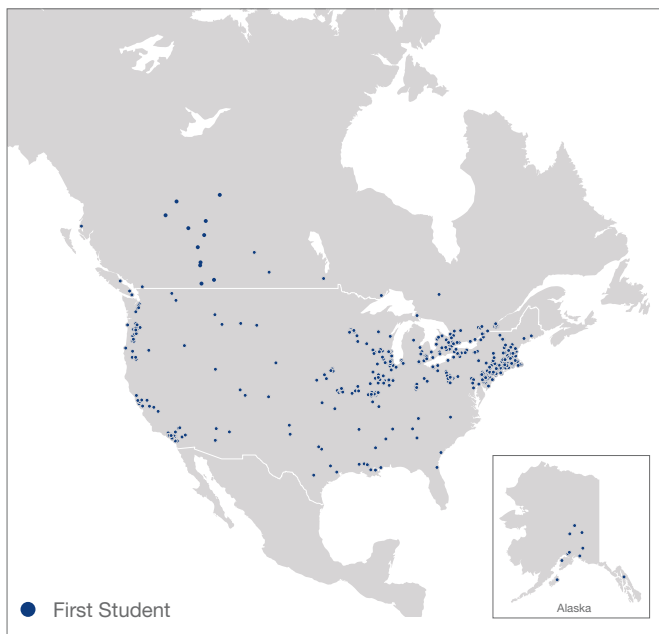


## Market overview

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

We must continue to deliver a service we can be proud of while ensuring we can do so for the long term, by earning sustainable returns.

**Dennis Maple**  
President, First Student



## Market review and trends

School buses provide home to school transportation for millions of students in the US and Canada. There are more than 15,000 school districts in North America, which deploy more than 500,000 school buses. The total North American market is estimated to be worth around \$24bn per annum, of which school districts directly operate approximately 63%, with 37% outsourced to private operators. Charter services are also operated, typically of limited duration and scope, either for school customers separate from scheduled school runs or for other customers such as church and community groups or businesses.

Long term demand for school transportation services is principally driven by the size of the school-age population; however other factors including the propensity of school boards to outsource and changes in the local criteria for service provision (such as the distance to school bands within which the service is offered) can play a part in the addressable market for private operators. In the last three years, the market has stabilised with some positive but limited organic growth, following a period when the economic downturn put pressure on customer budgets, which led to organic retraction, price pressure, and atypical levels of contract churn. While school board budget pressures have eased, high quality, high efficiency outsourced providers offer an increasingly attractive value proposition to potential customers.



Over 500 operating locations across US and Canada



Around 1,300 contracts, typically 3-5 year duration

## Customers

School districts provide transportation for students depending on varying criteria determined at state level. Contracts typically specify either 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 competitively retendered. School districts receive their funding from state and local sources, including property tax receipts, and their budgets for all expenditure, including transportation, tend to be linked to economic factors. In addition to school districts outsourcing student transportation for the first time (known as '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 14 operators running more than 1,000 buses. The largest four companies, including our business, account for just below half of the outsourced market. The next 45 largest contractors operate approximately 25,000 buses, and the remaining outsourced contracts are operated by several thousand companies, often termed 'mom and pop' operators. 'Share shift', or winning contracts previously managed by other outsourced providers, together with acquisitions, provide additional avenues of growth.

## Market attractions

- Contracted revenue with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Security and safety track record at least as important as price
- Established relationships with local communities a barrier to entry
- Fragmented competitive environment – long term consolidation opportunity.

## Approximate share of outsourced market (around 37% of total market)



First Student	26%
National Express	11%
Student Transportation of America	6%
Illinois Central	2%
Other	55%

## Strategy and performance

	2015	2014
Revenue	<b>\$2,368.6m</b>	\$2,339.3m
Operating profit	<b>\$177.3m</b>	\$152.8m
Operating margin	<b>7.5%</b>	6.5%
Number of employees	<b>57,000</b>	57,500

## Financial performance

Revenue in our First Student division was \$2,368.6m or £1,478.8m (2014: \$2,339.3m or £1,467.4m), 1.3% higher on a US Dollar basis, benefiting from our successful pricing strategy during the 2014 bid season and modest organic growth. Operating profit was \$177.3m or £114.9m (2014: \$152.8m or £93.5m), resulting in a US Dollar margin of 7.5% (2014: 6.5%). The one percentage point improvement in margin reflects the benefits of our pricing strategy in respect of the approximately one third of the portfolio retendered in the 2014 bid season, recovery of operating days lost to the severe weather in the prior year, a benefit of \$19m in the year from our ongoing \$50m per annum cost efficiency programme, partially offset by continued pockets of driver shortage in parts of the business and cost inflation running slightly ahead of price indexation on the bulk of our contracts not yet rebid under our pricing strategy.

## Our strengths

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

**Differentiated offering** – technology, safety programme, strong customer relationships and satisfaction scores

**Turnaround plan is progressing** – disciplined contract portfolio management, capital discipline and cost efficiency plans are driving margins and returns

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





Focus on  
First Student

## New recruitment system offers benefits

First Student is at the initial stages of introducing a consolidated recruiting model allowing online application, which will replace the previous paper-based, decentralised driver recruiting process. The new system, which is based on a similar successful model developed by our UK divisions, allows a more consistent approach to recruitment across different locations and online application, saving time for our management teams. A pilot was launched at 53 locations in late 2014, and learnings from this pilot will help inform the phased roll out of this new system which will take place across the division over the next three months.



Prudent investment in our key assets

### Focused and disciplined bidding

A key element of our turnaround plan in First Student is addressing contract portfolio pricing on new bids and renewals to ensure that we achieve appropriate returns on capital on our contract portfolio. As is typical, approximately one third of our bus portfolio was up for renewal in the 2014 bid season, and we were pleased to achieve average price increases on these contracts of approximately 4.5%. Our contract retention rate of 90% on those contracts up for bid was at the upper end of our range of expectations. As a result, the proportion of First Student's contract portfolio earning margins below 5% has reduced from 36% in 2014 to below 30% in the current year. The level of acceptance of our price increases, together with a third year of modest organic growth under existing contracts, suggests that market conditions are continuing to improve. We continue to compete effectively in the conversion market from in-house to privately operated services, which we believe offers significantly better value, though at present the number of new outsourcing opportunities continues to be limited. Together with some 'share shift' wins from competitors and a small tuck-in acquisition in New York, our overall bus fleet reduced by around 60 buses, remaining just over 49,000.

### Continuous improvement in operating and financial performance

In addition to the pricing strategy, we made good progress on the next phase of our cost efficiency programme. We are rolling out a programme to address the recruitment challenges we have faced in some localised parts of our business, which includes an applicant tracking system developed in our UK divisions, and further savings continue to be driven by implementing and monitoring compliance with identified best practice operating procedures throughout our more than 500 locations. This programme has now delivered around \$120m in annual cost efficiencies including \$19m in 2014/15 as targeted, and we expect to deliver a further \$30m per annum in savings by the end of the 2016/17 financial year. Almost three quarters of our engineering locations have achieved silver or gold 'lean' certification. Key areas of opportunity going forward include further savings from lean engineering and maintenance procedures, employee productivity, procurement and more efficient use of fuel.

### Prudent investment in our key assets

We continue to increase our use of technology to raise customer service levels, promote environmental benefits and differentiate our services. Our FOCUS GPS system (which links onboard data to back office systems) is now fitted throughout the bus fleet, and functions as a platform for additional improvements. For example, our DriveSMART initiative, which combines driver training with fuel use data from FOCUS, incrementally saved nearly \$6m in fuel costs in the year. We are also carrying out field trials this year on a system using FOCUS to give parents the ability to track bus location in real time, which will be ready for roll out in time for the 2016 bid season. Our MyFirstPass system continues to be deployed in selected locations, giving parents and schools timely information on student ridership through swipe card technology. We invested approximately \$280m in new buses, refurbishments and onboard technology in the year; our average fleet age remained constant at 7.5 years.



Fleet of approximately 49,000 yellow school buses



Six million students transported per day

We also continue to develop our more structured approach to charter business, which delivers very strong incremental returns on capital employed as it utilises the existing bus fleet in between the contracted services at the beginning and end of the school day. In the year we opened three regional charter centres, handling almost a third of all our non-school charter work, which grew by 7% in the year.

### Responsible partnerships with our customers and communities

Our services form an integral part of the school experience for the millions of children in our care each day, and we take our responsibilities to them and to their parents, schools and communities very seriously. We are pleased to have achieved a sixth consecutive year of improved customer service scores, and we had a strong performance in our safety KPIs. Continuous improvement in our customer service and safety track record is deeply embedded in our values as an organisation, and is also a competitive advantage.

In addition to cost savings, the 2% improvement in fuel efficiency from our DriveSMART initiative reduces our environmental impact, and our alternative fuel fleet continues to grow, increasing by 250 buses in the year.

### Future priorities

First Student is a leader in our marketplace, both in terms of our size and the quality and safety of the services we provide. Through the continuation of our turnaround plan, we will deliver our medium term target of double digit margins by ensuring that we continue to bid or renew contracts only at prices that reflect the quality of service we provide and the capital that we employ. In addition we continue to implement and monitor best practice policies and procedures in all key areas throughout our business to reduce cost. In the longer term, First Student's unique market position, value proposition and increasing operational efficiency will ensure we are increasingly well placed to grow through further share shift, tuck-in acquisitions and organic opportunities.

### Outlook

During the 2015 bid season First Student is continuing to seek higher pricing with the resultant risk of some contract losses. With just over half of the negotiations completed so far, we are encouraged by our progress, with average price increases achieved to date of over 5%. We expect this improvement, together with additional cost efficiencies, to result in further margin improvement in 2015/16, despite an impact of approximately \$17m to operating profit as a result of fewer operating days due to the timing of Easter and Labor Day, which will reverse in our 2016/17 financial year.

### First Student fleet footprint



New York/New Jersey/Pennsylvania	21%
New England	13%
Ontario	11%
Illinois	9%
California	7%
Other	39%



Focus on  
First Student

## New campaign brings our value proposition to life

First Student have developed a new value proposition based on market insights and team expertise, and rooted in the Group's vision and values. The customer promise, including posters featuring employees, began to be rolled out at Employee Appreciation Days in May 2015.



Maintain responsible partnerships with our customers and communities



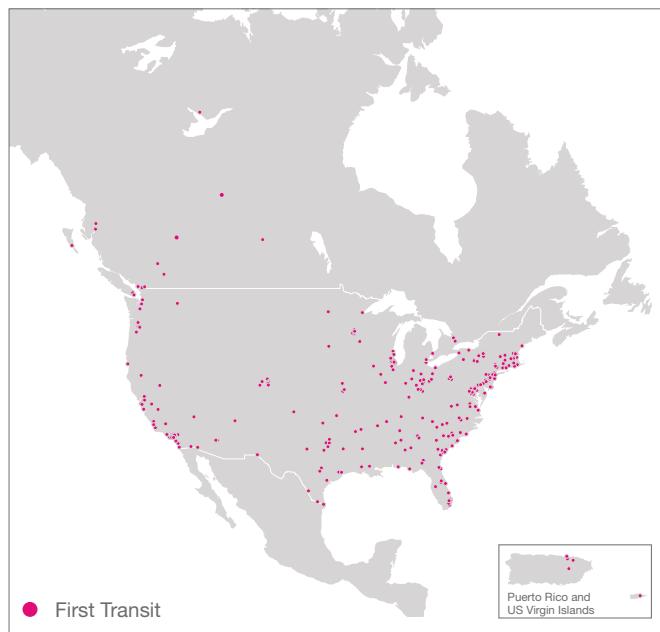
## Market overview

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

We continue to grow our diverse book of business by leveraging our long-standing reputation and wide ranging expertise and knowledge to bring superior services to our customers and communities.

### Brad Thomas

President, First Transit and First Vehicle Services



## Market review and trends

The transit market is worth around \$30bn per annum in North America, of which around 30% is outsourced. 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, of which three quarters is outsourced), private shuttle services (approximately \$2bn segment, of which around 90% is outsourced) and vehicle maintenance services (approximately \$3bn segment, of which around one third is outsourced). Private transportation companies manage, operate, maintain and organise transportation services under contracts which typically last for three to five years or longer.

As populations continue to age and urban congestion increases, the scope and sophistication of municipal and other transportation services required is rising, which enhances the attraction of bringing in private sector expertise. Although North American state and local government finances are improving with the economy, they continue to seek opportunities to increase the cost effectiveness of their transportation spending, which supports growth in outsourcing of certain services where private contractors can maintain or improve efficiency while reducing overall cost. The shuttle segment continues to grow, with private companies, universities and airports seeking to offer additional services to their own customers and employees.



Around 320 operating locations across US and Canada



Nearly 350 contracts, with average value of less than \$5m

## Customers

A wide range of customers contract out transportation services, including transit authorities, federal, state and local agencies, as well as private institutions including universities, hospitals and airports. The vehicle fleet maintenance services market includes contracting for private and public sector clients, including municipalities, and fire and police departments.

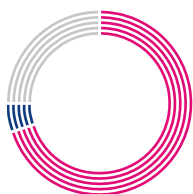
## Competitors

First Transit has over 15% of the outsourced market in the United States, which accounts for approximately 30% of the total market. The outsourced transit market is fragmented although First Transit has two large competitors, MV Transportation, Inc., and Transdev North America. The outsourced fleet maintenance market is highly competitive and our First Vehicle Services segment is estimated to be one of the largest providers in the market, with Penske and Ryder being the principal 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.

## Market attractions

- Contracted revenue mainly with public sector customers, low credit risk
- Typically high levels of contract retention
- Low levels of capital investment required (apart from the shuttle segment)
- Ageing population and congestion continue to provide support for continued growth through further outsourcing.

## Approximate share of c. \$24bn US transit market



In-house	70%
First Transit	5%
Other outsourced providers	25%

## Strategy and performance

	2015	2014
Revenue	<b>\$1,362.1m</b>	\$1,290.5m
Operating profit	<b>\$96.1m</b>	\$95.7m
Operating margin	<b>7.1%</b>	7.4%
Number of employees	<b>19,000</b>	19,000

## Financial performance

Revenue in our First Transit division was \$1,362.1m or £844.8m (2014: \$1,290.5m or £811.9m). US Dollar revenue increased by 5.5%, with revenue growth during the year in all of our divisional sub-segments, driven by the timing of contract awards and higher than anticipated organic growth on existing contracts. Operating profit was \$96.1m or £59.7m (2014: \$95.7m or £60.3m), resulting in a margin of 7.1% (2014: 7.4%), which is in line with our expectations and medium term objectives.

## Our strengths

**Established credentials and track record** – First Transit is a market leader and has a pedigree extending over 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.



Focus on  
First Transit

## Paratransit mobile info

We introduced a versatile and scalable secure mobile app during 2014, designed to keep passengers in touch with their paratransit service. The app utilises scheduling and real-time information from the transit authority's scheduling systems and the information displayed can be customised using the transit authority's own branding. This enhances customer service, particularly for those who are hearing impaired, and joins a suite of similar tools that we offer.



Prudent investment in our key assets

### Focused and disciplined bidding

During the year, we continued to maintain our track record of profitable growth in a range of segments, whilst developing opportunities in new markets. Through collaborative partnerships with public transit authorities and private customers, we also generated organic growth on existing contracts at the higher end of our planning range. Contract retention remained at a high level, as our customers continued to respond positively to our capabilities and competitive pricing. As previously indicated two of our larger contracts came to an end during the second half of the year, including one which was delivering margins below the divisional average, and few recently awarded contracts started up in the second half, though we continued to win additional new business that will commence in 2015/16.

In the year we were awarded new paratransit contracts in Minnesota, Florida and the San Francisco Bay area; fixed route contracts in Orange County, California and shuttle bus operations at colleges in New York state and Rhode Island, as well as a shuttle bus contract at Oklahoma City airport. In addition, we used expertise from our UK-based divisions and First Transit's existing client relationships to win business in the rapidly growing North American Bus Rapid Transit (BRT) market. We continue to see further opportunities to grow our shuttle business in the years ahead, which is the only part of the division that requires significant capital investment.

Key contract retentions during the year included our paratransit contract with Metropolitan Council in Minneapolis, our transit management contract with Connecticut Transit, and our shuttle bus operations at New Jersey University and Kennesaw State University. We also extended contracts for one of our fixed route operations in Denver and our shuttle bus operation at Houston International Airport.

### Continuous improvement in operating and financial performance

First Transit's opportunities continue to arise from successful competitive bidding, but also through attracting business that is being outsourced to the private sector for the first time. Our continued service and efficiency innovations help give us a competitive advantage compared to both public and private counterparts – in particular, our national service platform, technology infrastructure and management expertise are important differentiators. We continue to invest in our industry-leading technology including a suite of innovative real-time information solutions which will deliver cost efficiencies and better data for our clients, and improved performance for us.

### Prudent investment in our key assets

In First Transit we continue to focus investment spending on three principal areas: people, technology solutions and on vehicles for the shuttle segment, where typically we own the fleets and are continuing to invest to grow our leading university and airport shuttle portfolio.

We maintained our significant investment in recruitment, retention and continuous training of our people to ensure we have the depth of expertise required for our bid submissions and for subsequent service delivery that meets customer expectations. We are introducing an applicant tracking system for prospective new employees in the year, based on a successful system developed in our UK divisions.

Last year we initiated the roll out of our upgraded management dashboard, providing automated operational, maintenance and financial information, which is delivering cost savings. Our local management and regional support teams are now better equipped, with rapid and detailed information on their businesses readily available, increasing their ability to address any issues quickly and more completely. The dashboard provides a centralised repository of operational data and the ability to display KPIs in a user-friendly graphical interface, and allows management to make better and more informed decisions on the day-to-day operations of their systems, as well as plan for long term operational improvements. Other initiatives we have progressed through the year include predictive maintenance analytics and paperless workshop systems using tablet computers to improve performance.





Almost 350 million  
passengers a year



Operate and manage more  
than 12,500 vehicles, and  
maintain a further 36,000

### Responsible partnerships with our customers and communities

Our commitment to safety, technical and operational knowledge and professionalism is particularly recognised by our customers and our safety KPIs and customer service trends improved in the year. We are also at the forefront of the industry in developing mobile apps for our clients, allowing registered riders to monitor service disruptions, timetables and the location of services in real time.

We have enhanced our leading safety programme through the continued roll out of DriveCam technology, an event capture and driver behaviour monitoring system, which has the added benefit of improving fuel efficiency.

### Future priorities

There is continued growth potential in each of our markets, particularly in the shuttle segment and in paratransit work for larger cities. The outlook for further outsourcing opportunities is positive and potential opportunities are also growing in light rail, commuter rail and BRT, where we will seek to harness the strong expertise in our UK divisions as we examine potential bids in these areas. The expertise of our people and the quality of our technology gives First Transit a competitive advantage. We have a track record of innovation and in delivering cost efficiencies, which in turn ensures that, despite an increasingly competitive market, we will remain the low cost supplier of choice for our customers. We continue to anticipate achieving a margin of approximately 7% in the medium term, which we believe is attractive in the context of the limited capital employed in the division.

### Outlook

The overall pipeline of potential new business remains attractive as local authorities continue to consider ways to deliver transport services more cost effectively. Whilst we do anticipate some reductions in our provision of shuttle services to the Canadian oil sands sector during the year as a result of the lower oil price, we have a number of new business opportunities to help offset that impact.

### First Transit revenues by segment



Fixed route	37%
Paratransit	27%
Shuttle	26%
Vehicle Services	10%

Focus on  
First Transit

## First Transit at the Super Bowl

Super Bowl XLIX was held at the University of Phoenix Stadium in Glendale, Arizona in February 2015. First Transit, who provide fixed route services for Valley Metro in the area, played a key role in transport plans to carry thousands of fans to the biggest event in the US sporting calendar, working with partners including the Phoenix Public Transit Department. First Transit helped Valley Metro plan extra bus services around the Pro Bowl, Super Bowl and related events plus extended hours on some routes as well as a commemorative bus pass.



Maintain responsible partnerships with  
our customers and communities



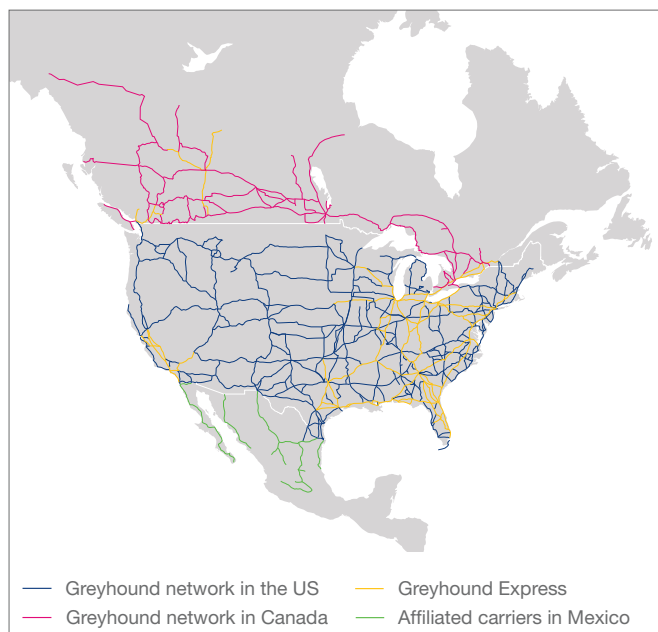


## Market overview

Greyhound is the only national operator of scheduled intercity coach services in the US and Canada, serving 48 US States and ten Canadian Provinces and Territories.

By marrying the latest customer technology to our unique nationwide network, we are ensuring Greyhound remains an American icon for its second century.

**Dave Leach**  
President and CEO, Greyhound

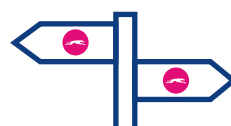


## Market review and trends

The US intercity coach transportation industry has grown overall every year since 2006 – reversing the trend of the previous 25 years, when the industry declined by an average of 2.9% a year. Growth has been driven principally by improvements in the onboard experience, new or enhanced service offerings, including point-to-point ‘express’ services on high density routes. The size of the potential market remains a significant opportunity for ongoing growth, with 42m people considering coach travel every year, of whom around a quarter currently use Greyhound. Even regular coach users choose competing modes 75% of the time, but a combination of more destinations, tailored services and price has the potential to grow this market and frequency of use.

Since the substantial and rapid fall in at-pump fuel prices for consumers in the final months of 2014, passenger demand has fallen as the marginal cost of driving has become more attractive compared with taking the coach. The longer term impact on the intercity coach market growth trend since 2006 will 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 catering outlets in terminals. Partnerships between Greyhound and independent bus lines, known as ‘interlining’, extends the reach of the national network. Greyhound also partners with Amtrak to offer passengers a through ticket to their final destination if not served by rail.



3,800 destinations offering  
48,000 city pairs across  
North America



Around 18m  
passengers travel  
5.4bn miles a year

## Customers

North American intercity coach firms serve a wide customer base, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services, such as Greyhound Express which now serves 135 markets across North America, are encouraging a new, younger passenger demographic. Increased urbanisation and city congestion are also beginning to have an impact on car ownership statistics, particularly for younger drivers. Historically, customers typically bought walk-up tickets on their day of travel, but new online and mobile services are driving an increasing trend for advance booking.

## Competitors

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

## Market attractions

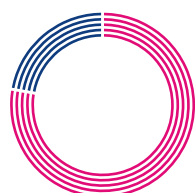
- Private car ownership may have peaked, driven by continued urbanisation, congestion and costs of motoring
- Ample opportunities to expand penetration and footprint with multiple brands and services
- Under-utilised services may be part-funded by transport authorities
- Target demographic segments respond to new innovation through technology and value for money offering
- Passenger, package, charter and food service revenues offer diversification.

### Distribution of Greyhound passengers by mileage band



1-200 miles	48%
201-450 miles	35%
451-1,000 miles	12%
1,000+ miles	5%

### Approximate Greyhound passenger revenue split between the US and Canada



US	78%
Canada	22%

## Strategy and performance

	2015	2014
Revenue	<b>\$986.0m</b>	\$990.6m
Operating profit	<b>\$68.5m</b>	\$73.2m
Operating margin	<b>6.9%</b>	7.4%
Number of employees	<b>7,500</b>	7,500

## Financial performance

During the year US Dollar revenue decreased by 0.5% to \$986.0m or £609.6m (2014: \$990.6m or £624.6m), reflecting the adverse effect on customer demand from sharply lower fuel prices, which improves the affordability of other forms of transport for some trips compared with Greyhound. As a result of the more flexible operating model introduced in recent years, we were able to react rapidly to the situation, actively managing mileage, timetables and pricing in response to these changed market conditions. Nevertheless Greyhound's operating profit was \$68.5m or £41.7m (2014: \$73.2m or £46.4m), resulting in a US Dollar margin below the prior year level at 6.9% (2014: 7.4%). Although our point-to-point brands were also somewhat affected by the sharply lower fuel prices, Greyhound Express continued to grow profitably, with like-for-like revenue growth of 3.0% during the year, compared with a like-for-like revenue decrease of 0.1% for the division as a whole.

## Driving growth through attractive commercial propositions

Greyhound is one of the most iconic brands in transport, with a unique national network giving us a competitive advantage and an established base for future growth. Passengers from our traditional network, which operates from some 3,800 locations across North America, help us feed our point-to-point brands including Greyhound Express and BoltBus. Our point-to-point brands have always operated modern, environmentally friendly buses equipped with features such as free Wi-Fi, power outlets, leather seats, extra legroom and guaranteed seating, and some of these amenities are being extended throughout the traditional network. Last summer we added additional destinations in Texas, Arizona, Nevada and New Mexico, to take our Greyhound Express footprint to 135 markets.

## Our strengths

**Iconic brand synonymous** with long distance coach travel

**Only national network of scheduled intercity coach services** – passenger feed from 48,000 city pairs provides operating leverage to point-to-point services

**A business that is reconnecting with customers** – operating a refreshed fleet with improved onboard amenities and additional sales and distribution channels

**Range of brands and price points** to target new markets.

## Business review

# Greyhound

continued

During the year we updated our Wi-Fi platform allowing passengers to stay connected throughout their journey, and launched an onboard catalogue of destination packages that allows them to purchase tickets to theatrical events, attractions and onward transportation offers, including shuttles and taxis, all from their seat using their own Wi-Fi enabled devices. We are using learnings from our point-to-point brands to improve the customer offering in our traditional business and attract a new demographic to bus travel. As an example of this, Greyhound's passenger app for smartphone users, which launched this year and

gives access to scheduling information as well as the ability to purchase tickets and view completed bookings, was based on the BoltBus product. Similarly the recently launched app for BoltBus drivers, which streamlines boarding by allowing our drivers to scan tickets and allows us to manage inventory better, is acting as a test bed for a product which we will launch across the much larger and more complex traditional Greyhound network in the coming year.

### Continuous improvement in operating and financial performance

We have invested in the quality of our services and have improved our ability to flex costs in response to changes in demand, although our traditional network today remains relatively dependent on macro-economic factors such as fuel prices or employment levels. In response to changes in demand, we were able to react rapidly to the changed market conditions and manage our variable costs in order to mitigate the impact on margin performance year on year. We continue to make progress towards returning Greyhound Canada to profitability through our ongoing efforts to optimise our network in the country. Our Greyhound Package Express business, which carries parcels on our buses, is evolving to adopt more modernised technology and now offers the ability to track and trace parcels.

### Prudent investment in our key assets

Our most important area of investment is a programme to replicate the successful business model developed in our newer point-to-point services across the whole Greyhound network. As we have previously indicated, we are equipping our traditional business with real-time dynamic pricing and yield management capabilities, together with improved customer relationship management tools. Amongst other opportunities, these tools will increase our ability to stimulate demand throughout the macro-economic cycle, and allow us to shift demand to off-peak times more easily, resulting in better utilisation of existing seat inventory.

The most time intensive aspect of the project has been to transform Greyhound's proprietary pricing and routing system into a position where it was able to be augmented with additional software components. Our bespoke but ageing system, which had been built over many years to manage the unique challenges of a network with more than 3,800 destinations and 48,000 routing combinations, has now been upgraded and transferred to a more robust infrastructure in line with our plans. The current focus of the project is the complex integration into the system of software packages similar to those used in aviation, retailing and other industries. We are also augmenting our commercial team with individuals experienced in these industries. The programme is on track to be operational across the network during our 2015/16 financial year. We have already begun taking pricing and yield management actions in certain regions and gathering the resulting data, in order to help refine the parameters of the nationwide systems and processes that are being introduced.

As part of the project we are also making good progress with our plans to upgrade our retail distribution strategy. Web ticket sales are now a very important sales channel where we see more than half of our transactions. Within that, mobile sales are the fastest growing segment accounting for a third of web sales, and our apps account for 20% of the mobile total. A completely refreshed Greyhound website with augmented functionality is due to go live in summer 2015. Increased



Focus on  
Greyhound

## Greyhound celebrates extraordinary history

To commemorate its 100th anniversary, Greyhound promoted a Centennial Tour around the United States to showcase the company's growth and transformation, allowing guests of all ages to get a glimpse of Greyhound's rich heritage. The tour comprised two mobile museum convoys simultaneously moving across the United States, beginning in Boston in May and ending in Los Angeles in December, visiting nearly 40 cities. The tour featured displays of memorabilia such as signage, vintage driver uniforms and an entire wall of history where guests could see Greyhound's transformation over the years. The tour also showed off restored classic coaches and several of Greyhound's new, modern coaches with amenities including free Wi-Fi, leather seats, power outlets and extra legroom. Further events throughout the year included a reception hosted by the US Department of Transport at the White House.

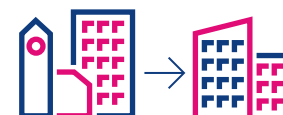


Maintain responsible partnerships with our customers and communities





Fleet of approximately  
1,700 coaches



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

use of web and mobile sales channels improves our ability to communicate our prices to customers, making our yield and price management actions more effective. In addition our customers can more easily act on the price benefits of advance ticket purchases when they have the flexibility to do so, which in turn enables us to operate more efficiently as we have increased visibility of demand. Further customer relationship management enhancements are also planned for the next year, including upgrading our customer loyalty programme.

During the year we introduced 100 new vehicles to our fleet, completing the balance of the large coach order placed in the prior year. We also refurbished around 70 coaches to the same standard, which means that a substantial majority of our operational fleet is now either new or recently refurbished.

### Responsible partnerships with our customers and communities

The increased customer engagement that our new systems will bring will allow us to use technology to better understand the needs of our individual passengers. This will enable us to improve our customer satisfaction scores and better align our services with the needs of our passengers.

In the year, we were selected by Forbes magazine in its list of top 500 companies to work for in the United States, ranked ahead of hundreds of well known companies across 25 industries, and Greyhound was the only intercity bus company to be recognised. More than 20,000 American workers at companies with at least 2,500 employees were involved in the survey, which asked employees how likely they would be to recommend their employer to someone else.

During 2014 we celebrated our centenary with a series of events throughout the year including exhibitions, in-terminal commemorations, employee awards and a centennial tour which travelled across the US featuring our restored classic fleet and showcasing the best of today's business. We also increased traditional marketing efforts in conjunction with the centenary in order to drive additional interest in our improved offering.

### Future priorities

Our efforts to introduce real-time pricing, yield management and customer relationship management capabilities into the business will give us far greater visibility and granularity on passenger demand over time, allowing us to optimise our schedules, assets and pricing to maximise demand for our services. We will also continue to grow our point-to-point business, although the rate of growth in new services is likely to slow now that many of the closer cities in North America are already connected. We remain confident of achieving our 12% margin target, recognising however that long term oil price trends may impact the timing.

### Outlook

We will continue to actively manage our pricing, frequencies and other variable costs in response to trends in passenger demand growth, which we anticipate will remain relatively muted if recent oil price levels are sustained throughout the year. Meanwhile, we will continue to take actions to return our Canadian network to profitability. We expect our yield management systems to be operational from the middle of our 2015/16 financial year, with the financial benefits building over time as we develop our expertise in analysing and using the new tools at our disposal, and passengers begin to respond to our actions.

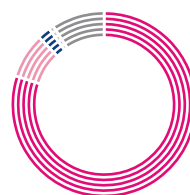
Focus on  
Greyhound

## Greyhound embraces social media

Despite being a century-old brand, Greyhound has become adept at attracting passengers and stimulating conversation and debate with our customer community through many different social media channels. We also have an award winning blog, The Hound, at [www.bloggreyhound.com](http://www.bloggreyhound.com) where customers can share journey experiences and tips.

2 Driving growth through attractive commercial propositions

### Greyhound 2014/15 revenue by type



Passenger revenue	80%
Package Express	8%
Food service	2%
Charter	1%
Other	9%





## Market overview

UK Bus is one of the largest bus operators in the UK, with around a fifth of the deregulated market.

Passengers are responding to the improvements we have made to our services over recent years – we will continue to work tirelessly to sustain the momentum.

**Giles Fearnley**  
Managing Director, UK Bus



## Market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services being provided by private operators, although a small number of local authority owned operators still exist. Bus markets are local and services operate on a flexible model with operators setting fares, frequencies and routes on a commercial basis and operating 'socially necessary' services under contract to local authorities. Around 2.8bn passenger journeys are made on local bus services outside of London, generating revenues of approximately £4.4bn a year.

Partnership with local authorities remains a core principle for both the bus industry and central Government in order to deliver service improvements, innovation and investment cost effectively. The DfT promotes this agenda through initiatives including Better Bus Area grants and the Green Bus Fund. Private operators increasingly offer tailored local brands and services, including premium routes serving distinct markets, and implement new technology including multi-operator ticketing on smart platforms and apps delivering improved passenger information. Local authorities have legislative powers to regulate services in their area through 'quality contracts', where they can demonstrate the existing model is failing to deliver for passengers. To date this has not been implemented anywhere, but a number of authorities do consider this option periodically, and the Tyne and Wear metropolitan area is currently pursuing a quality contract (FirstGroup do not operate in this market). Increasing political consensus in favour of devolution of certain transport powers to city regions, including Greater Manchester (a FirstGroup market), may result in further changes to the current business model. Economic weakness continues in parts of the UK where provision of bus services remain as crucial to support recovery as they do to support growth.



1.7m passengers per day



We serve 40 of the largest towns and cities, including seven of the most densely populated cities in the UK

## Customers

Revenues in the bus market principally comprise passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares). Significant proportions of passengers use bus services for commuting – to work, school, college or university – for shopping and for leisure purposes. Commercial passenger revenues are typically linked to economic activity in a local market. Income may also be generated through tendered services.

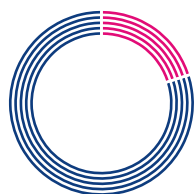
## Competitors

The UK bus market (outside London) is deregulated and highly competitive with more than 1,200 bus operators; we face competition in all markets in which we operate. Operators continue to increase market share through acquisition and through the year operators have both entered and left the market. The main competitor to bus services in the UK, however, remains the private car.

## Market attractions

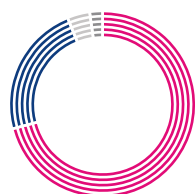
- £4.4bn deregulated market offers significant potential for growth strategies tailored to specific segments
- Bus travel diversified by journey type
- Youth market provides significant growth opportunity, with car ownership falling in this demographic
- Using new technology to attract and retain custom.

## Approximate share of UK bus market outside London



FirstGroup	20%
Others	80%

## Our UK Bus operations by geography



England	71%
Scotland	23%
Wales	4%
Ireland	2%

## Strategy and performance

	2015	2014
Revenue	<b>£896.1m</b>	£930.2m <sup>1</sup>
Operating profit	<b>£51.8m</b>	£44.4m
Operating margin	<b>5.8%</b>	4.8%
Number of employees	<b>18,000</b>	18,500

<sup>1</sup> Includes £56m of non-recurring revenues from UK Bus operations now sold/closed.

## Financial performance

Revenue in our UK Bus division was £896.1m (2014: £930.2m) with like-for-like passenger revenue increasing by 2.3% excluding the contribution from discontinued and disposed businesses in the prior year. Responding to the changes we have made to our fares, networks and service quality, and despite mixed economic conditions across the division, like-for-like passenger volumes increased by 1.1% in the year. Within this, commercial passenger volume growth increased by 2.6% on a like-for-like basis, whilst concession volumes were modestly lower. In the second half of the year, many parts of our business reached the anniversary of our fare rebasing actions, and have begun to benefit from positive yield from periodic price increases in line with the market. Operating profit increased to £51.8m (2014: £44.4m) and operating margin increased by one percentage point to 5.8% (2014: 4.8%), reflecting operating leverage to growth and our ongoing cost efficiency programmes.

## Our strengths

**Strong position in the deregulated market (outside London)** – c.20% market share

**Compelling positions in key markets** – operations in seven of the 12 most densely populated cities – now delivering good volume growth

**Repositioned to focus greater management expertise at the local level**, delivering tailored network and fares offers to reflect local needs

**Customer response** – including passenger volume growth and satisfaction scores – demonstrates positive reaction to commercial proposition changes.



Focus on  
UK Bus

## UK Bus develops cleaner vehicles

Our UK Bus division worked with manufacturer Wrightbus to develop the most fuel efficient bus on the market – the StreetLite Micro Hybrid, which began to be introduced into our fleet in 2014. Each is equipped with leather seats, free Wi-Fi for customers and extra room for wheelchairs and passengers with buggies. They are also fitted with the latest technology which captures energy during braking which can then be used later to power other parts of the bus. The micro hybrid buses are also lighter than conventional single deck buses and, together with advanced engine technology, are around 30% more fuel efficient overall, which also means they produce 30% less CO<sub>2</sub>.



Prudent investment in our key assets

### Driving growth through attractive commercial propositions

With our initial programme of significant network changes largely completed in the year, the focus is now on the commercial opportunities that our empowered local management teams can deliver through deploying their resources and adjusting networks, timetables and pricing to serve the needs of their markets. During the year examples included the introduction of a single brand, the Cymru Clipper, covering all our inter-urban services across South Wales. In both Bristol and Glasgow we are pleased to be launching routes serving major new hospitals, whilst in Manchester the acquisition of the Finglands business in the prior year meant that we were able to launch a second cross-city service connecting the two major universities in the year. We worked closely with a number of local authorities to integrate tendered services into commercial networks in order to meet passenger needs in the face of reduced Government subsidy. In the year we worked closely with Cornwall County Council to minimise the impact on customers of the closure of rival operator Western Greyhound.

We have also rebased our fares structures throughout the division, with the majority of our networks seeing some reductions in prices,

particularly of period ticket products. With rebased pricing and good volume growth, we now have a platform to consider further periodic price increases in line with the market across our local networks. Our focus remains on offering attractive fares products to deliver loyalty and attract new customers.

During the year we acted on our two major fares consultations in Bristol and the West of England and, as a result of the thousands of comments received from our customers, the majority of our single fares were reduced and flat fares were introduced in the area, with consistent child and young person discounts on all products of 50% and 30% respectively. We have seen strong results with passenger volumes in Bristol up by 19% year-on-year.

We were pleased with the results of the independent Bus Passenger Survey, undertaken during the year by Transport Focus, in which we equalled our record score of 86% for overall customer satisfaction across the country, following a 5 percentage point rise in 2013. Our networks in both York and East Scotland were amongst the highest scoring of any bus operator, whilst we were particularly encouraged by our overall value for money score, which has improved by 17 percentage points over two years and is now above the national average.

### Continuous improvement in operating and financial performance

Operating discipline, cost optimisation and focused investment in our fleets and our people are improving our service delivery while increasing customer satisfaction. We delivered cost reductions relating to productivity, fuel efficiency, procurement, engineering and maintenance of approximately £15m during the year. Our drive to improve our engineering performance, through investment in fleet and depot transformation, has led to decreases in both defects and breakdowns with a corresponding increase in service performance. However in some areas we have experienced disruption due to road repair programmes which has affected punctuality. We work hard with local authorities to overcome these issues, and in many instances we have redeployed fleet and drivers to help ease the situation.

### Prudent investment in our key assets

We successfully bid for a number of shuttle bus contracts, including new Park & Ride sites in Leeds, Taunton, Portsmouth and in York, where our fleet now consists of 12 electric buses. In Aberdeen we operate our full complement of hydrogen vehicles, partnering with numerous organisations including the city council. During the year we took delivery of more than 270 Wrightbus StreetLite Micro Hybrid buses, which improve fuel efficiency by up to 30%, and which we played a large part in developing with the manufacturer. After the year end we placed a £77.6m order for 385 vehicles for delivery in 2015/16, with more than 90% fitted with Euro 6 engines, the biggest investment in such lower emission engines in the UK to date. The buses will be fitted with free Wi-Fi and we will trial USB charging points on some vehicles.

During the year we introduced mobile ticketing onto all of our networks, and take up of this new sales channel has been encouraging. We are seeing particularly good growth in student markets, where we invested in promotion at the beginning of the academic year. The development and marketing of our apps, with period products enabled, gives us a strong base to offer more ticket products on this platform.



Fleet of approximately  
6,300 buses



17 percentage point improvement  
in value for money over last two  
years according to independent  
national survey

We are also playing a leading role to deliver the industry commitment to launch multi-operator smart ticketing across the city regions in England by December 2015. During the year smartcard schemes were launched in West Yorkshire, Hampshire and Bristol, and these will continue to develop further going forward.

### Responsible partnerships with our customers and communities

We continue to explore opportunities to work in closer partnership with local authorities in all of our markets, as our objective to get more people onto buses typically aligns very well with their ambition to reduce congestion and stimulate economic activity. Our approach complements the Government's 'Northern Powerhouse' agenda, a focus for many of the local markets in which we operate. Across all our networks we are actively promoting enhanced partnership arrangements, building on the success we have had in South Yorkshire – where passenger volumes in both Sheffield and Rotherham have risen strongly since partnerships were introduced.

We were key transport partners for a number of high profile events during the year and were particularly delighted to be Official Supporter – Passenger Transport Services to the Glasgow 2014 Commonwealth Games. We also provided shuttle buses for the Ryder Cup golf tournament at Gleneagles in September. We are a sponsor of Bristol European Green Capital 2015, and are partnering with the city on events and logistics throughout the year while trialling a number of sustainable technologies and processes.

### Future priorities

While there is still some way to go, we are delivering our turnaround plan as forecasted to restore double digit margins to UK Bus by the end of 2017, which will be achieved from a continuation of our efforts to drive increased volume, coupled with market-based yield enhancement and continuing cost efficiencies. We believe that our strategy, which is based on delivering a competitive customer proposition coupled with improved operating discipline and strong partnerships with local authorities, is the most responsive, efficient and cost-effective way to deliver the outcomes that bus passengers and taxpayers want and we will continue to promote this strategy going forwards. By tailoring our actions to local market conditions in the light of the progress each part of our business has made through our turnaround plan, we will

continue to create a business focused on passenger needs with engaged local management, delivering increasingly attractive services at competitive prices.

### Outlook

We expect our transformation plan to deliver further volume growth in 2015/16, and now that many parts of our business have passed the anniversary of our fare rebasing actions, revenue growth is also expected to benefit from positive yield from periodic price increases in line with the market. Operating leverage from this growth, coupled with our cost efficiency programmes, are expected to ensure that we will make further progress during 2015/16 towards our medium term target of double digit margins.



Focus on  
UK Bus

## Supporting Scotland's summer of sport

Our UK Bus division was the Official Supporter – Bus Services at the Glasgow 2014 Commonwealth Games. First Glasgow's network of high frequency, regular services across the city were supplemented by designated spectator shuttle services linking principal Games venues within the city centre and bus services for all client groups during the Games including athletes, technical officials and the media. UK Bus also provided around 260 coaches during The 2014 Ryder Cup at Gleneagles, transporting Ryder Cup officials, the media, sponsors and VIPs. We also ran coaches for most of the event's hospitality packages. All in all, we transported around 10,000 passengers over four days by the time golf's most popular event came to a close.



Maintain responsible partnerships with our  
customers and communities

### UK Bus 2014/15 revenue by type



— Passenger revenue	64%
— Concessions	25%
— Tenders	5%
— Other	6%



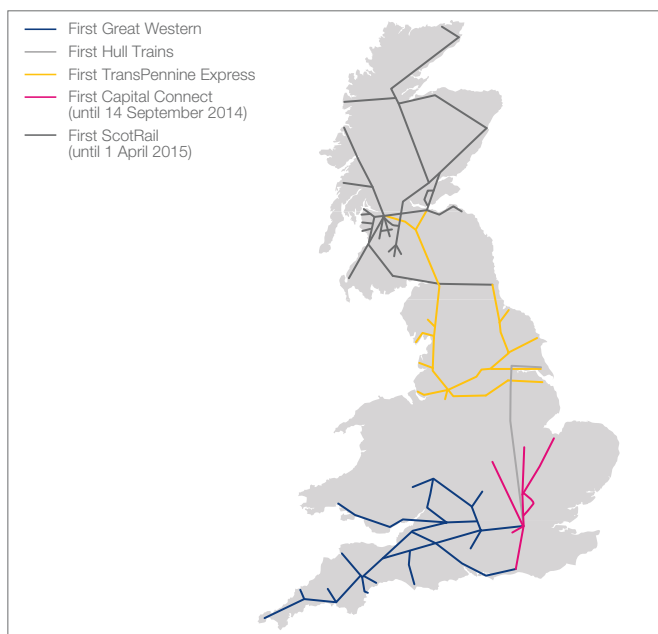
## Market overview

One of the UK's most experienced rail operators, carrying around 280m passengers and operating over a fifth of the UK's passenger rail network in the year.

Since rail franchising began we have built up expertise and experience running every type of network, which gives us confidence that we will grow our franchise portfolio through disciplined bidding over time.

### Dave Gausby

Interim Managing Director, UK Rail



## Market review and trends

Passenger rail services are primarily provided by private train operating companies through franchises awarded by the relevant authority, but may also be provided on an 'open access' basis. Operators are responsible for the day-to-day management and operation of train services. Many elements of the service provided to passengers are mandated as part of the franchise contract and others are left to commercial judgement. Total franchised passenger revenues in the UK are more than £9bn per annum. Rail tracks and infrastructure (signalling and some major stations) are owned and managed by Network Rail. Operators typically lease rolling stock from leasing companies.

Passenger growth across the industry continues to increase year on year, and recently reached a post-war high of 1.6bn. The Government continues to invest in infrastructure and new rolling stock across the country to maintain performance and meet passengers' requirements on the increasingly congested network. Innovations such as smart ticketing, social media and mobile phone technology continue to be incorporated across the sector. Closer working relationships between Network Rail, regulators and train operating companies continue to be positively encouraged by Government in order to facilitate these infrastructure upgrades and innovations. During the year the Department for Transport (DfT) has continued to progress its competition timetable, with a number of third generation franchises being awarded.





Around 8bn passenger miles travelled last year



2,800 diesel and electric rolling stock vehicles

## Customers

Rail markets differ but are generally categorised into three sectors: London and south east commuter services; regional; and long distance. In addition, certain networks also offer sleeper services. Parts of the First Great Western franchise fall into all four categories, though it and First Hull Trains have a large proportion of long distance and leisure travellers. First TransPennine Express and First ScotRail carry a large number of commuters into the major towns and cities on their networks, and also serve a significant leisure market, while First Capital Connect passengers were principally commuters to and from London.

## Competitors

The main competitor to rail services in the UK is the private car. We also face competition on some of our passenger flows from other rail services and, to a lesser extent, from long distance coach services and airlines. Our UK Rail division bids for franchises against other operators of current UK rail franchises and public transport operators from other countries.

## Market attractions

- More than £9bn of long term contract-backed passenger revenue available through 19 major franchise opportunities, of which more than two thirds by revenue will be let before 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 country.

## Passenger revenue base of FirstGroup UK Rail franchises



Leisure	51%
Business	32%
Commuter	17%

## Strategy and performance

	2015	2014
Revenue	<b>£2,207.1m</b>	£2,870.1m
Operating profit	<b>£74.1m</b>	£55.2m
Operating margin	<b>3.4%</b>	1.9%
Number of employees	<b>7,500<sup>1</sup></b>	14,000

<sup>1</sup> Excludes employees associated with the First Capital Connect and First ScotRail franchises, which we no longer operate going forward.

## Financial performance

Our UK Rail division continues to benefit from robust growth in passenger volumes, with like-for-like passenger revenue increasing by 6.7% during the year, at the top end of our expectations. On a reported basis revenues declined to £2,207.1m (2014: £2,870.1m), reflecting a reduction in First ScotRail subsidy (with a matching reduction in track access charges, so does not affect operating profit), the end of revenue support arrangements in First Great Western and First Capital Connect, and the completion of the First Capital Connect franchise at the end of the first half. Adjusted operating profit was £74.1m (2014: £55.2m), representing a margin of 3.4% (2014: 1.9%), in part reflecting First Great Western moving to normal commercial terms part way through last year. Like-for-like passenger volumes increased by 4.2% in the year.

## 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 management team** – with a strong record of operational delivery and disciplined bidding.

### Focused and disciplined bidding

During the year the DfT has made progress in line with its UK rail refranchising timetable originally announced in March 2013 and updated periodically since then. As part of this timetable, we were pleased to sign two agreements in March 2015 with the DfT, securing First Great Western for up to four and a half more years and First TransPennine Express for an additional year. As a result we will continue to run our largest franchise First Great Western to at least 1 April 2019, with a further extension of up to one year at the DfT's discretion. This underscores the DfT's confidence in our ability to deliver stability, good value and better services for our passengers during the period in which the Great Western Mainline modernisation programme is being implemented. The programme involves significant upgrades to infrastructure including signalling and electrification, which will allow for new or refurbished trains on every part of the network, resulting in more frequent and faster journeys and an increase in the number of seats over the period to the end of the decade. We will also be running First TransPennine Express to the start of the next

competitive franchise, expected on 1 April 2016 (the contract includes an extension clause of up to 11 months at the DfT's discretion). As one of three shortlisted bidders for that competition, we submitted our bid proposal at the end of May. The new franchise is due to be awarded in October 2015.

Naturally we were disappointed not to secure any of the franchise competition awards announced in the year. As a result two of our franchises ended during the year, with First Capital Connect and First ScotRail being handed over to their new operators on 14 September 2014 and 1 April 2015 respectively. Our approach to bidding for UK rail franchises has been and will continue to be disciplined, aiming to deliver ambitious improvements for passengers and appropriate returns for shareholders, at an acceptable level of risk.

### Continuous improvement in operating and financial performance

Our operating companies have continued to outperform the industry in delivering punctuality and customer satisfaction improvements since 2006, despite some significant infrastructure challenges over that time. We pioneered closer partnership working with Network Rail and other industry participants to deliver infrastructure upgrade projects whilst minimising disruption for passengers, expertise which is increasingly vital as the Government's reinvestment in the national rail infrastructure continues to increase over the coming years. One of the largest such programmes is the £7.5bn Great Western Mainline upgrade, where First Great Western will continue to support the substantial infrastructure upgrade work taking place throughout the network, as well as preparations for the introduction of the InterCity Express Programme, Crossrail and a new fleet of local electric trains. In the year, the £895m Reading area remodelling project saw the entry into operation of a new viaduct, substantially increasing capacity at a major network bottleneck, and the reopening of the upgraded Reading station itself. The overall project remains a year ahead of schedule thanks in part to excellent partnership working across the industry. First Capital Connect supported the preparations for the Class 700 train fleet introduction during the year as part of the £6bn Thameslink Programme. First TransPennine Express began operating new trains and an upgraded timetable in May 2014, delivering 90,000 extra seats per week, benefiting from the Government's North of England electrification projects, part of a national investment of more than £1bn in the North's railways, and helping central and local government achieve its vision for a 'Northern Powerhouse'.

### Prudent investment in our key assets

We continue to innovate and invest in our service offerings for passengers. First Great Western has reconfigured its carriages to deliver 3,000 more peak time standard class seats into Paddington station per day. As part of the project, the first class experience on First Great Western has been upgraded and additional Pullman dining services introduced. First Great Western has also invested in additional customer-facing employees on long distance routes.

During the year we continued to progress the roll out of free Wi-Fi services both on-train and in-station throughout the First Great Western and First ScotRail networks, while First Hull Trains won innovation awards for its free 4G single-sign-up Wi-Fi service. First ScotRail has also rolled out smart ticketing-enabled equipment at more than 300 stations during the year, the largest such project in the UK, and the



Focus on  
UK Rail

## First Great Western expands Pullman dining

Fine dining on trains has returned as First Great Western offers a Pullman menu for selected trains that run between London and Swansea and the South West. In 2013 we promised to fill our menu with as many products sourced from as close to the railway line as possible. Now almost 90 locally made products have replaced their mass-market counterparts – up from 50 since we launched the initiative. The menu includes award-winning produce from a third generation family butcher, fourth generation family baker and fifth generation family cheese maker. On the new trains to be introduced from summer 2017, hot food will be available at seat to passengers in all classes of travel.



Prudent investment in our key assets



Two thirds of DfT franchise revenues yet to be awarded in the current cycle...



...representing around £6bn of annual passenger revenue

experience gained is being used to determine the most effective approach to similar introductions across our other franchises. During the year we became the first rail operator to give passengers the opportunity to earn Nectar loyalty points when booking their journeys online.

In the year First Great Western and First TransPennine Express became accredited with Investors in People Gold status, joining First ScotRail in achieving the UK's most recognised employee investment award.

### Responsible partnerships with our customers and communities

In the latest Transport Focus survey (completed during the autumn) First ScotRail, First Great Western and First Hull Trains achieved year-on-year improvements in overall customer satisfaction, while First TransPennine Express saw a decrease related to service issues after introduction of the new timetable, which have since been rectified.

During the year First TransPennine Express was the first train operating company to win the British Quality Foundation UK Excellence Award, which recognises high performing businesses as assessed against the European Foundation for Quality Management model. First Great Western succeeded First ScotRail as Rail Business of the Year at the national Rail Business Awards, while both First Hull Trains and First TransPennine Express were runners-up for Best Train Operator. First Great Western also received a special award jointly with Network Rail, recognising their response to the collapse of the sea wall at Dawlish.

### Future priorities

We have been actively involved in the UK rail industry since privatisation and have a breadth of experience and expertise in running every type of network. Our management team has been involved in some of the highest profile infrastructure and rolling stock upgrade programmes of recent years, experiences that are increasingly important as reinvestment in the national rail network continues to gather pace over the coming years. Having secured First Great Western until at least March 2019, we have a strong position in rail to build on over the medium term. Approximately two thirds of the UK rail network by passenger revenue is expected to be refranchised over the next five years, and our approach to these competitions will continue to

be disciplined. We will examine each franchise on its merits and decide whether it presents an opportunity to deliver ambitious improvements for passengers and appropriate returns for shareholders, at an acceptable level of risk.

### Outlook

In the year ahead we expect our ongoing rail operations (First Great Western, First TransPennine Express and First Hull Trains) to deliver solid revenue growth underpinned by continued increases in passenger volumes. However, UK Rail's contribution to Group earnings will be substantially lower in 2015/16 following the end of the First Capital Connect and First ScotRail franchises. Having submitted our proposal for the TransPennine Express franchise in May 2015, we look forward to the announcement of the competition winner in October. We were recently shortlisted for the East Anglia competition, and we will examine the other upcoming franchise competition opportunities in the DfT's timetable before determining whether to proceed with a bid.



Focus on  
UK Rail

## Preparing for InterCity Express trains

Following our agreement with the DfT to operate First Great Western in the coming years, we will continue to support the introduction of the new Super Express trains from Summer 2017. These trains will offer more capacity and faster, more frequent services for communities in London, the Thames Valley, the South West, Cotswolds and Wales. The trains will be painted in a livery that draws on the heritage of the route, fitting for an extensive £7.5bn investment programme, the largest since Brunel.



Responsible partnerships with our customers and communities

### UK Rail 2014/15 revenue by type



Passenger revenue	78%
Government funding <sup>1</sup>	15%
Other revenue	7%

<sup>1</sup> Includes subsidies but does not take into account total premium payments made to Government during the year of £170.3m.

## Corporate responsibility

We understand the vital role we play in creating strong, vibrant and sustainable local economies, and have continued to deliver our commitments to our people, customers and communities throughout the year.

In line with the trend for integrated reporting, in this section we highlight our corporate responsibility priorities and performance this year. Further information can be found in the Responsibility section of our website.

### Our approach

Our long term success is built on being a responsible partner to all of our stakeholders. We are leveraging our scale and global expertise to address our social, economic and environmental impacts, and investing time, energy and capital in what matters to our stakeholders. We are already innovating through the use of low carbon vehicle technologies, finding new ways to meet changing customer expectations, doing more with fewer resources and investing in the future potential of our people and our communities. We know we can only create value and deliver sustainable returns to our shareholders if our services help to create strong, vibrant and sustainable local economies where we are the provider of choice for our customers and the communities we serve.

We benchmark ourselves against our peers across all sectors and learn from best practice through expert networks and groups. In 2014/15, we were members of Business in the Community, Forum for the Future, the Mercer Vanguard Diversity Network, and the London Benchmarking Group, whose steering group we joined in April 2014.

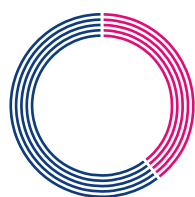
We also measure our performance annually through sustainability benchmarks and indices. We are pleased to report that our 2014/15 FTSE Environmental, Social, and Governance (ESG) rating made us a leading scorer in the Travel and Leisure supersector, and we are a longstanding constituent of the FTSE4Good Index series.

In 2014/15 we maintained ISO 14001 accreditation for environmental management across our UK operations, and ISO 50001 for energy management in UK Rail, as well as the triple Carbon Trust Standard, and we are working towards embedding the principles of BS 8903 for sustainable procurement into our UK procurement practices.

This year we have focused on enhancing our non-financial reporting processes, most notably by implementing the award-winning software platform CRedit360, which will allow us to capture and analyse a wide range of environmental, community and other non-financial business data across the Group from 2016 onwards.

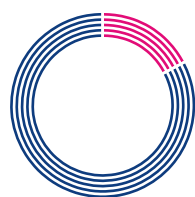
### Diversity snapshot at 31 March 2015:

#### Total employees



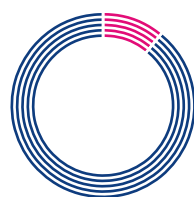
Female	39.6%
Male	60.4%

#### Senior managers<sup>1</sup>



Female	17.3%
Male	82.7%

#### Board Directors



Female	11%
Male	89%

<sup>1</sup> The 283 members of our top leadership programme.

### Valuing our people

The way we work is based on our clear vision and the firm foundation of our strong common values. Over the last 12 months, we have continued to invest in the development of our people and reinvigorated our approach to employee engagement with an increased emphasis on employee development.

#### Employee engagement

We recognise the value of engaging our people. An engaged workforce delivers better customer experiences and higher levels of productivity. Our 15 percentage point increase in engagement scores over the past four years demonstrates our determination to improve in this area.

This year we expanded the remit of our employee engagement expert group, which aims to identify, share and embed best practice at every stage of an employee's journey with us. Over the last year, this group has listened to the views of people from across our businesses, implemented best practice guides, videos and other toolkits, and radically improved the way we recruit and retain the best people.

Our year-on-year increases in employee engagement, as measured through our 'Your Voice' employee survey, have continued in 2014/15 with a number of divisions and functions exceeding the national norm for engagement for the first time. All divisions continue to focus on improving levels of employee engagement, with our Greyhound division being listed for the first time in the Forbes magazine 'America's Best Employers' list, at number 105.

We also continue to enhance employee well-being through our 'Live well, Be well, Work well' health campaigns in the UK, and our 'Route to Better Health' campaigns in North America.

#### Diversity and inclusion

We have around 110,000 employees from all over the world, with a great breadth of backgrounds, ideas and talents. It is these unique skills and experiences that make us what we are. The more varied our workforce, the broader our expertise and the greater our opportunities for innovation and success. We are committed to equality of opportunity, diversity and inclusion at every level.

In 2014/15, we developed a clear and concise FirstGroup policy that outlines our principles and commitments for equality, diversity and inclusion, and a supporting framework which includes training content, promotional videos and a poster campaign. Focus groups have been held to discuss the policy and these have helped us understand the challenges our people face. Transport is not traditionally a diverse sector, but our plans are designed to address this in a systematic way over the coming years.

#### Developing our people

In early 2014 we launched a new Performance Management and Development framework that provides a clear line of sight to our vision, strategy and values for everyone throughout the Group. In support of the framework is our Dynamic Performance and Development programme. This is a series of face-to-face and online workshops around topics identified as important by our managers, including 'Great feedback', 'Courageous conversations' and 'Performance coaching'. So far more than 10,000 delegates have attended our workshops, and nearly 90% of attendees report they will be able to apply what they have learnt and would recommend the training to others.



In the UK, we have significantly enhanced our ability to attract great people to work for us from the communities we serve, thanks to our new job applicant tracking system, which processed more than 75,000 completed job applications and 3,000 successful hires in 2014/15. The system has streamlined our processes internally, and provides a seamless experience for job applicants and hiring managers. Following this success, we are now introducing this system into our North American businesses.

Our integrated talent and succession plan identifies our top talent and determines development opportunities. The plan aims to make the most of our leaders and minimise continuity risks, and supports the retention and engagement of these key people. Over the next year we will develop regional planning processes so that our people may be placed into the global roles where we believe they will have the biggest impact. Enhancing the degree of integration and placing key talent in roles regardless of geography will help leverage our scale and expertise around the Group to support our growth over the longer term.

We provide access to a wide range of courses and accredited qualifications for our employees, including adult apprenticeships. Across our UK Bus and UK Rail divisions this year, 85 young people (16-25 year olds) enrolled in our full time apprenticeships in engineering, customer service, operations and management roles.

Our graduate scheme is a two-year development programme preparing our graduate entrants to successfully step into management roles in the commercial, engineering and operations areas of our business. Each year, we calculate the number of graduates we take on so that we ensure a steady flow of new talent moving into management posts. Our 2013 cohort of 14 graduates is more than half way through its second year, and our 2014 intake of 18 follows them and will be joined by a new cohort in September 2015.

### Dedicated to safety

Always front of mind, safety is our way of life. We continue to reinvigorate our safety programmes to build on the progress and momentum of previous years, and to meet our goal of eliminating serious injuries and fatalities.

Sadly there was one employee fatality this year in First Student, and one passenger fatality in UK Bus. The impact of tragic incidents that occur in the course of our business, such as these, cannot be overestimated and reaffirms the importance we attach to our goal.

We are never complacent and always look to improve. In December 2014, colleagues from across the Group came together to share best practice and learn from leading experts at our Group Safety Conference, focusing on the science of behaviour change for safety. We also relaunched our Injury Prevention database this year and introduced a new mobile app to help record injury prevention conversations and tours. Over the next year our focus will be on delivering 'Be Safe', the Group's safety culture transformation programme. Our aim is to reinforce safety as a personal core value of each of our employees, delivering an even stronger culture and climate of safety across all of our operations.

Leadership on safety comes from the top through our Executive Safety Committee. This is chaired by the Chief Executive, and meets on a monthly basis to review the Group's safety performance and practices, and to approve Group safety policies and procedures. Our Board Safety Committee reviews the safety performance of the Group on



Focus on  
FirstGroup

## New bus stop app for blind passengers

We partnered with the Confederation of Passenger Transport and other operators to trial a new smartphone app for blind and visually impaired passengers. The app provides users with real-time audio and visual alert notifications, direct to their handset. It means passengers know exactly where they are on a journey and at which stop to get off. The app was available during an eight week pilot in Leeds and offered easy-to-use route maps, as well as next service information and a facility to save favourite and frequently used stops and bus routes. If the results of the trial prove successful then the app has the potential to revolutionise bus travel for the blind and visually impaired community.



Maintain responsible partnerships with our customers and communities



behalf of the Board, oversees the management of the Group's operational safety risk profile and promotes a positive safety culture throughout the Group. Read more about our Committees and Groups on page 60.

### Greener, cleaner futures for our communities

We take a systematic approach to managing our impacts on the environment, with Group-wide policies, standards and robust targets for our most material impacts, including energy and climate change, air emissions, waste and water. Notably, we generate a significant amount of greenhouse gas (GHG) emissions (a major contributor to climate change) through our operations. More than 94% of our emissions come from powering our road and rail fleets (with the remainder primarily from energy use in our buildings), so our climate change mitigation strategy is focused on innovation and investment in energy efficiency and low carbon vehicle technology.

In late 2014, we successfully achieved triple certification to the Carbon Trust Standard for reducing carbon emissions, water use and waste across our UK operations. The certification recognises our efforts to reduce our impacts year on year through greater efficiencies in energy and fuel use, improving waste disposal, the fitting of water-saving controls, a programme of leak repairs, and rainwater harvesting. This year we also continued to see improvement in our Carbon Disclosure Project score, which has increased by 43% since 2012 and is well above our industry's average, highlighting our commitment to climate change mitigation, adaptation and transparency.

### Our 2015 carbon footprint

The table below provides a summary of the emissions for which we are responsible. Our absolute carbon emissions (adjusted to remove First Capital Connect, which we no longer operate) increased by 0.83% this year to 2,675,664 tonnes of CO<sub>2</sub>(e). This 2.42% reduction against

our 2010/11 baseline is a result of our ongoing focus on fuel efficiency. Our normalised emissions increased by 5.95% to 464 tonnes of CO<sub>2</sub>(e) per £1m of revenue (a 0.09% increase against our 2010/11 baseline), driven primarily by changes in our revenue figures this year.

Performance against longer term carbon reduction targets for individual divisions (per passenger or vehicle kilometre against a 2010/11 baseline) has been mixed. UK Rail is slightly behind target overall, with performance varying across the division. First Transit is slightly behind target, due to changes in the fleet mix requested by customers, whilst UK Bus, First Student and Greyhound are making good progress. We will set new targets within our climate change strategy in 2016.

As part of this strategy, we have continued to introduce bio-methane, electric, and hydrogen fuel cell powered buses to our road fleets this year, as well as highly fuel efficient StreetLite Micro Hybrid buses, which hold Low Carbon Emission Bus Certification in the UK. We have also invested in new vehicles that meet 2010 EPA emissions standards in North America, and have retrofitted technology to existing fleets, such as more fuel efficient engines, gearboxes and cooling systems. We also continue to use driver advisory systems in our bus and rail fleets to optimise fuel efficiency through driving style.

We know that local air quality is also important to our communities so we continue to invest in cleaner fleets, and are working to ensure that the most efficient buses are utilised the most. For example, over 80% of our annual UK Bus mileage is completed using vehicles fitted with engines at Euro 3 standard or higher.

Our performance and plans around our wider environmental impacts, including waste, water and local air emissions will be available in the Responsibility section of our website in the summer of 2015.

### Greenhouse gas emissions

Tonnes of carbon dioxide equivalent – CO<sub>2</sub>(e)

	2015	2014	2013
Scope 1*	2,481,544	2,442,651	2,486,168
Scope 2*	172,437	188,498	212,375
Scope 3	11,076	11,319	10,859
Out of scope	10,607	11,258	11,444
Total tonnes of CO <sub>2</sub> (e)	2,675,664	2,653,726	2,720,845
Tonnes of CO <sub>2</sub> (e) per £1m revenue	464	438	432

\* The 2014 and 2015 scope 1 and 2 CO<sub>2</sub>(e) data included in this table has been independently verified by Carbon Credentials Energy Services Ltd and is covered by an assurance report which is available in full on our website. Verification activities were performed in accordance with ISO 14064-3:2006.

**Scope 1** – direct emissions from vehicle fuel usage (owned and leased), fugitive refrigerant gases and heating fuels used in buildings.

**Scope 2** – indirect emissions from electricity used in our buildings and to power our electric rail fleet.

**Scope 3** – indirect emissions from First Rail Support and business travel by air.

**Out of scope** – emissions from burning biofuels in our vehicles in our UK Bus division, reported in line with DEFRA reporting guidelines.

Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, applying the operating control approach to our organisational reporting boundary with a materiality threshold set at 5%. We have reported all material emission sources using the following emission factors:

- DEFRA/DECC UK Government conversion factors for GHG Company Reporting 2014
- World Resources Institute (2008) GHG Protocol tool for Mobile Combustion, Version 2.3
- World Resources Institute (2008) GHG Protocol tool for stationary combustion, Version 4.0.

The reporting period is defined as 1 April to 31 March, in line with the Group's financial year. However, emissions from energy consumption within buildings in our North American operations are reported by calendar year due to the current availability of consumption data. In addition, scope 2 emissions from electricity consumption in North America were calculated using CO<sub>2</sub> and not CO<sub>2</sub>(e) due to limited conversion factors being available.

Our carbon emissions have been recalculated (back to our baseline year) to reflect that we no longer operate the First Capital Connect rail franchise (as of 14 September 2014) in line with our Base Year Recalculation Policy. Revenue figures have also been recalculated to reflect this change for the purposes of reporting our normalised carbon footprint (tonnes of CO<sub>2</sub>(e) per £1m revenue).

This year we have quantified and reported fugitive refrigerant emissions from air conditioning systems within our North American vehicle fleets and from buildings in UK Bus. We are taking steps to report fugitive emissions from UK Rail next year.

The Company's baseline year is 2010/11. The same baseline year is also used in FirstGroup's climate change strategy, which contains the Group's carbon reduction strategy and targets for 2015/16.



Focus on  
FirstGroup

## Official partner of Bristol European Green Capital

Bristol, under Mayor George Ferguson, is the first UK city to be awarded European Green Capital status, which over the course of 2015 will showcase the city as a sustainable place to live and work. As the leading transport operator in Bristol, FirstGroup is proud to be supporting Bristol European Green Capital 2015 as an official partner. We are investing in sustainable technologies at First Great Western's St Philips Marsh train depot and using innovative driver technology and techniques to improve fuel efficiency and cut emissions, all with the aim of making Bristol a truly sustainable place to live. Over the course of the year, First West of England will be putting 39 brand new buses into service in Bristol. These will be the cleanest diesel vehicles yet seen in the city, meeting the latest Euro 6 emissions specification.



Maintain responsible partnerships with our customers and communities

### Helping our communities to prosper

With our knowledge of local issues, strengthened by our wider expertise and skills, our ambition is to be the preferred partner of the communities we serve.

#### Community engagement

We believe that excellence in community engagement is critical to sustaining and improving the long term partnerships we have with our key stakeholders, including our customers, government and political stakeholders, industry partners, and all those within our local communities. This year we rolled out a consistent framework for community engagement, supported by best practice tools and case studies, to more than 2,000 managers across the Group through training

and orientation sessions, and through cross-divisional collaboration meetings. We also launched our new stakeholder survey, which will allow us to benchmark and monitor our success in engaging with our communities in a consistent way across the Group on an annual basis.

#### Community investment

One of the ways we engage with our communities is by developing long term partnerships with charitable organisations. Our programmes focus on those areas where we believe we can deploy our scale and expertise to achieve the greatest impact and deliver the maximum shared value to our business and local communities. This year we contributed almost £1.7m to our communities across the UK and North America, as measured by the London Benchmarking Group model. Our employees across the Group gave over 3,600 hours of volunteer time, and more than 1,500 organisations have benefited from our support. This has included our Green Grants scheme in partnership with The Forestry Commission in First TransPennine Express, our support for National Runaway Safeline's Home Free Program in Greyhound, and UK Bus's work with the Ahead Partnership on their Make the Grade project, providing coaching and support to prepare for the world of work to pupils of Roundhay School in Leeds.

Our UK Charity of Choice partnership with Macmillan Cancer Support drew to a close this year, with a total partnership value of £1,122m in the three years to 31 March 2015. Our new UK Charity of Choice partnership with Prostate Cancer UK was launched in April 2015 following an employee vote in late 2014. We will continue to support our communities and our employees in their charitable efforts over the coming year.

#### Human Rights

FirstGroup recognises all human rights as defined in the United Nations Universal Declaration of Human Rights and supports the principles set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work and the Guidelines for Multinational Enterprises established by the Organisation for Economic Cooperation and Development (OECD). Our Corporate Responsibility Policy (available on our website) is aimed at translating that support into guidelines and standards that set a common approach for the Group and provide practical guidance for our managers and employees on the ground. We are committed to ensuring that our operations do not infringe human rights, in particular:

- We will conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, as detailed in our Code of Business Ethics
- We are committed to creating and maintaining a safe and healthy working environment for our employees, customers and the community. We recognise our employees' rights to freedom of association and have a high degree of unionisation across our businesses both in the UK and North America
- Through our procurement processes (enshrined in our Supplier Code of Conduct, and Procurement and Supplier Management Policy), we seek to ensure that goods and services are from sources that do not jeopardise human rights, safety or the environment, and expect suppliers to adhere to business principles consistent with our own.

# Principal risks and uncertainties

## Our risk management approach

We have a well-established risk management methodology which we use throughout the business to allow us to identify and manage the principal risks that could:

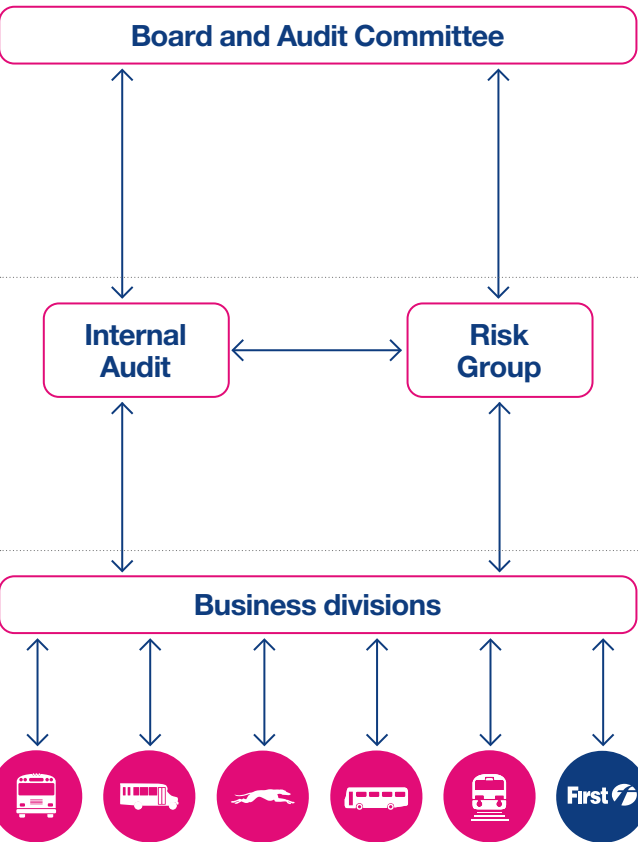
- adversely impact the safety or security of the Group’s employees, customers and/or assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group’s strategic objectives and financial targets; and/or
- adversely impact the Group’s reputation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

The Board has overall responsibility for the Group’s systems of internal control. Following publication of the revised UK Corporate Governance Code and the recent Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, a review of the Group’s risk management framework will be undertaken in 2016.

## Risk management structure

Whilst some risks such as fuel costs and 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

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 Risk Group has oversight of the Group’s risk management processes.

Internal Audit provide assurance on the key risk mitigating controls and ensure that the audit plan is appropriately risk-based.

Business division and Group function management have responsibility for the identification and management of risks, developing appropriate mitigating actions and the maintenance of risk registers.

## Process

Review and confirmation of Group and divisional risks presented to the Board and Audit Committee.

The Risk Group and Internal Audit review and challenge Group and divisional risk submissions.



Facilitated by the Risk Group, 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.

## Strategic objectives

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

## Principal risks and uncertainties

The Group's principal risks are set out below. These risks have been assessed taking into account their potential impact, the likelihood of occurrence and any change to this compared to the prior year and the residual risk after the implementation of controls. Each risk is linked to the relevant strategic objectives, which are detailed on page 14. Further information on our risk management processes is contained in the Corporate governance report on pages 58 to 75.

Risk and potential impact	Movement during the year	Mitigation
<b>Economic conditions</b> ① ② ③ <p>Economic conditions affect our businesses in different ways.</p> <p>A downturn 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. The same factors could also affect our key suppliers.</p> <p>An improving economic climate, particularly when combined with lower fuel prices, may result in reduced demand for public transportation in our Greyhound business as alternative modes of transport become relatively more affordable.</p> <p>Improving economic conditions may also result in a tightening of labour markets resulting in employee shortages or pressure to increase pay.</p>	 <p>Whilst economic conditions have generally improved in our markets, in some areas economic recovery has been varied, for example in some of our local UK Bus markets.</p>	<p>To an extent, our UK Bus and Greyhound operating companies are able to modify services to react to economic impacts.</p> <p>An applicant tracking system has been introduced in our UK divisions to streamline the recruitment process and assist in providing a suitable pool of drivers to help manage any shortages in an efficient and cost-effective way. A similar system is being rolled out in our North American divisions.</p>
<b>Political and regulatory issues</b> ② ③ ④ ⑤ <p>Our businesses are all subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environmental (including carbon and air emissions), insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, could result in increased litigation and claims and have a negative impact on the Group's ability to bid for new contracts.</p> <p>These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility or efficiency.</p> <p>Political risk remains an issue, particularly in the UK where the new Government is proposing to devolve powers for cities to regulate bus services in their area. Any such regulation could impact the profitability of our operations or impose additional costs or operating constraints.</p>	 <p>Our businesses are at risk from further political and regulatory change.</p>	<p>The Group has embedded operating policies and procedures in all of our businesses to ensure compliance with existing legislation and regulation.</p> <p>The Group has dedicated legal teams in the UK and North America who oversee the Group's compliance and training programmes and advise on emerging issues.</p> <p>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.</p>

## Principal risks and uncertainties

### continued

Risk and potential impact	Movement during the year	Mitigation
<b>Contracted businesses</b> ① ③ ⑤ <p>The Group's First Student, First Transit and UK Rail divisions are contracted businesses 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.</p> <p>Failure to comply with contract terms could result in termination, litigation and financial penalties and failure to win new or non-renewal of existing contracts.</p>	 <p>No material change during the year.</p>	<p>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.</p>
<b>Competition</b> ① ② ③ <p>All of the Group's businesses (both contracted and non-contracted) compete in the areas of pricing and service and face competition from a number of sources.</p> <p>Our main competitors include the private car and existing and new public and private transport operators across all our markets.</p> <p>Increased competition can result in lost business, revenue and reduced profitability.</p>	 <p>No material change during the year.</p>	<p>The Group continues to focus on service quality and performance as priorities in making our services attractive to passengers and other customers.</p> <p>In our contract businesses, contract compliance, a competitive bidding strategy and a strong bidding team are key.</p> <p>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.</p>
<b>Information technology</b> ② ③ ④ ⑤ <p>The Group relies on information technology 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.</p> <p>Continued successful delivery and implementation of the Greyhound IT transformation plan is required to improve yield management and drive future growth.</p> <p>Failure to manage the implementation of new IT systems properly may result in increased costs and/or lost revenue.</p>	 <p>Web and mobile sales channels are of increasing importance across many of our businesses.</p>	<p>As a result of the continuing threat of cyber-attacks, our operations are implementing new threat detection systems.</p> <p>The Group has also increased its focus on asset management and further enhanced its IT security processes and procedures during the year.</p> <p>The Group has further strengthened its IT project management capability during the year, particularly within Greyhound.</p>
<b>Rail franchises/bidding</b> ① ③ ⑤ <p>Competition for new rail franchises is intense. We bid against operators of current UK rail franchises and rail operators from other countries, principally from within the European Union. Whilst our current UK rail franchises have been extended, failure to win franchises in the future will result in a lower UK Rail division contribution and profitability.</p> <p>Rail franchises are large and complex arrangements and incorrect modelling or bid assumptions could lead to greater than anticipated costs or losses. Breach of the Group's existing franchise agreements could potentially result in their termination causing loss of revenue and cash flow as well as some or all of the amounts set aside as security for performance and season ticket bonds.</p> <p>The new First Great Western franchise will cover a period during which there will be significant change in the franchise including major infrastructure work, electrification and re-signalling as well as the introduction of new trains, which will require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the Group.</p>	 <p>Direct awards have been made in the year to extend the First TransPennine Express and First Great Western rail franchises.</p>	<p>The Group has an experienced and dedicated rail bid team which will continue to compete for franchises as they are re-let.</p> <p>The Group also has a comprehensive review process for bids as they are developed and finalised involving a number of divisional and Group functions as well as final Board sign off.</p> <p>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.</p>



## Strategic objectives

- ① Focused and disciplined bidding in our contract businesses
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- ⑤ Maintain responsible partnerships with our customers and communities

## Risk and potential impact

## Movement during the year

## Mitigation

### Treasury risks ① ③ ④

As set out in further detail in note 23 to the financial statements on pages 136 to 140, treasury risks include liquidity risks, risks arising from changes to foreign exchange rates and interest rates and hedging risk.

Foreign currency and interest rate movements impact profit, 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.



No change in the year.

The Group's 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 efficiency as part of our strategic objectives as outlined on page 14.

### Pensions ③ ④

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/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.



No material change during the year.

Through diversification of investments, hedging of liabilities, amendment of the defined benefit promises and the introduction of a defined contribution scheme for new starters in UK Bus and Group, the Group has reduced these risks.

Under the UK 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 a particular franchise.

### Fuel costs ① ③ ④

Fuel is a significant component of the Group's operating costs. Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances.

Volatility in fuel prices or supply restrictions, shortages or interruptions could adversely impact the Group's operations, cash flow and profitability. For example, Greyhound's passenger revenues were adversely affected during the year by the rapid decline in oil prices.

The Group may be unable to pass fuel cost volatility on fully to customers and hedging arrangements may not fully mitigate losses or may increase them.

Oil prices may also adversely affect the economic activity of those customers which are dependent on oil and gas revenues, reducing demand for our services.



No overall material change during the year.

The Group has a forward hedging programme providing fixed fuel prices and cost certainty.

Some of the Group's contracts also enable us to pass on fuel cost increases to customers.

The Group's businesses may have the opportunity to limit the impact of unexpected fuel price rises or revenue reductions caused by lower oil prices through efficiency, pricing and cost control measures.

First Student's DriveSMART and the purchase of new fuel efficient buses in our UK Bus division are initiatives aimed at reducing fuel usage in our businesses.

### Terrorism ⑤

The threat from terrorism is enduring and continues to exist in all of our markets. Public transport has previously been subject to attack and 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.



No material change during the year.

We continue to develop and apply good practice, and train our employees so that they can identify and respond effectively to any potential threat or incident.

Our focus is enhanced through close working relationships with specialist government agencies both in the UK and North America.

## Principal risks and uncertainties

### continued

Risk and potential impact	Movement during the year	Mitigation
<b>Customer service</b> ② ③ ⑤ <p>The Group's revenues are at risk if we do not continue to provide the level of service expected by our customers. Failure to provide acceptable levels of customer service could lead to non-renewal of contracts, reductions in passenger revenues and/or have negative reputational impact.</p>	 <p>No overall material change in the year.</p>	<p>Our commitment to our customers is embedded in our values (see page 12). The relevant employees undertake intensive training programmes to ensure that they are aware of, and abide by, the levels of service that are required by our customers in each business.</p> <p>Ongoing engagement with customers and community stakeholders takes place across the Group, including through 'meet the manager' events, customer panels, consultations and local partnerships.</p> <p>The Board also monitors customer service KPIs to ensure that strict targets are being met.</p>
<b>Litigation and claims</b> ③ <p>The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage.</p> <p>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.</p> <p>A higher volume of litigation and claims can lead to increased costs, reduced availability of insurance cover, and/or reputational impact.</p> <p>A large single claim or a large number of smaller claims may negatively affect profitability and cash flow.</p>	 <p>The claims environment, particularly in our North American businesses, remains a challenge despite our continued focus on safety.</p>	<p>The Group has a very strong focus on safety and, as described on page 12, 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.</p> <p>Non-insured claims are managed by the Group's dedicated in-house legal team with external assistance as appropriate.</p>
<b>Attraction and retention of key management</b> ② ③ ④ ⑤ <p>Attracting and retaining key members of senior management is a vital part of ensuring that the Group continues to have the necessary expertise and continuity to execute its strategy and turnaround plans.</p>	 <p>Our defined business plans have enabled us to attract and retain high quality management.</p>	<p>Our Group-wide succession planning process and performance development approach is designed to identify talented individuals, set development goals for progression to other roles and to assess the depth of talent and any gaps throughout the leadership of FirstGroup. The Group also offers market-based compensation packages consisting of an appropriate mix of long and short term incentives.</p>
<b>Employee costs and relations</b> ① ② ③ ④ ⑤ <p>Employee costs represent the largest component of the Group's operating costs, and political or union pressure to increase wages could increase these costs. Improving economic conditions resulting in labour shortages or decreasing unemployment rates could hinder our ability to recruit and retain qualified employees. Our employees are key to service delivery and therefore it is important that good employee relations are maintained.</p> <p>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.</p>	 <p>No material change during the year.</p>	<p>The Group seeks to mitigate these risks via its recruitment and retention policies, training schemes and working practices.</p> <p>An applicant tracking system has been introduced in our UK divisions to streamline the recruitment process and assist in providing a suitable pool of drivers to help manage any shortages in an efficient and cost-effective way. A similar system is being rolled out in our North American divisions.</p> <p>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 (Directors voted for by the employees to represent them) on many of the Group's UK divisional boards and the Board.</p>

## Strategic objectives

- ① Focused and disciplined bidding in our contract businesses
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- ⑤ Maintain responsible partnerships with our customers and communities

## Risk and potential impact

## Movement during the year

## Mitigation

### Environmental ③ ④ ⑤

The Group's operations store and manage large quantities of fuel which presents a potential regulatory, reputational and financial risk in the event of significant loss or spillage.

As a leading transport provider, we face the challenge of addressing climate change, both through managing its impact and reducing emissions. The Group's businesses are at risk from future changes in the regulatory regime which could increase compliance costs or impose operational constraints.



No material change overall during the year.

To mitigate these risks, the Group's storage facilities are subject to regular inspection and we have detailed fuel handling procedures which are regularly audited.

Robust environmental policies, strategies and management systems are maintained across the Group.

The Group continues to target reductions in our emissions, including through behaviour change initiatives and investment in new technology.

### Severe weather and natural disasters ③

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.

Severe weather can reduce profits, for example through lower demand for our services, increased costs, business disruption and increased accidents.



Whilst the Group's North American operations were not as badly affected by severe weather as they were in the prior year, adverse weather in the north eastern US in the last quarter still had an impact.

The geographic spread of the Group's businesses offers some protection. 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 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.

During the year we have begun to improve the cash generation of the Group through the turnaround programmes, while maintaining our financial stability and disciplined approach to capital investment.

**Chris Surch**  
Group Finance Director



### Financial performance in the year

Reported Group revenue decreased by 9.9% in the year to £6,050.7m (2014: £6,717.4m), principally reflecting UK Rail franchise changes, non-recurring revenues from UK Bus operations sold or closed in the prior year and foreign exchange translation. Excluding these items, revenue increased by 4.1%. Adjusted Group margin increased to 5.0% (2014: 4.0%). The US Dollar margin of our largest division First Student improved by 1.0%, reflecting the successful outcome of the first year of our new contract bidding strategy and no repeat of the exceptionally severe winter weather conditions in the prior year. The UK Bus margin also improved by 1.0% as a result of continued progress in our turnaround programme. During the second half of the year Greyhound margins deteriorated due to the adverse effect on customer demand from sharply lower fuel prices, closing the year at 6.9% (2014: 7.4%). UK Rail profitability improved significantly, reflecting good passenger revenue growth and First Great Western moving to normal commercial terms part way through last year. Group adjusted operating profit increased by 13.3% to £303.6m (2014: £268.0m). Adjusted profit attributable to ordinary shareholders increased by 48.2% to £117.5m (2014: £79.3m), due to higher adjusted operating profit and lower net finance costs. Adjusted EPS increased by a lower percentage to 9.8p (2014: 7.5p), due to the increased weighted average number of shares in issue following the rights issue completed in the prior year. Adjusted EBITDA increased 7.7% to £624.4m (2014: £579.8m). Statutory operating profit was £245.8m (2014: £232.2m), reflecting the higher adjusted operating profit partly offset by the gain on disposal of London operations in UK Bus last year. The net debt:EBITDA ratio was 2.25 times (2014: 2.25 times), in part reflecting the UK Rail end of franchise cash outflows in the year and foreign exchange translation. ROCE was 7.8%, or 8.5% (2014: 8.2%) at constant exchange rates. All references to 'adjusted' figures throughout this document are before amortisation charges and certain other items as set out in note 4 to the financial statements.

The net cash inflow for the year before UK Rail end of franchise cash flows was £39.4m (2014: £26.9m). This cash inflow, combined with the end of franchise outflows and movements in debt due to foreign exchange, contributed to an increase in net debt of £103.5m (2014: decrease of £675.3m, including £584.4m in net proceeds of the rights issue). The net cash inflow before UK Rail end of franchise cash flows was slightly higher than the prior year, principally reflecting stronger cash generation by our operations, lower tax and interest payments and higher proceeds from disposals of property, plant and equipment, partly offset by the planned higher capital expenditure and the London disposal proceeds in UK Bus last year.

Liquidity within the Group has remained strong. At 31 March 2015 there was £1,023.8m (2014: £988.5m) of committed headroom and free cash, being £800.0m (2014: £796.2m) of committed headroom and £223.8m (2014: £192.3m) of free cash. The Group's average debt maturity was 5.2 years (2014: 6.1 years).

During the year gross capital investment of £425.1m (2014: £464.7m) was invested in our business to continue our transformation programme and help reposition the Group for future growth. We expect to continue investing approximately £400m per annum in capital expenditure in our businesses in the medium term.

Progress with the transformation programme in the year has reinforced our confidence in delivering our medium term financial objectives, which are as follows:

- We aim to increase Group revenue (excluding UK Rail) at a faster rate than the economies we serve, through attractive customer propositions in our passenger revenue-based services, and disciplined bidding in our contract-based businesses.
- In First Student and UK Bus we aim to improve margins to double digit levels through the detailed turnaround plans underway. Greyhound targets a margin of approximately 12% in part through investment in yield management systems. In First Transit we will continue our record of growth while maintaining margins of approximately 7%, and in UK Rail we will maintain our disciplined approach to bidding in a range of future franchise competitions where we see an opportunity to deliver ambitious improvements for passengers and appropriate returns for shareholders, at an acceptable level of risk.
- Overall our objective is to achieve ROCE in the range of 10% to 12% in the medium term.
- We also aim to maintain an investment grade credit rating and appropriate balance sheet liquidity and headroom. In the medium term we are targeting net debt:EBITDA of approximately two times.

## Finance costs and investment income

Net finance costs before adjustments were £139.7m (2014: £156.1m) with the decrease principally reflecting lower debt levels following the rights issue which completed part way through last year, and lower interest rates as a result of cancelling certain interest rate swaps and having more floating rate debt.

## Profit before tax

Adjusted profit before tax as set out in note 4 to the financial statements was £163.9m (2014: £111.9m), with the increase due principally to higher adjusted operating profit and lower adjusted net finance costs. An overall charge of £58.1m (2014: £53.4m) for adjustments including amortisation charges of £54.3m (2014: £53.4m) resulted in statutory profit before tax of £105.8m (2014: £58.5m).

## Tax

The tax charge, on adjusted profit before tax, for the year was £36.1m (2014: £22.4m) representing an effective rate of 22.0% (2014: 20.0%). There was a tax credit of £15.8m (2014: credit of £24.9m) relating to amortisation charges and other adjustments. The total tax charge was £20.3m (2014: credit of £5.7m). The 2014 total tax credit also included a one-off credit adjustment of £3.2m to the UK deferred tax liability as a result of the reduction in the UK corporation tax rate from 23% to 20%, which will apply from April 2016. The actual tax paid during the year was £4.5m (2014: £8.2m).

## EPS

Adjusted EPS increased by 30.7% to 9.8p (2014: 7.5p). Basic EPS increased 21.6% to 6.2p (2014: 5.1p), with both improvements primarily due to higher operating profit and lower net finance costs.

Divisional results	Year to 31 March 2015			Year to 31 March 2014		
	Revenue £m	Operating profit <sup>1</sup> £m	Operating margin <sup>1</sup> %	Revenue £m	Operating profit <sup>1</sup> £m	Operating margin <sup>1</sup> %
First Student	1,478.8	114.9	7.8%	1,467.4	93.5	6.4%
First Transit	844.8	59.7	7.1%	811.9	60.3	7.4%
Greyhound	609.6	41.7	6.8%	624.6	46.4	7.4%
UK Bus	896.1	51.8	5.8%	930.2	44.4	4.8%
UK Rail	2,207.1	74.1	3.4%	2,870.1	55.2	1.9%
Group <sup>2</sup>	14.3	(38.6)		13.2	(31.8)	
Total Group	6,050.7	303.6	5.0%	6,717.4	268.0	4.0%

North America in US Dollars		\$m	\$m	%	\$m	\$m	%
First Student		2,368.6	177.3	7.5%	2,339.3	152.8	6.5%
First Transit		1,362.1	96.1	7.1%	1,290.5	95.7	7.4%
Greyhound		986.0	68.5	6.9%	990.6	73.2	7.4%
Total North America		4,716.7	341.9	7.2%	4,620.4	321.7	7.0%

<sup>1</sup> Adjusted.

<sup>2</sup> Tramlink operations, central management and other items.



# Operating and financial review

## continued

### EBITDA

EBITDA by division is set out below:

Divisional results	Year to 31 March 2015			Year to 31 March 2014		
	Revenue £m	EBITDA <sup>1</sup> £m	EBITDA margin <sup>1</sup> %	Revenue £m	EBITDA <sup>1</sup> £m	EBITDA margin <sup>1</sup> %
First Student	1,478.8	260.9	17.6%	1,467.4	241.1	16.4%
First Transit	844.8	72.1	8.5%	811.9	72.0	8.9%
Greyhound	609.6	73.1	12.0%	624.6	74.9	12.0%
UK Bus	896.1	118.5	13.2%	930.2	105.9	11.4%
UK Rail	2,207.1	137.8	6.2%	2,870.1	117.1	4.1%
Group	14.3	(38.0)		13.2	(31.2)	
Total Group	6,050.7	624.4	10.3%	6,717.4	579.8	8.6%

North America in US Dollars	\$m	\$m	%	\$m	\$m	%
First Student	2,368.6	412.5	17.4%	2,339.3	387.2	16.6%
First Transit	1,362.1	116.1	8.5%	1,290.5	114.4	8.9%
Greyhound	986.0	119.1	12.1%	990.6	118.4	12.0%
Total North America	4,716.7	647.7	13.7%	4,620.4	620.0	13.4%

<sup>1</sup> Adjusted operating profit less capital grant amortisation plus depreciation.

### 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 principal reconciling items are as follows:

#### Amortisation charges

The charge for the year was £54.3m (2014: £53.4m).

#### Gain on disposal of property

A gain on disposal of £25.3m (2014: £nil) was realised on the sale of a Greyhound garage in Miami. The proceeds of this disposal of £31.6m were received during the year.

#### Legal claims

Two separate legal claims that pre-date the Laidlaw acquisition and were acquired with the former Laidlaw entities had adverse developments during the year and we now estimate that it will cost significantly more to settle these cases. As a result there was a charge of £12.2m (2014: £nil).

#### IT licences

A number of Group IT licences have been written off as the projects to which they relate will now be achieved in an alternative, less costly and more appropriate way. The charge for these licences was £8.7m (2014: £nil).

#### UK Bus depot sales and closures

There was a charge of £7.5m (2014: credit of £13.0m) in the year relating to operating losses and fixed asset impairments. The credit in 2014 largely represents the gain on disposal of London operations.

#### UK Rail First Great Western contract provision

There was a charge of £nil (2014: credit of £4.6m) in the year. The credit in 2014 reflected the fact that losses in the final seven periods of the old franchise were not as high as initially projected, partly due to contractual changes agreed with the DfT.

### Ineffectiveness on financial derivatives

There was a £0.3m (2014: £17.6m) non-cash charge during the year due to ineffectiveness on financial derivatives. The principal component of the 2014 charge related to certain US Dollar swaps which were no longer required as the underlying borrowings were repaid from proceeds of the rights issue.

### Capital expenditure

As planned we continue to invest in our businesses. Cash capital expenditure was £428.9m (2014: £334.5m) and comprised First Student £174.9m (2014: £130.8m), First Transit £21.6m (2014: £18.1m), Greyhound £49.8m (2014: £45.8m), UK Bus £104.1m (2014: £67.4m), UK Rail £75.0m (2014: £68.5m) and Group items £3.5m (2014: £3.9m). UK Rail capital expenditure is typically matched by franchise receipts.

In addition during the year we entered into operating leases for passenger carrying vehicles with capital values in First Student of £nil (2014: £25.2m), First Transit of £9.2m (2014: £19.5m), Greyhound of £nil (2014: £14.7m) and UK Bus of £nil (2014: £24.3m).

Gross capital investment was £425.1m (2014: £464.7m) and comprised First Student £170.4m (2014: £194.3m), First Transit £30.3m (2014: £37.2m), Greyhound £50.9m (2014: £60.5m), UK Bus £93.9m (2014: £101.7m), UK Rail £76.1m (2014: £69.4m) and Group items £3.5m (2014: £1.6m).

### Cash flow

The net cash inflow for the year before UK Rail end of franchise cash flows was £39.4m (2014: £26.9m). This cash inflow combined with the end of franchise outflows of £107.9m (£58.7m for First Capital Connect and £49.2m for First ScotRail) and movements in debt due to foreign exchange contributed to a net debt increase of £103.5m (2014: decrease of £675.3m) as detailed on the following page:

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
<b>EBITDA</b>	<b>624.4</b>	579.8
Other non-cash income statement (credits)/charges	(14.0)	7.8
Working capital excluding FGW provision movement and UK Rail end of franchise cash flows	(11.6)	(37.0)
Working capital – FGW provision movement (current liabilities)	–	(35.3)
Movement in other provisions	(27.2)	(36.1)
Pension payments in excess of income statement charge	(12.3)	(27.7)
<b>Cash generated by operations excluding UK Rail end of franchise cash flows</b>	<b>559.3</b>	451.5
Capital expenditure	(428.9)	(334.5)
Acquisitions	(11.0)	–
Proceeds from disposal of property, plant and equipment	47.5	14.1
Interest and tax	(124.4)	(157.2)
Dividends payable to non-controlling minority shareholders	(2.0)	(21.3)
Proceeds from sale of businesses	–	76.3
Other	(1.1)	(2.0)
<b>Net cash inflow before UK Rail end of franchise cash flows</b>	<b>39.4</b>	26.9
UK Rail end of franchise cash flows	(107.9)	–
Net proceeds from rights issue	–	584.4
Foreign exchange movements	(31.7)	68.2
Other non-cash movements in relation to financial instruments	(3.3)	(4.2)
<b>Movement in net debt in year</b>	<b>(103.5)</b>	675.3

The net cash inflow before UK Rail end of franchise cash flows was slightly higher than the prior year, principally reflecting stronger cash generation by operations, lower tax and interest payments and higher proceeds from disposals of property, plant and equipment, partly offset by the planned higher capital expenditure and the London disposal proceeds last year.

We expect there will be a further working capital outflow of approximately £30m in 2015/16 as a result of the end of UK Rail franchises.

### Funding and risk management

Liquidity within the Group has remained strong. At 31 March 2015 there was £1,023.8m (2014: £988.5m) of committed headroom and free cash, being £800.0m (2014: £796.2m) of committed headroom and £223.8m (2014: £192.3m) 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 £250m of committed headroom at all times. Our average debt maturity was 5.2 years (2014: 6.1 years). The Group's main revolving bank facilities require renewal in June 2019.

The Group does not enter into speculative financial transactions and uses only authorised financial instruments for certain risk management purposes.

### Interest rate risk

We 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 more than 75% of net debt.

### Fuel price risk

We use a progressive forward hedging programme to manage commodity risk. In 2014/15 in the UK, 93% of our 'at risk'

crude requirements (2.2m barrels p.a.) were hedged at an average rate of \$101 per barrel. At year end we had hedged 65% of our 'at risk' UK crude requirements for the year to 31 March 2016 at \$97 per barrel and 34% of our requirements for the year to 31 March 2017 at \$89 per barrel.

In North America 81% of 2014/15 'at risk' crude oil volumes (1.5m barrels p.a.) were hedged at an average rate of \$90 per barrel. At year end we had hedged 71% of the volumes for the year to 31 March 2016 at \$86 per barrel and 36% of our volumes for the year to 31 March 2017 at \$83 per barrel.

### Foreign currency risk

Group policies on foreign currency risk affecting cash flow, profits and net assets are maintained to minimise exposures to the Group by using a combination of natural hedge positions and derivative instruments where appropriate. Translation risk relating to US Dollar earnings arising in the US is mitigated by US Dollar denominated costs incurred in the UK, principally UK fuel costs, US Dollar interest and tax costs.

### Shares in issue

As at 31 March 2015 there were 1,203.7m shares in issue (2014: 1,204.2m), excluding treasury shares and own shares held in trust for employees of 1.2m (2014: 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 1,204.0m (2014: 1,059.3m).

### 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.

# Operating and financial review

## continued

### Net debt

The Group's net debt at 31 March 2015 was £1,407.3m (2014: £1,303.8m) and comprised:

			31 March 2015	31 March 2014
	Fixed £m	Variable £m	Total £m	Total £m
<b>Analysis of net debt</b>				
Sterling bond (2018)	297.8	–	297.8	297.5
Sterling bond (2019)	–	249.8	249.8	249.5
Sterling bond (2021)	–	348.2	348.2	347.5
Sterling bond (2022)	320.0	–	320.0	319.5
Sterling bond (2024)	199.5	–	199.5	199.5
HP contracts and finance leases	276.5	25.7	302.2	344.6
Senior unsecured loan notes	100.6	–	100.6	89.9
Loan notes	8.7	1.0	9.7	9.7
<b>Gross debt excluding accrued interest</b>	<b>1,203.1</b>	<b>624.7</b>	<b>1,827.8</b>	1,857.7
Cash			(223.8)	(192.3)
UK Rail ring-fenced cash and deposits			(196.0)	(360.9)
Other ring-fenced cash and deposits			(0.7)	(0.7)
<b>Net debt excluding accrued interest</b>			<b>1,407.3</b>	1,303.8

Under the terms of the UK 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.

### Balance sheet

Net assets have increased by £263.2m since the start of the year. The principal reasons for this are the retained profit for the year of £85.5m, favourable translation reserve movements of £223.9m and actuarial gains on defined benefit pension schemes (net of deferred tax) of £27.2m partly offset by unfavourable after tax hedging reserve movements of £63.3m.

### Foreign exchange

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

	Year to 31 March 2015		Year to 31 March 2014	
	Closing rate	Effective rate	Closing rate	Effective rate
US Dollar	1.49	1.58	1.66	1.61
Canadian Dollar	1.88	1.83	1.84	1.69

### Pensions

We have updated our pension assumptions as at 31 March 2015 for the defined benefit schemes in the UK and North America. The net pension deficit of £260.7m at the beginning of the year has decreased to £239.4m at the end of the year principally due to actual returns on assets more than offsetting lower net discount rates in the UK and North America.

The main factors that influence the balance sheet position for pensions and the sensitivities to their movement at 31 March 2015 are set out below:

	Movement	Impact
Discount rate	+0.1%	Reduce deficit by £32m
Inflation	+0.1%	Increase deficit by £24m

### Seasonality

First Student generates lower revenues and profits in the first half of the financial year than in the second half of the year as the school summer holidays fall into the first half. Greyhound operating profits are typically higher in the first half of the year due to demand being stronger in the summer months.

### Going concern

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 2015 of 5.2 years (2014: 6.1 years) and which is largely represented by medium term unsecured bank facilities and long term unsecured bond debt. The Group has an £800m committed revolving banking facility of which £800m (2014: \$1,200m under previous \$1,250m facility) was undrawn at the year end. This new facility has a maturity of June 2019.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2016 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, and details of the going concern review are shown on pages 103 and 104 of the Directors' Report.

**Tim O'Toole**  
Chief Executive  
10 June 2015

**Chris Surch**  
Group Finance Director  
10 June 2015



## Governance

We introduce our Board, explain our approach to corporate governance and activities in the year, and give details of the Company's remuneration principles and policies to support sustainable value creation.

Board of Directors	56
Corporate governance report	58
Directors' remuneration report	76
Other statutory information	101



## Board of Directors



**1. John McFarlane OBE**  
Chairman

**Appointed to the Board:** 2013

**Skills and experience:** He was appointed to the Board in December 2013 and became Chairman in January 2014. John has a proven track record of implementing cultural transformation and driving through strategic change. He was formerly CEO of Australia and New Zealand Banking Group Ltd, Group Executive Director of Standard Chartered plc and Chairman of Aviva plc. He will step down as Chairman at the conclusion of the forthcoming Annual General Meeting.

**Other appointments:** Chairman of Barclays plc and Barclays Bank plc, and a Non-Executive Director of Westfield Corporation and Old Oak Holdings Limited.

**Committee membership:** Chair of the Nomination Committee.



**2. Tim O'Toole CBE**  
Chief Executive

**Appointed to the Board:** 2009

**Skills and experience:** He was appointed to the Board in 2009 and became Chief Executive in 2010. 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, and prior to which he was President and Chief Executive of Consolidated Rail Corporation.

**Other appointments:** He is a Non-Executive Director of CSX Corporation, a rail freight transportation company in North America.



**3. Chris Surch**  
Group Finance Director

**Appointed to the Board:** 2012

**Skills and experience:** He has a strong track record of financial leadership as well as extensive operational, strategic and international experience. Chris was previously Group Finance Director of Shanks Group plc, also for a period of time serving as their acting Chief Executive. Following an early career with Price Waterhouse, he joined TI Group plc in 1995. He held a number of senior roles there and following the merger of TI Group plc with Smiths Group plc he went on to hold further senior finance roles, latterly serving as Finance Director of their Speciality Engineering division. He will step down as a Director on 8 January 2016.



**6. Drummond Hall**  
Senior Independent Non-Executive Director

**Appointed to the Board:** 24 June 2014

**Skills and experience:** He brings to the Board a wealth of experience gained across a number of customer-focused businesses in the UK, Europe and the US. Drummond was formerly Chief Executive of Dairy Crest Group plc, prior to which his career was spent with Procter and Gamble, Mars and PepsiCo. He has also been Chairman and a Non-Executive Director of Mitchells & Butlers plc.

**Other appointments:** Senior Independent Non-Executive Director of WH Smith plc and a Non-Executive Director of The Sage Group plc.

**Committee membership:** Member of the Nomination and Remuneration Committees.



**7. Wolfhart Hauser**  
Non-Executive Director and Chairman Designate

**Appointed to the Board:** 18 May 2015

**Skills and experience:** He brings to the Board a strong track record of driving profitable growth and value creation in a large international organisation, as well as significant board experience in major UK listed companies. Wolfhart was CEO of Intertek Group plc, the international quality and safety services provider, for ten years, before he retired from the role in May 2015. Subject to his election by shareholders, he will succeed John McFarlane as Chairman of the Board from the conclusion of the Annual General Meeting.

**Other appointments:** Non-Executive Director of Associated British Foods plc and of RELX PLC and RELX NV (previously Reed Elsevier PLC and Reed Elsevier NV).

**Committee membership:** Member of the Nomination Committee.



**8. Brian Wallace**  
Non-Executive Director

**Appointed to the Board:** 2012

**Skills and experience:** He brings to the Board a wealth of financial and risk experience and knowledge. Brian has held executive board positions within a number of major organisations, most recently as Group Finance Director of Ladbrokes plc and previously as Group Finance Director and Deputy Chief Executive of Hilton Group. A chartered accountant, he began his career at Price Waterhouse and went on to perform senior finance roles at Geest, APV and Schlumberger. He previously served as a Non-Executive Director at Scottish & Newcastle plc, Hays plc, Merlin Entertainment and Miller Group.

**Other appointments:** Chairman of Travelodge Hotels Limited and Chairman of SoftCat Limited.

**Committee membership:** Chair of the Audit Committee and member of the Nomination Committee.





#### 4. Mick Barker

Non-Executive Employee Director

**Appointed to the Board:** 2012

**Skills and experience:** He has been a railwayman for 39 years and is currently employed as a train driver for First Greater Western Limited, one of the Group's train operating companies. Mick brings to the Board considerable knowledge of the attitudes and concerns of employees and represents their views to the Board and its Committees.

**Committee membership:** Member of the Board Safety Committee and attends meetings of other Committees at the invitation of the respective Committee Chair.



#### 5. Warwick Brady

Non-Executive Director

**Appointed to the Board:** 24 June 2014

**Skills and experience:** He brings to the Board significant experience of the transport sector. Warwick has a strong track record of delivering restructuring, cost reduction and modernisation programmes. As Chief Operating Officer at easyJet plc since 2009, he is part of the management team responsible for improving the airline's financial and operating performance. His previous roles include Chief Executive of Indonesian Airline Mandala, Deputy Operations Director at Ryanair plc and Chief Operating Officer at Air Deccan.

**Other appointments:** Chief Operating Officer of easyJet plc.

**Committee membership:** Member of the Audit Committee.



#### 9. Imelda Walsh

Non-Executive Director

**Appointed to the Board:** 24 June 2014

**Skills and experience:** She brings considerable experience to the Board gained across a number of sectors, as well as outstanding remuneration practice skills. Imelda was formerly a Non-Executive Director and Chair of the Remuneration Committee of Sainsbury's Bank 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, Mitchells & Butlers plc and Mothercare plc.

**Committee membership:** Chair of the Remuneration Committee and member of the Nomination and Board Safety Committees.



#### 10. Jim Winestock

Non-Executive Director

**Appointed to the Board:** 2012

**Skills and experience:** He brings to the Board considerable operational experience gained within a large complex organisation, together with a track record of achievement. Jim 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., a Fortune 500 company and one of the largest transportation service providers in the world, and also serves on the Board of two not-for-profit organisations in the US.

**Committee membership:** Chair of the Board Safety Committee and member of the Nomination and Audit Committees.



### Dear fellow shareholder

Good governance is the cornerstone of a successful and sustainable company. The Board is committed to maintaining the highest standards of corporate governance in its management of the affairs of the Group and its accountability to shareholders and other stakeholders.

### Board role and effectiveness

The core purpose of the Board is to create and deliver the long term success of the Company and long term returns for shareholders. This requires the Board to set the Company's strategic aims, ensure that the necessary financial and human resource structures are in place to achieve the Company's objectives, provide oversight of management's performance in delivering against strategy on a day-to-day basis and set the Company's risk appetite. The Board is aware of its obligations to the Company's shareholders and other stakeholders and responds to their needs by transparent reporting and active engagement.

My role as Chairman is to lead the Board and to ensure that FirstGroup has a Board which works effectively on all aspects of its role. A key part of that role is to ensure the Board works collaboratively with the executive team, providing support and guidance to complement and enhance the work undertaken, constructively challenges management when necessary and exercises an appropriate level of rigorous enquiry and intellectual debate. This involves having Directors with the right range and balance of skills, experience and attributes, including a broad diversity of perspectives, for the Board and for FirstGroup. I believe we have this on our Board, enhanced by the appointments of Warwick Brady, Drummond Hall and Imelda Walsh in June 2014.

### Chairman designate

It was with regret that I announced in September 2014 the difficult decision to step down from the Chairmanship and Board of FirstGroup so early in my tenure, as a condition of assuming the chairman's position at Barclays plc earlier this year. The process to identify a new Chair was led by Drummond Hall, as Senior Independent Director. A comprehensive and rigorous search process was put in place with a candidate profile and position specification prepared, and an executive search consultant, JCA Group, appointed to assist with the process.

A number of candidates were considered for the role and it was agreed that Wolfhart Hauser met the specification of the role, possessing all the necessary financial and operational acumen to provide both strong challenge and able support to the executive team as well as a proven track record of long term value creation as CEO of a FTSE 100 company and strong corporate governance insight gained through being a non-executive director on FTSE 100 boards. As announced on 11 March 2015, Wolfhart Hauser will assume the role of Chairman following the conclusion of the Company's Annual General Meeting on 16 July 2015, having joined the Board as a Non-Executive Director on 18 May 2015. More detailed information on the process to identify the new Chairman is set out in the Nomination Committee report below.

### Committee framework

FirstGroup has a structured and established corporate governance framework which underpins the Board's aim of achieving long term success and sustainable shareholder value. As a Board, we believe that for a framework to work well, constant evaluation is required to ensure that the overall aims and objectives are stretching but achievable. The Board has four principal Committees to deal with specific aspects of the Group's affairs: the Audit Committee; Board Safety Committee; Remuneration Committee; and Nomination Committee. Detailed information on the roles and responsibilities, and the activities undertaken during the year by each Committee, are set out in their respective sections within this Corporate Governance report.

### Board and Committee evaluation

The Board believes regular and appropriate Board and Committee evaluation is key to achieving and improving Board effectiveness. Given the important changes to the Board with the appointment of a new Chairman and three new Non-Executive Directors, we chose again to conduct an externally facilitated evaluation process. This was delayed slightly compared to our normal practice with the results presented at the June 2015 Board meeting to allow Wolfhart to be part of the Board discussions on the evaluation results. We will therefore report on the outcomes of the evaluation in next year's Annual Report and Accounts.

### Succession planning

Proper planning for Board and senior management succession and refreshing and selecting the right individuals for the Board and senior management positions from a diverse talent pool are key issues for the Board. It is essential in ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity. During the year, the Board reviewed the status of succession planning and engaged Spencer Stuart to assist in assessing individuals able to progress to Board and executive management positions.

**Index to section**

Nomination Committee report	Page 68
Audit Committee report	Page 70
Board Safety Committee report	Page 74
Directors' Remuneration report	Page 76

**Diversity**

The Board has previously highlighted that it is an advocate of diversity in the boardroom and a supporter of Lord Davies' aim to raise the proportion of women on UK Boards, as reflected in the 2013 Women on Boards report.

The Board consists of Directors with a wide range of skills and business experience drawn from a number of industries, which is critical for bringing both the expertise required, and to enable different perspectives to be brought to Board discussions. The combination of these factors mean that the Board benefits from a diverse range of competencies, perspectives and thoughts, providing an ability to challenge on strategic issues and a dynamic environment for decision-making.

The Board continues to aim towards its aspiration of 25% of Board positions filled by women. The Board remains of the opinion that appointments to the Board should be made on merit relative to a number of different criteria including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise. Future appointments to the Board must also complement the balance of skills that the Board already possesses. Further details of the Group's approach to diversity can be found on the FirstGroup website at [www.firstgroupplc.com](http://www.firstgroupplc.com).

The Board recognises the need to create the conditions that foster talent and encourage all employees to achieve their full career potential in the Group. As part of our overall approach to human resource management we encourage employee diversity and aspire to be an inclusive organisation, representative of the communities that we serve.

**Remuneration**

In light of comments expressed by some shareholders on the 2014 Directors' Remuneration Report, the Remuneration Committee has undertaken a full review of executive remuneration, which has been its main activity during the year. As well as endeavouring to address the shareholder concerns raised, the purpose of the review has also been to ensure that remuneration is aligned to the Group's strategy and turnaround plans. As a result of this, the Committee concluded that a number of changes to the remuneration policy are required, which will be voted upon at the forthcoming Annual General Meeting.

**Internal control and risk management**

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. The Board has adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these 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 and this Corporate Governance report.

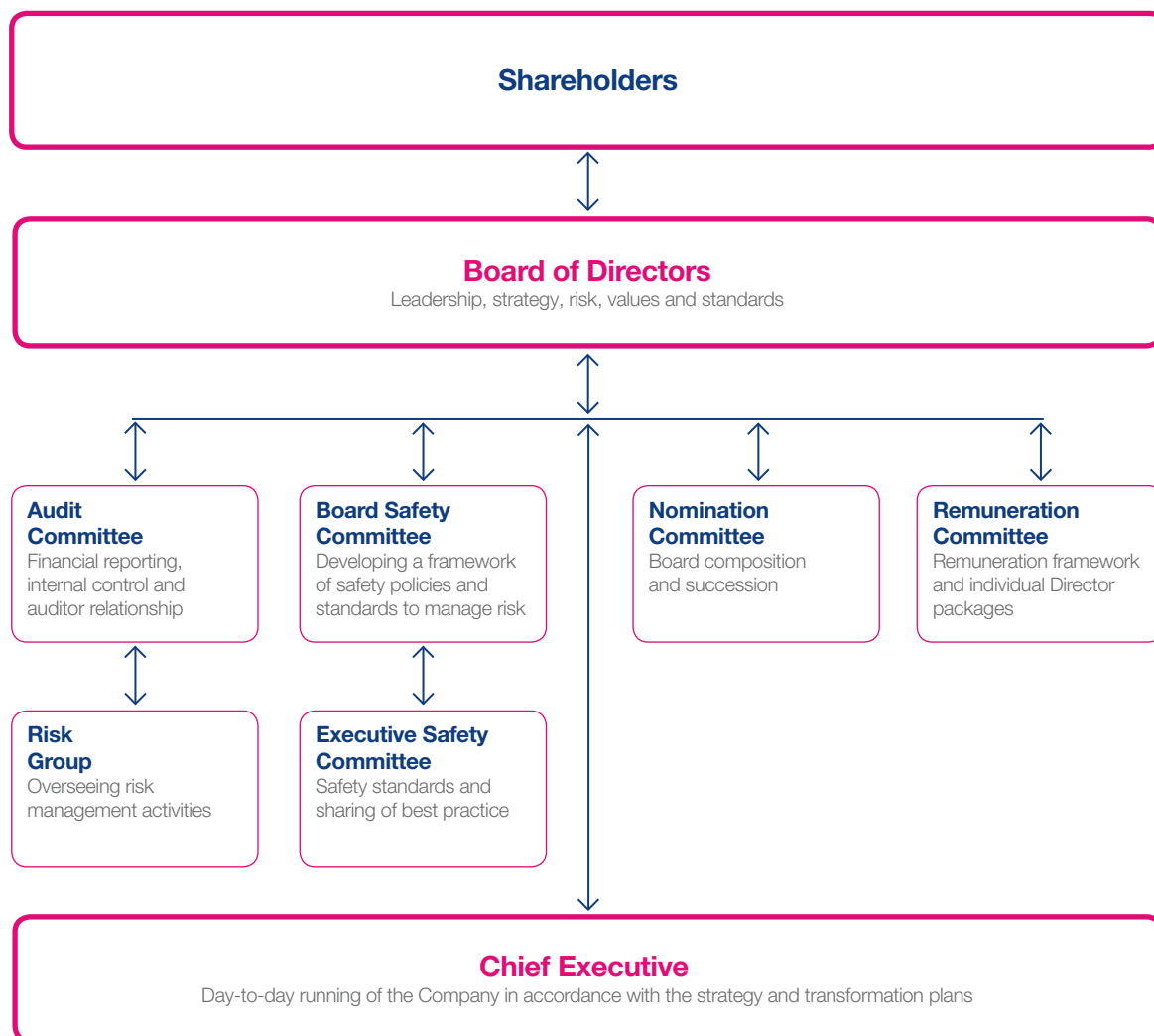
**Engaging with shareholders**

Engaging with shareholders is one of the key aspects of corporate governance. I and my fellow Directors 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 also 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 in 2015/16. At the Company's forthcoming Annual General Meeting, 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 Annual General Meeting on 16 July 2015.

**Looking ahead**

This is my last report to you as Chairman, as I will retire from the Board at the conclusion of the AGM on 16 July 2015. I would like to take this opportunity to thank my Board colleagues, both present and past, for the invaluable support and guidance they have given me, through their contribution on the Board and Board Committees and more widely, during my period as Chairman. As I hand over to my successor, Wolfhart Hauser, I would like to wish my Board colleagues every success for the future.

**John McFarlane**  
Chairman



### Governance framework

The Annual Report and Accounts has been prepared in accordance with the UK Corporate Governance Code which was issued in September 2012 (the Code) by the Financial Reporting Council (the FRC) and is available to view at [www.frc.org.uk](http://www.frc.org.uk). The Company is currently reviewing the provisions of the revised edition of the UK Corporate Governance Code published by the FRC in September 2014 which applies to companies with a premium listing on the London Stock Exchange with accounting periods beginning on or after 1 October 2014. These provisions will apply to the Company for the financial year ending 31 March 2016 and we are considering how best we can comply with them to ensure continued high standards of governance.

### Code compliance

The Board confirms that throughout the year the Company has applied the main principles and complied with the provisions of the Code, save for the Remuneration Committee has comprised only two independent Non-Executive Directors since June 2014. The Committee dealt effectively and ably with the matters it was required to address during this period. Following the succession of Wolfhart Hauser as Chairman after the conclusion of the 2015 Annual General Meeting the matter will be further considered and addressed.

## Leadership

### The role of the Board

The Board is accountable for managing the Company on behalf of its shareholders and each Director acts 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 Company 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 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 significant 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;
- the five-year plan and annual budget;
- Board and Committee membership; and
- financial results 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 overseas, the Board normally holds at least one meeting each year at one of the principal overseas offices of the Group. 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 assess senior managers at first hand and to review operational matters. For example, during the year the

Board visited the offices of Greyhound in Dallas, which included a presentation from senior management on Greyhound's commercial 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;
- financial updates;
- strategy and transformation plans;
- progress against strategy and transformation plans;
- other reporting items for approval, including UK rail franchise bids; and
- feedback from Committees.

### Division of responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

### Roles and responsibilities

#### Chairman

In addition to being a Board member responsible to the Company, shareholders and other stakeholders, the key roles and responsibilities of the Chairman include:

- promoting the interests of the Company with special regard to Group planning and development to secure the Group's future success;
- ensuring the effective operation of the Board and its Committees in conformity with the highest standards of corporate governance;
- providing leadership to the Board, setting its agenda, style and tone of meeting discussions to promote open and constructive debate and effective decision-making, as well as ensuring that adequate time is available for discussion of all agenda items and taking account of all views of the Directors;
- ensuring that shareholders and the Board receive accurate, timely, clear and high quality information on all important matters;
- ensuring that the Board determines significant risks, that the Directors have effective oversight of risks and that the Board has effective decision-making processes and applies sufficient challenge to management;
- chairing the Nomination Committee and assembling an effective, complementary Board by initiating change and succession planning of Board and Committee members;



- ensuring comprehensive induction programmes for new Directors and that the needs of all Directors are identified and met;
- ensuring the performance of the Board, its Committees and individual Directors is formally evaluated annually, with an externally facilitated evaluation performed at least every three years;
- promoting effective and constructive relationships and communications between Non-Executive Directors and Executive Directors and senior management, and holding meetings with the Non-Executive Directors without the Executive Directors being present;
- ensuring effective communication with shareholders and other stakeholders, and that their views are understood by the Board; and
- maintaining an effective working relationship with the Chief Executive.

#### **Chief Executive**

In addition to being a Board member accountable to the Company, shareholders and other stakeholders, the key roles and responsibilities of the Chief Executive include:

- ensuring the creation and maintenance of a safe working environment and a safety-focused culture across the Group;
- leading the management team in the day-to-day running of the Group's business;
- developing the Group's objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- establishing and maintaining an organisational structure that will enable the Group's strategy to be implemented effectively;
- responsibility to the Board for the performance of the business, consistent with agreed plans, strategies and policies;
- developing through investment and divestment an appropriate asset base for the Group to execute its strategy;
- developing and promoting effective communication with shareholders and other interested parties;
- ensuring 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;
- planning human resourcing to ensure the Company has the capabilities and resources required to achieve its plans;
- establishing a senior management team which has the knowledge, skills, attitude and motivation to achieve the Group's business objectives both now and in the future;
- developing and maintaining an effective framework of internal controls over risk in relation to all business activities;
- managing the Group's risk profile in line with what is deemed acceptable by the Board; and
- ensuring the Board is kept apprised in a timely manner of the issues facing the Group and of events and developments as they arise.

#### **Senior Independent Director**

In addition to being a Board member responsible to the Company, shareholders and other stakeholders, the key roles and responsibilities of the Senior Independent Director include:

- acting 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 Group Finance Director. No such matters of concern were raised by shareholders or stakeholders during the year ended 31 March 2015;
- acting as a sounding board for the Chairman and serving as an intermediary for the other Directors when necessary;
- meeting with the Non-Executive Directors (without the Chairman being present) at least annually and leading the Board in the ongoing monitoring and annual performance evaluation of the Chairman;
- monitoring the training and development requirements of Directors; and
- availability to meet with a range of major shareholders when requested, to develop a balanced understanding of their issues and concerns and reporting the outcome of such meetings at subsequent Board meetings.

#### **Non-Executive Directors**

The Non-Executive Directors 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 Non-Executive Directors 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 Non-Executive Directors have the appropriate balance of skills, experience, knowledge and independent judgement gained through experience in a variety of business sectors.

#### **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. The Committee memberships are spread between the Non-Executive Directors, drawing on each of their relevant skills and experience.

Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances which prevent them from doing so. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's request.

The terms of reference of each Committee are available to view on the Company's website ([www.firstgroupplc.com](http://www.firstgroupplc.com)) and on request from the Company Secretary at the Company's registered office. The terms of reference are normally reviewed annually.

### Board Committee membership

The current membership of the Board's Committees is shown in the table below:

Director	Audit Committee	Board Safety Committee	Nomination Committee	Remuneration Committee
John McFarlane	–	–	C	–
Tim O'Toole	–	–	–	–
Chris Surch	–	–	–	–
Mick Barker	–	M	–	–
Warwick Brady	M	–	–	–
Drummond Hall	–	–	M	M
Wolfhart Hauser	–	–	M	–
Brian Wallace	C	–	M	–
Imelda Walsh	–	M	M	C
Jim Winestock	M	C	M	–

C: Chair of Committee

M: Member of Committee

### Effectiveness

#### Board balance and independence

Effective management and good stewardship of the Group are led by the Board. The Board is currently comprised of the Chairman, two Executive Directors and seven Non-Executive Directors. John McFarlane will step down from the Chairmanship and Board at the conclusion of the Annual General Meeting and will be succeeded by Wolfhart Hauser. 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 56 and 57.

It is the Company's policy that at least half the Board should be independent Non-Executive Directors. Other than Mick Barker, the Board considers each of its current Non-Executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend

his or her 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 judgement of Warwick Brady, Drummond Hall, Wolfhart Hauser, Brian Wallace, Imelda Walsh or Jim Winestock. The Board carries out a review of the independence of its Directors on an annual basis. Mick Barker is not considered by the Board to be independent as he is an employee of one of the Group's subsidiaries. The Board considers, however, that it is extremely beneficial for its employees to be represented on the Board in this way as it enables employee-related issues to be raised directly at the Board and provides a two-way communication between the Board and employees.

#### 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, he or she still receives the papers and other relevant information in advance of the meeting and has the opportunity to discuss with the relevant Chair or the Company Secretary any matters he or she wishes 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.

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. One of the key criteria considered for the appointment of the new Chairman was whether the candidate would be able to devote sufficient time to the role.

#### Length of tenure



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

#### Board composition



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

# Corporate governance report

## continued

The attendance of Directors at scheduled Board meetings, which they were eligible to attend, and the number of meetings attended in the year ended 31 March 2015 is shown below:

Director	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
<b>Chairman</b>		
John McFarlane	8	8
<b>Executive Directors</b>		
Tim O'Toole	8	8
Chris Surch	8	8
<b>Non-Executive Directors</b>		
Mick Barker	8	8
David Begg <sup>1</sup>	2	2
Warwick Brady <sup>2,3</sup>	7	5
Drummond Hall <sup>2</sup>	7	7
Colin Hood <sup>1</sup>	2	2
John Sievwright <sup>1</sup>	2	2
Brian Wallace	8	8
Imelda Walsh <sup>2,3</sup>	7	6
Jim Winestock	8	8

<sup>1</sup> David Begg, Colin Hood and John Sievwright stepped down as Directors on 24 June 2014.

<sup>2</sup> Warwick Brady, Drummond Hall and Imelda Walsh were appointed Directors on 24 June 2014.

<sup>3</sup> Warwick Brady was unable to attend two meetings and Imelda Walsh one meeting due to other unavoidable commitments arranged prior to joining the Board.

### 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 development and financial performance. This enables the Directors to discharge their duties on strategic, financial, operational, compliance and governance issues effectively. Where appropriate, additional training and updates on particular issues are provided.

All Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal 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 Annual General Meeting.

### 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 results 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 Robert Welch, who joined the Group in 2014. Robert Welch is secretary to all of the Board Committees, except the Audit Committee and Board Safety Committee. The secretary to the Audit Committee and Board Safety Committee is Eileen Malcolmson, Deputy Company Secretary.

### Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 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. In line with that Act, the Company's Articles of Association 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 his duty to promote the success of the Company.

Furthermore, the Company's Articles of Association include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching his or her 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.

### Performance evaluation

The Board undertakes regular evaluations of its own performance as well as that of its Committees. The last externally conducted Board performance evaluation was conducted in 2014 by Independent Board Evaluation.

A Board evaluation was commenced in March 2015, facilitated by Independent Board Evaluation, in respect of the year ended 31 March 2015. The process 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 interviews with each of the Directors and the Company Secretary on the performance of the Board, its Committees and its Executive and Non-Executive Directors and the preparation of a composite report. The results of the performance evaluation were presented and discussed at the June 2015 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 external Board performance evaluation process was undertaken in mid-2014. The results of the Board performance evaluation report were presented at the May 2014 Board meeting and it was concluded that the culture of the Board was changing and becoming more effective. The main areas identified for improvement and corresponding actions taken during 2014/15 were as follows:

Area identified	Action taken
Board composition and diversity	The Board initiated a recruitment process and appointed three new Non-Executive Directors, Warwick Brady, Drummond Hall and Imelda Walsh.
Succession planning	A detailed review of Executive Directors and senior executives, facilitated by Spencer Stuart, was conducted in 2014 identifying the skills, attributes, development needs and potential of each person.
Management of Board meetings and focus of discussion	The format of the agenda was amended to focus on the key priorities of the Group and allow greater time to discuss and debate these issues.

During the year, the Chairman held a number of meetings with Non-Executive Directors without Executive Directors being present. The Senior Independent Director also led the Non-Executive Directors in evaluating the performance of the Chairman.

### Election and re-election of Directors

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the Annual General Meeting following their appointment. Wolfhart Hauser having been appointed as a Director on 18 May 2015, will retire and submit himself for election at the forthcoming Annual General Meeting. In accordance with best practice and the Code, all other Directors will be submitted for re-election at the forthcoming Annual General Meeting, save for John McFarlane who will be stepping down from the Board at the conclusion of the forthcoming Annual General Meeting and therefore will not be seeking re-election.

### UK Bribery Act

The Group is committed to the highest standards of integrity and professionalism in all its activities. In line with this commitment, and as required by the Group Code of Business Ethics, an anti-bribery policy has been implemented which applies to all employees across the Group. The policy addresses areas such as corporate gifts and hospitality, facilitation payments, breach reporting, risk assessments and training.

In 2014, a refreshed anti-bribery training programme was delivered to all employees whose role and/or seniority puts them at risk. Procedures are in place to ensure that new employees and existing employees, who switch roles, also receive this training as appropriate. Each business unit and Group function is required to complete annual risk assessments in relation to anti-bribery and fraud. A 24-hour/seven-days-a-week confidential reporting hotline to report any concerns, including those relating to bribery or corruption, is available to all employees.

### Accountability

The Board is responsible for promoting the long term success of the Company for the benefit of shareholders. 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 significant 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 Group's internal control 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. Due to the limitations inherent in any system of internal control, this system provides reasonable, but not absolute, assurance against material misstatement or loss.

The effectiveness of the Group's system of internal control is reviewed by the Board annually. The Board confirms that throughout the year ended 31 March 2015 and up to the date of approval of this Annual Report and Accounts, there have been processes in place to identify, evaluate and manage the significant risks faced by the Group in accordance with the Turnbull Guidance. The Company is aware that the FRC published a revised edition of the UK Corporate Governance Code in September 2014, together with its Guidance on Risk

Management and Internal Control. Accordingly, the Company is reviewing its internal control and risk management policies and procedures to take account of these changes and it is anticipated that it will report on any changes made in the 2016 Annual Report and Accounts.

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;
- 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;
- continuous 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 five-year plan;
- approval by the Board of all major investments, with proposals being subject to rigorous strategic, financial and commercial examination;
- divisions identifying and reviewing their significant 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 Group Finance Director, are presented to the Audit Committee;
- an established methodology for ranking the level of risk in each of its business operations and the significant risk issues associated therewith;
- implementation of appropriate strategies to deal with significant risks, including measures such as insurance and the use of external specialists;

- a centrally coordinated internal audit programme to support the Board in the requirement to ensure a sound control environment;
- a confidential reporting system to allow employees to raise concerns about possible legal, regulatory, financial reporting or any other improprieties;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal controls;
- a Board sponsored Risk Group comprising representatives from major functions and presentations from relevant divisional senior management, which reviews the identification and assessment of key risks and controls; and
- a remuneration policy for executives which 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 remedial action plans are agreed. Where appropriate, follow up visits to the operating entity then confirm that the action plans have been completed and that 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, continues to review and develop the internal control environment where appropriate.

The Group's approach to risk management and how it profiles the risks identified is set out on pages 44.

### 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 Board considers this Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 104.

The Group adopts a financial reporting and information system which 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 prior year, which is reviewed by the executive senior management team. 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 23 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.

### 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 legal and regulatory requirements. It provides objective assurance on risk and controls to senior management and the Audit Committee.

Internal audit's work is focused on the Group's significant risks. The mandate and programme of work of the internal audit department is approved by the Audit Committee. Based on the approved audit plan, a number of internal audits took place across the Group's divisions to review internal controls, identify any weaknesses and facilitate improvement of the Group's internal controls. Reports on the findings of internal audit are provided to relevant operational management and the Audit Committee receives at each of its meetings reports from the Group Director of Internal Audit on the department's work and findings.

Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues raised. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and the Audit Committee.

The effectiveness of the internal audit function is reviewed by the Audit Committee. 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.

### Relations with shareholders

As set out in the Chairman's Governance Statement commencing on page 58, the Board welcomes the opportunity to openly and purposefully engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with major institutional shareholders, private or employee shareholders. The Board takes responsibility for ensuring that such dialogue takes place and recognises that regular dialogue is particularly important while the plans to transform the Group's financial performance are ongoing. The Chief Executive and Group Finance Director are closely involved in investor relations, and the 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 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. 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 Chief Executive and Group Finance Director following the announcement of trading updates and half and full-year results. Specific consultations have been carried out with leading shareholders during the year on the appointment of the new Chairman and the new remuneration policy.

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](http://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 Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

At the Annual General Meeting, the Chairman provides a brief summary of the Company's activities for the previous year to shareholders and the Chief Executive provides a business update. All resolutions at the 2014 Annual General Meeting 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 2014 Annual General Meeting 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



### Dear fellow shareholder

As this will be my final report as Chairman of the Nomination Committee, I am pleased to report on how the Committee has continued to undertake its role.

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

The Committee has had a busy year, securing the appointment of a new Chairman and three new Non-Executive Directors, details of which were provided in last year's Annual Report and Accounts, and refreshing the membership of the Board Committees.

As previously reported I will be stepping down both as Chairman of the Board and of the Committee at the conclusion of the Company's forthcoming Annual General Meeting. I am delighted that Wolfhart Hauser will replace me in both roles.

**John McFarlane**  
Chair, Nomination Committee

### Role and responsibilities

The key roles and responsibilities of the Committee are to:

- regularly review the structure, size and composition (including skills, experience, independence, knowledge and diversity, including gender) 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 his or her 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 prepares a full description of the role, skills and capabilities required; appoints external search firms, each time reviewing available options, and ensuring that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company; and finally, engages from time-to-time with the Group's major shareholders on future skills requirements and ideas for potential candidates.

The Employee Director is elected by the Employee Directors' forum, which comprises the Employee Directors of the Company's UK subsidiaries, and serves a maximum of three, three-year terms.

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

## Membership and meetings

The current members of the Committee are:

John McFarlane, Chair  
Drummond Hall  
Wolfhart Hauser  
Brian Wallace  
Imelda Walsh  
Jim Winestock

The Committee is chaired by the Chairman of the Company and the members of the Committee are independent Non-Executive Directors, in accordance with the provisions of the Code. If a matter were to concern the Chairman, then he would leave the meeting and Drummond Hall, as Senior Independent Director, would instead take the Chair.

Tim O'Toole attends meetings of the Committee at the invitation of the Chairman of the Committee. Mick Barker also attends meetings at the invitation of the Chairman of the Committee to represent the Group's employees.

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.

## Committee attendance

The table below shows the Committee members during 2014/15 and their attendance at Committee meetings:

Committee member	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
John McFarlane, Chair	3	3
Drummond Hall <sup>2</sup>	3	3
Brian Wallace	3	3
Imelda Walsh <sup>2,3</sup>	3	2
Jim Winestock <sup>3</sup>	3	2

<sup>1</sup> David Begg, Colin Hood and John Sievwright stood down from the Committee on 24 June 2014. There are no meetings held between 1 April 2014 and 24 June 2014.

<sup>2</sup> Drummond Hall and Imelda Walsh were appointed members of the Committee on 24 June 2014.

<sup>3</sup> Imelda Walsh and Jim Winestock were unable to attend one Committee meeting each due to other unavoidable commitments.

## Nomination Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was commenced in March 2015, facilitated by Independent Board Evaluation, in respect of the year ended 31 March 2015. The results of the performance assessment were presented and discussed at the June 2015 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

## Activities in 2014/15

At its meetings in 2014/15, the Committee considered, amongst other matters, the following:

- selecting and recommending to the Board a new Non-Executive Chairman;
- selecting and recommending to the Board the appointment of three new Non-Executive Directors;
- recommending to the Board the appointment of Drummond Hall as Senior Independent Director;
- recommending to the Board the appointment of Jim Winestock as Chair of the Board Safety Committee and Imelda Walsh as Chair of the Remuneration Committee; and
- recommending to the Board the appointment of: Warwick Brady and Jim Winestock as members of the Audit Committee; Mick Barker and Imelda Walsh as members of the Board Safety Committee; Drummond Hall as a member of the Remuneration Committee; Drummond Hall and Imelda Walsh as members, and Wolfhart Hauser as a member and Chairman designate, of the Nomination Committee.

## Recruitment of Chairman of the Board

Following the announcement by John McFarlane that he would be stepping down as Chairman of the Board at the conclusion of the forthcoming Annual General Meeting, the Committee commenced the process for the appointment of a successor. The process to identify a new Non-Executive Chair commenced in September 2014 and was led by Drummond Hall, as Senior Independent Director. In accordance with best practice, John McFarlane was not involved in the selection process, but was consulted for views and insights into the role.

A comprehensive and rigorous search process was put in place with a candidate profile and position specification prepared including time commitment expected, experience, ability to lead the Board, ability to be the public face of the Company with investors and other stakeholders, overall responsibility for corporate governance and ability to ensure matters of safety, strategy, performance and finance were appropriately implemented by the management team.

JCA Group, an external search consultancy, was engaged to assist with the selection process and conducted a search to identify suitable, qualified candidates. JCA Group held meetings with all current Directors to assess their opinion on the attributes required for the new Non-Executive Chair. JCA Group has no other connection with the Group apart from the provision of senior executive recruitment services.

An initial candidate list was reduced to a shortlist by Drummond Hall and JCA Group following consultations with each Committee member, for consideration by the Committee. A number of interviews and meetings were then held with shortlisted candidates. As Wolfhart Hauser emerged as the preferred candidate, he had the opportunity to meet most of the Directors and a number of discussions were held with major investors who responded positively on the proposed appointment.

In addition to regular communications with Directors individually, the Board was kept informed of developments and Directors were given the opportunity to share their feedback on Wolfhart Hauser before unanimously approving his appointment.

### Diversity

The Company takes account of diversity when recruiting, including when it considers Board appointments, and will continue to do so in the future. All appointments to the Board are made on merit and relevant experience, against the criteria identified by the Committee, having regard to the benefits of diversity, including gender.

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. As part of an overall approach to human resource management a framework has been developed which includes an Equality, Diversity and Inclusion Policy as well as posters, training and promotional videos to support its communication across the Group. In addition, focus groups have been held in the UK to discuss the policy and better understand the challenges employees face, which will help in shaping future diversity and inclusion programmes.

Whilst the Board is currently below its target of 25% female representation at 11%, it remains committed to achieving that goal as soon as practicable.

### Audit Committee



#### Dear fellow shareholder

As Chairman of the Audit Committee, I am pleased to present the report of the Audit Committee for the year ended 31 March 2015.

During the period the Committee has monitored the integrity of the Group's financial statements, including the significant financial reporting judgements, reviewed the adequacy and effectiveness of the Group's system of internal control, reviewed the divisional and Group risk profiles and monitored the effectiveness, performance and objectivity of the internal and external auditors. In addition to these core responsibilities, the Committee spent time appointing a new lead external audit partner from Deloitte and undertook an in depth review of the Insurance function.

The Committee continues to work closely with the Group Director of Internal Audit to ensure the delivery of a comprehensive internal audit plan which addresses the Group's key risks and controls. The Committee further considered its approach to external tendering and this is set out in further details in this report.

Looking forward to 2015/16, the Committee will keep its agenda under review to ensure it addresses the right issues. We will continue to monitor and respond to the changing regulatory environment and, in particular, the provisions of the revised edition of the UK Corporate Governance Code published by the FRC in September 2014 relating to risk, going concern and liabilities which will apply to the Company for the financial year ending 31 March 2016.

**Brian Wallace**  
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 in maintaining an appropriate relationship with the external auditor. The key responsibilities of the Committee are to:

- review the significant issues and judgements of management, the methodology and assumptions used in relation to the Group's financial statements and the integrity of the preliminary and half-yearly announcements on the Group's financial performance;
- review the Group's going concern assumption;
- review and oversee the Group's relationship with the external auditor, monitoring its independence and objectivity;
- review the activities, findings, conclusions and recommendations of the external auditor, alongside its reporting to the Committee, the management representation letter and the final audit report;
- consider and make recommendations to the Board in respect of the appointment, re-appointment, dismissal or resignation, effectiveness and remuneration of the external auditor;
- assess the effectiveness of the Group's system of internal control and risk management, including financial reporting, financial controls and the internal audit function; and
- report formally to the Board on how the Committee has discharged its responsibilities.

Revised Terms of Reference of the Committee were adopted in October 2014 following an annual refresh. The full terms of reference of the Committee can be found on the Company's website ([www.firstgroupplc.com](http://www.firstgroupplc.com)).

## Membership and meetings

The current members of the Committee are:

Brian Wallace, Chair  
Warwick Brady  
Jim Winestock

Brian Wallace has recent and relevant financial experience, 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 Chief Executive, Group Finance Director, Group Employee Director, Company Secretary, Director of Finance, Group Director of Internal Audit and the external auditors are normally invited to attend Committee meetings. In addition, Divisional Finance Directors and Heads of Group functions are regularly invited to present to the Committee.

At the beginning of each meeting the Committee normally meets with the external auditor and twice a year with the Group Director of Internal Audit, without management present, to discuss any matters relating to their remit and any matters arising from external and internal audits. The Committee also met during the year with the Group Finance Director to discuss the strength of the Finance function.

## Committee attendance

The table below shows the Committee members during 2014/15 and their attendance at Committee meetings:

Committee member	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Brian Wallace, Chair	4	4
David Begg <sup>1</sup>	1	1
Warwick Brady <sup>2,3</sup>	3	1
Colin Hood <sup>1</sup>	1	1
John Sievwright <sup>1</sup>	1	1
Jim Winestock <sup>2</sup>	3	3

<sup>1</sup> David Begg, Colin Hood and John Sievwright stood down from the Committee on 24 June 2014.

<sup>2</sup> Warwick Brady and Jim Winestock were appointed to the Committee on 24 June 2014.

<sup>3</sup> Warwick Brady was unable to attend two meetings due to other unavoidable commitments arranged prior to joining the Committee.

## Audit Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was commenced in March 2015, facilitated by Independent Board Evaluation, in respect of the year ended 31 March 2015. The results of the performance assessment were presented and discussed at the June 2015 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

## Activities in 2014/15

At its meetings in 2014/15, the Committee considered and discharged its responsibilities on the following matters:

### Integrity of reported financial information

- following a review by senior executive management, assessed the Group's full-year and half-yearly results, and considered the significant accounting policies, principal estimates and accounting judgements used in their preparation and the transparency and clarity of disclosures within them;
- reviewed the matters which informed the Board's assessment that it was appropriate to prepare accounts on a going concern basis;
- reviewed reports from the external auditor on its audit in respect of the full-year and review of the half-yearly results prior to them being signed on behalf of 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 performance, business model and strategy.



## Internal control, risk management and internal audit

- reviewed the design and effectiveness of the Group's system of internal control and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed and challenged the Group's significant risks identified by management in the Group risk map, and reviewed the effectiveness of the risk management processes followed by the divisions and at Group level;
- monitored and assessed the Group's insurance arrangements;
- 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, and considered reports on resourcing and expertise of the Internal Audit department;
- approved revised delegated authority limits for capital expenditure;
- approved new terms of reference of the Internal Audit department;
- received reports from the Group Legal Director on litigation matters; and
- reviewed the Group's approach to cyber risk, disaster recovery and business continuity planning.

## External auditor

- approved the terms of engagement of the external auditor, the fees paid to them and the scope of work carried out by them;
- considered and approved a policy on the independence and objectivity of the external auditor, and recommended for approval by the Board policies on 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 within the meaning of the APB Ethical Standards for Auditors;
- 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;
- following a thorough selection process, approved the appointment of a new lead audit partner; and
- recommended to the Board the re-appointment of the external auditor.

## Other activities

- reviewed the terms of reference of the Committee and recommended certain changes to the Board to ensure they were up to date and reflected relevant UK Corporate Governance Code provisions;
- received reports on governance and regulatory changes; and
- received a report on matters raised on the confidential reporting system and the process for the investigation of such matters to ensure that confidential arrangements are in place by which employees may raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters.

## Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services which 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 review 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, 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 Group Finance Director, 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 which 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 Group Finance Director, with services likely to cost more than £75,000 requiring the approval of the Committee. In addition, the Committee shall consider whether a tender should be conducted before awarding such work to the external auditor.
- Not permitted – there are some projects that are not to be performed by the external auditor because these projects 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.

### Assessing the effectiveness of the external audit process

The Audit Committee manages the relationship with the external auditor, on behalf of the Board. During 2014/15, 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 overall.

### Significant issues

The external audit process identifies significant issues and accounting judgements which are reviewed by the Committee. These are summarised in the table below. Management prepared papers and analysis on the significant issues and judgements 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 judgements	How the Audit Committee addressed these issues
<b>Carrying value of goodwill and intangible assets</b> Management exercises a significant amount of judgement 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 macro-economic environment in the UK and North America. Sensitivities to the model inputs have been tested for reasonableness.
<b>Legal provisions</b> Provisions are measured at management's best estimate of the likelihood and valuation of the expense required to settle the relevant obligation and, where applicable, the discount rate used to calculate the expected settlement.	The Committee has considered the assumptions used for estimating the valuation of provisions. The legal issues are regularly reviewed, with the related provisions being based on advice from external legal counsel.
<b>Self-insurance provisions</b> 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.
<b>Pensions</b> The Group participates in a number of defined benefit pension schemes. Management exercises significant judgement when determining the assumptions used to value the pension liabilities as these are materially sensitive to changes in the underlying assumptions.	Management has engaged with external experts and the Committee has considered the assumptions used for calculating the liability. Sensitivity analysis has been performed on the key assumptions which are: the discount rate; the inflation rate; and the mortality rates. The overall liability has also been assessed for reasonableness.
<b>Revenue recognition</b> Management must exercise judgement when determining the recoverability of amounts due and the carrying value of related assets and liabilities arising from franchises and long term service contracts.	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.

### External audit tendering

As disclosed in last year's Annual Report and Accounts, in light of changes to the UK Corporate Governance Code relating to audit tendering and the publication of the FRC transitional guidance, the Committee agreed to review its approach to audit tendering in 2014/15.

The current external auditor, Deloitte LLP, was appointed in 1998 following a tendering process. The Committee has undertaken a review of Deloitte's performance every year since its appointment. Following a thorough selection process, the Committee appointed a new lead audit partner in 2015, who will assume his role following the conclusion of the 2014/15 audit. As the Group implements its transformation plans, consistency of approach in the audit is considered to be of particular importance. The Company will not, therefore, be putting its audit out to tender in the next year, but the Committee will review this annually.

In 2014, the Competition and Markets Authority set out a package of remedies in response to its findings on its market investigation into the supply of statutory audit services. One of its principal remedies is that FTSE 350 companies must put their statutory audit engagement out to tender at least every ten years. Under the transitional arrangements proposed by the Competition and Markets Authority, FirstGroup would be required to put its external audit out to tender by 31 March 2023.

Under the EU audit reform rules which become effective in 2016, the mandatory rotation of external audit firms after ten years is required, extendable to 20 years with a tender at the end of the initial ten year period by way of derogation from the UK Government. Under the transitional provisions set out in the rules, Deloitte's last possible audit of the Group would be for the year ending 31 March 2024.

Based on the above, it would appear likely that a tender for external audit services and a change of external auditor will not be required before 31 March 2023. Notwithstanding these requirements, it remains the Committee's intention to put the external audit out to tender during the new lead audit partner's five year tenure, which is due to expire at the conclusion of the 2019/20 audit. This means that the latest time the external audit will be put out to tender is 2019 so that the process is completed by the conclusion of the 2019/20 audit.

### Board Safety Committee



#### Dear fellow shareholder

I have been impressed by FirstGroup's approach and dedication to creating a strong safety culture throughout the Group and its similarities to UPS, one of the largest global courier and providers of supply chain management solutions, where I worked for over 40 years, and where safety is ingrained in the culture. I was therefore delighted to accept the role of the Chair of the Board Safety Committee and use my experience to further embed safety as a personal core value throughout the Group.

The Board Safety Committee was established in 2013/14 to assist the Board in overseeing management's processes, standards and strategies for managing safety commitments and responsibilities across the Group as well as challenging the Group to review and improve its operational safety performance and culture.

The Committee met twice during the year, the Committee's agenda covered a range of safety issues including: reviewing a number of the Group's safety initiatives; the role of divisional safety committees; reviewing safety performance and the development of the Group's safety culture with a key focus on work conducted by Aubrey Daniels International, external safety advisers, on behavioural safety. Going forward, there will be three scheduled meetings of the Committee a year.

In December 2014, I had the opportunity to join Tim O'Toole and over 170 general managers at the Group's annual safety conference in London. The key focus of the conference was on making safety a personal core value, with those attending required to make a personal commitment to changing their safety behaviour. The safety conference, combined with the recommendations from Aubrey Daniels International, has resulted in a number of changes to the way the Group approaches safety, which I am confident will enhance its culture and performance going forward.

**Jim Winestock**  
Chair, Board Safety Committee

## 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;
- review the findings of any internal or external reports on the Group's safety systems, 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; and
- report formally to the Board on how the Committee has discharged its responsibilities.

## Membership and meetings

The current members of the Committee are:

Jim Winestock, Chair  
Mick Barker  
Imelda Walsh

## Committee attendance

The table below shows the Committee members during 2014/15 and their attendance at scheduled Committee meetings:

Committee member	Number of scheduled Committee eligible to attend	Number of scheduled Committee meetings attended
Jim Winestock, Chair	2	2
Mick Barker <sup>2</sup>	1	1
Colin Hood <sup>1</sup>	1	1
Naveed Qamar <sup>1</sup>	1	1
Tim O'Toole <sup>1</sup>	1	1
Imelda Walsh <sup>2,3</sup>	1	0

<sup>1</sup> Colin Hood, Naveed Qamar and Tim O'Toole stood down from the Committee on 24 June 2014.

<sup>2</sup> Mick Barker and Imelda Walsh were appointed members of the Committee on 24 June 2014.

<sup>3</sup> Imelda Walsh was unable to attend a meeting of the Committee due to an unavoidable commitment arranged prior to joining the Committee.

## Board Safety Committee performance evaluation

As part of the Board's annual performance review, an assessment of the Committee's performance was commenced in March 2015, facilitated by Independent Board Evaluation, in respect of the year ended 31 March 2015. The results of the performance assessment were presented and discussed at the June 2015 Board meeting and therefore will be disclosed in next year's Annual Report and Accounts.

## Activities in 2014/15

At its meeting in 2014/15 the Committee considered, amongst other matters, the following:

- reviewed safety performance in 2013/14 and targets for 2014/15;
- reviewed and evaluated the work of Aubrey Daniels International on improving the Group's safety culture and behavioural safety;
- monitored and evaluated a number of key safety initiatives; and
- reviewed the role of local safety committees.

### Statement by Chair of the Remuneration Committee



#### Dear fellow shareholder

I am pleased to present my first Directors' Remuneration Report for FirstGroup following my appointment to the Board and as Chair of the Remuneration Committee in June 2014. I trust you will find this report clear and comprehensive and that it provides you with the necessary information to demonstrate the link between the Group's strategy and transformation plans, its performance and the remuneration outcomes for our Executive Directors.

Firstly, I am delighted to welcome Drummond Hall, who joined the Committee in June 2014. David Begg, Colin Hood, John Sievwright and Jim Winestock stood down from the Committee in June 2014.

The UK Corporate Governance Code requires the Committee to comprise three independent Non-Executive Directors. Since June 2014 the Committee has had two members, both of whom are independent Non-Executive Directors. Given the large time commitment required from Committee members over the past year and the existing commitments of the other Non-Executive Directors, it was not possible to appoint a Committee member with the time to contribute fully to the Committee. The appointment of a further member will be discussed with Wolfhart Hauser following his appointment as Chairman at the conclusion of the Annual General Meeting and a new Committee member appointed during the 2015/16 financial year.

My priority as a new Non-Executive Director and Chair of the Remuneration Committee has been to understand the business strategy and then, with the Committee, review whether the remuneration policies and practices as they apply to the Executive Directors and senior managers are aligned with the strategy and appropriately support the delivery of the significant improvement required.

### Approach to remuneration

The Group's strategic objectives as set out in the Strategic Report are:

- 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);
- focused and disciplined bidding in our contract businesses; and
- maintaining responsible partnerships with our customers and communities.

The Committee believes that achievement against these objectives, which underpin the transformation plans and medium term targets that have been communicated to shareholders, will deliver strong long term financial performance and shareholder value on a sustainable basis.

### Remuneration philosophy

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

**Alignment with strategy and business objectives** – remuneration for FirstGroup's Executive Directors and senior managers incentivises the delivery of both.

**Reward performance** – remuneration provides a strong and demonstrable link between incentives and performance delivery in a consistent and responsible way, ensuring there is a clear line of sight between the performance of the Company and payments made to Executive Directors and senior managers. Alignment between the interests of shareholders and Executive Directors to build a sustainable performance culture is a key focus.

**Performance biased framework** – components of remuneration offer a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances, and which 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** – designed to facilitate the long term success of the Company and framed in the context of total remuneration packages offered by relevant comparator companies. The ability to recruit and retain high calibre executives with the appropriate skills to implement FirstGroup's strategy and transformation plans is critical to its success.

**Simplicity and transparency** – the Committee seeks to deliver both for our shareholders and participants, with performance targets clearly aligned with the Company's short and long term goals.



### Appointment of new Chairman

As reported on 11 March 2015, Wolfhart Hauser joined the Board as a Non-Executive Director and Chairman designate on 18 May 2015 and will become Chairman at the conclusion of the 2015 Annual General Meeting. The Committee carefully considered the fees payable to Wolfhart and agreed that given his skills and experience as well as the time commitment and responsibilities of the role he should receive the normal base Non-Executive Director fee of £52,500 per annum as Chairman designate and £280,000 per annum as Chairman. No termination payments will be made to John McFarlane in respect of his standing down from the Board.

### 2014/15 performance and reward

Over the course of the year, the Group has made important progress in several key areas. In particular, the success of First Student's contract portfolio improvements as well as the continued progress of the UK Bus turnaround plan. Whilst demand for Greyhound services was adversely affected by the significant and rapid reduction in fuel prices, despite the rapid and extensive actions of management to mitigate, this was offset by good performances in our First Transit and UK Rail operations, which both achieved growth towards the top end of our expectations with robust margins.

Overall, we are broadly where we expected to be at this stage of the transformation plan. However, the Group lost three rail franchises in the year, which will impact future earnings.

The Committee reviewed the outcome of the 2014/15 bonus for the Executive Directors in this context. The bonus outcome was 75% of maximum potential, compared to a target of 50% and a maximum of 100%, with Group adjusted operating profit generating 48%, Group cash flow 10%, non-financial elements 7% and individual performance 10%. The Committee also reviewed other performance factors, in particular the rail franchise losses. After careful consideration, the Committee determined that the Group adjusted operating profit element should be reduced to 30%, equivalent to the target performance, to reflect the loss of the rail franchises during the year and the future impact on earnings. Thus reducing the bonus outcome to 57% of maximum potential. The Committee believes that this represents a fair balance between the loss of the rail franchises and the progress made in the turnaround of the Group.

The 2012 Long Term Incentive Plan awards lapsed in 2015 after failing to achieve the required total shareholder return and earnings per share targets.

In recognition of the concerns raised by shareholders over the degree of disclosure provided to justify and explain previous bonus payments, the Committee has materially improved the level of disclosure in this Directors' Remuneration Report.

### Approach for 2015/16 onwards

The key task for the Committee this year has been to undertake a comprehensive review of Executive Director and senior management remuneration looking at all aspects of remuneration and how each best supports the future success of FirstGroup. We considered what was appropriate for the business and the market in which we operate, and have taken into account feedback from shareholders, best and market practice, and the key principles of good corporate governance. Prior to commencing the task, the Committee appointed new remuneration advisers, PwC.

As a result of the review and following consultation with major shareholders, the Investment Association and Institutional Shareholder Services (ISS), the Committee has made a number of amendments to the Group's remuneration framework that:

- with immediate effect, introduce a number of best practice features and strengthen the alignment of an Executive Director's remuneration package with the Group's strategy and with shareholder interests;
- provide a recruitment policy which enables any new Executive Director to be recruited with a package mix that reflects the chosen comparator group; and
- enable a transition strategy so that, over time, the package mix of existing Executive Directors will become more focused on variable pay, but with no intent to change the overall positioning of the value of the package against the market.

The key proposed changes to the remuneration framework are set out below and are split into two areas: those that will apply immediately and those that will be phased in over time or as future Executive Directors join the Board.

### Immediate changes to remuneration policy:

- increase shareholding requirements to 200% of base salary for the CEO and 150% of base salary for other Executive Directors providing greater alignment with shareholder value over the long term. From June 2015, Tim O'Toole will allocate £15,000 of his gross monthly base salary (equivalent to over 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;
- in line with the requirements of the UK Corporate Governance Code, introduce clawback for the Executive Annual Bonus Plan (EABP) and Long Term Incentive Plan (LTIP), in addition to malus that is currently in place, and a two year post-vesting holding period on future LTIP awards;
- during April and May 2015 the Committee consulted with a number of major investors on the inclusion of a returns-based metric (ROCE) alongside the existing LTIP performance metrics of EPS and TSR, with the TSR peer group amended to reflect the comparator group selected for benchmarking of remuneration policies and practices. Following feedback from major investors, which was supportive of the overall proposed approach, it is intended that future LTIP awards will be based on a combination of metrics which are aligned to the Company's strategic objectives and hence with sustainable shareholder value creation. A further investor consultation will be conducted later in the year following the publication of the Company's 2015 preliminary results and Annual Report and Accounts. The consultation will cover the choice of performance metrics as well as their definitions, weightings and target levels of performance. To enable the outcomes from the consultation to be appropriately reflected and to allow for full input from the new Chairman, grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2015; and

## Directors' remuneration report

### continued

- as noted above, it is intended to utilise a single comparator group for the benchmarking of remuneration, and any relative TSR measurement retained in the LTIP. This group comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup. The comparator group is set out on page 92.

For current Executive Directors, no changes to base salary or incentive opportunity are planned for 2015/16, as the Committee considers overall pay to be competitive for the current post holders against our newly defined comparator group.

#### Medium term changes to remuneration policy

Analysis of the current Executive Director structures showed that the incentive opportunities are significantly behind market competitive levels. For the current Chief Executive and to a lesser extent the current Group Finance Director, this is offset by a base salary that is higher than the comparator group median, meaning that overall compensation is competitive against the newly defined comparator group. Therefore, the Committee does not have any immediate plans to change incentive opportunities for the current Executive Directors. However, the Committee wishes to transition Executive Director remuneration over time to better align it with the practice in the chosen comparator group, with a greater weighting towards variable pay, and to have in place a policy that enables the recruitment of new Executive Directors, if required, on arrangements that are more reflective of the package mix within our chosen comparator group. Accordingly, for new recruits the policy will:

- increase the Chief Executive's and other Executive Directors' maximum opportunity under the EABP to 150% of base salary (from 120% and 100% respectively); and
- set the maximum annual award under the LTIP at 200% of base salary for the Chief Executive and 175% for other Executive Directors (the current maximum award level as set out in our current remuneration policy is 150%; however, more recently awards have been limited to 120% of base salary). A maximum opportunity of 300% may be used in exceptional circumstances, such as to aid recruitment.

The Committee believes that the above approach is more aligned with market norms and will enable the Company to recruit competitively, as required, and ensure Executive Directors' remuneration packages are fully aligned with business performance. Following the announcement on 10 June 2015 that Chris Surch will be retiring from the role of Group Finance Director in January 2016, his replacement will be recruited on this basis.

#### Impact on existing Executive Directors

Overall the Committee considers total remuneration for current Executive Directors to be broadly competitive, with lower than market incentive opportunities being offset by above median base salaries. No immediate adjustments to remuneration are therefore proposed. However, in light of the market positioning against the new comparator group, the Committee has determined that there will be no base salary increases for the current Executive Directors over the life of this policy. To the extent that any increases in remuneration are deemed justified, these will be achieved through changes to the variable pay opportunity rather than base pay. Substantial increases to the total pay opportunity

are not envisaged and major investors will be consulted prior to any change in incentive opportunity for existing Executive Directors. However, this approach does allow, over time, the package for existing Executive Directors to be transitioned to be more aligned to performance and more aligned to our chosen comparator group.

Owing to the changes set out above, a new remuneration policy will be presented to shareholders for approval in a binding vote at the Annual General Meeting on 16 July 2015. It will replace the previous policy, and the Committee expects it then to be in place for the next three years. The Annual Report on Remuneration, which describes how the current policy approved by shareholders at the 2014 AGM has been implemented in the year under review and how the new remuneration policy will be implemented for the year ahead, will be subject to an advisory vote at the forthcoming Annual General Meeting. The Committee firmly believes the changes to the remuneration policy are in the best interests of the Company and fully support the Company's strategy and business objectives, and have no hesitation in recommending both resolutions to shareholders.

#### Senior managers' remuneration

The Committee has also considered the structure of pay for those employees immediately below the Executive Directors. In order to provide a strong focus on each division achieving specific goals to underpin and drive overall Company performance, the Committee intends to align a proportion of the LTIP exclusively to divisional performance objectives for an interim period to incentivise divisional goals. Thereafter, the Committee will review whether it is still relevant and necessary, and may choose to return the LTIP to a fully Company-wide incentive.

#### 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.

I have appreciated the time various major shareholders and their representative bodies have put into helping us develop our new remuneration policy and practices over the past 12 months. The challenge of providing motivational and shareholder aligned remuneration arrangements in a recovery situation is complex, but we believe with the assistance of our major shareholders we can strike a fair balance. I look forward to your support at the forthcoming Annual General Meeting.

**Imelda Walsh**

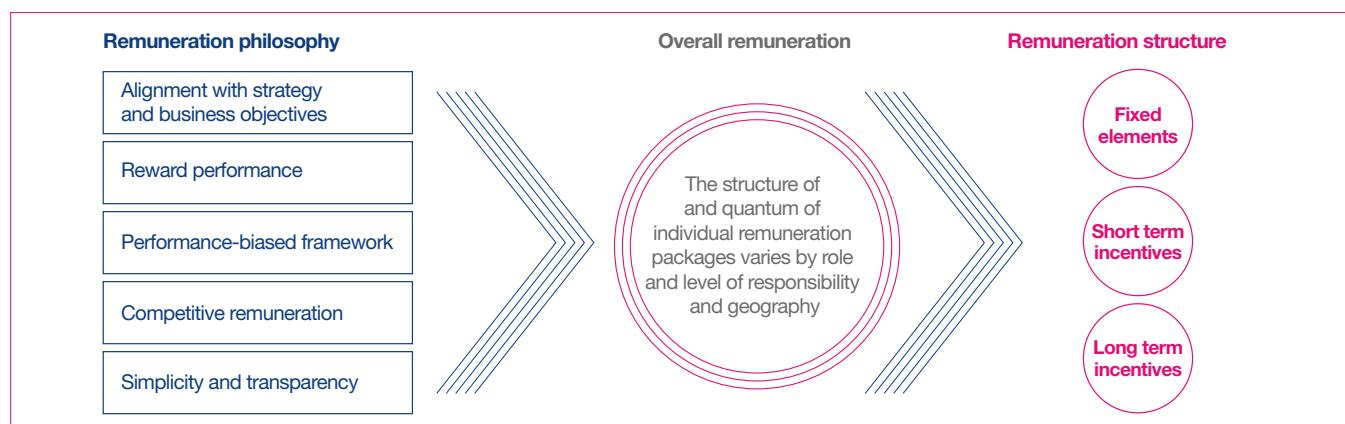
Chair, Remuneration Committee

## Directors' remuneration policy

### Policy report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking account of the principles of the UK Corporate Governance Code in relation to remuneration. The Committee also takes significant account of guidelines issued by the Investment Association, ISS and other shareholder bodies when setting the remuneration framework. It also seeks to maintain an active and constructive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular.

The new remuneration policy will be put to a binding shareholder vote at the Annual General Meeting on 16 July 2015 and, subject to receiving majority shareholder support, the policy will operate from the date of approval and is intended to remain applicable for the following three years. Information on how the Company intends to implement the policy for the current financial year is set out in the Annual Report on Remuneration section.



### Remuneration policy for Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Salary</b> To attract and maintain high calibre executives with the attributes, skills and experience required to deliver the Group's strategy	Typically reviewed annually in March, effective from 1 April Any increases take account of: <ul style="list-style-type: none"> <li>Company and individual performance</li> <li>role and responsibilities</li> <li>market positioning</li> <li>external indicators, such as inflation and market conditions</li> <li>pay increases of Group employees</li> </ul> <b>Recovery or withholding</b> No recovery or withholding applies	While there is no maximum annual increase, salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for Group employees, in particular those who are not within collective bargaining agreements Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances such as a change in scope or responsibility or alignment to the peer group The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially and to realign it over the following years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience which is critical to the delivery of the Company's strategy Details of the salaries for each of the Executive Directors to be paid from 1 April 2015 are shown on page 88. Existing Executive Directors will not receive any base salary increases for the duration of this remuneration policy	Not applicable

## Directors' remuneration report

### continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Benefits</b>			
Provide market competitive benefits to assist in attracting and retaining executives	<p>A range of benefits may be provided including, but not limited to, provision of company car (or cash equivalent), private medical insurance, life assurance, long term disability insurance, general employee benefits and travel and related expenses</p> <p>The Committee retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees</p> <p><b>Recovery or withholding</b> No recovery or withholding applies</p>	<p>Benefits are not generally expected to be a significant part of the remuneration package in financial terms</p> <p>The cost of benefits is not pre-determined, reflecting the need to allow for normal increases associated with the provision of benefits</p>	Not applicable
<b>Pension benefits</b>			
Allows executives to build long term savings for their retirement, ensures the total remuneration package is competitive and aids retention	<p>Payment may be made into a pension scheme or delivered as a cash allowance</p> <p><b>Recovery or withholding</b> No recovery or withholding applies</p>	<p>The Chief Executive participates in a defined benefit arrangement, which provides him with 1/50th accrual for each year of service up to a fixed scheme earnings cap of £140,705 per annum. For earnings above this cap he receives an allowance of 20% of base salary</p> <p>Executive Directors employed after April 2011 receive a pension allowance equal to 20% of base salary</p> <p>In the event of further changes to the pension tax regime adversely affecting individuals' pension benefits and/or the Group's pension arrangements, the Committee may amend the pension benefits available, but only on a basis which would not cost the Company materially more than the Executive Director's current arrangements in terms of percentage of base pay</p>	Not applicable
<b>Annual bonus</b>			
<p>To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy</p> <p>Deferred share element encourages retention and provides a link between the bonus and share price growth</p>	<p>Bonuses are awarded annually under the Executive Annual Bonus Plan (EABP)</p> <p>At least half the bonus awarded in any year will be deferred into shares, normally for a period of three years</p> <p>The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy</p> <p>An amount of up to 25% of the maximum may be payable for threshold performance</p> <p>The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the EABP</p> <p><b>Recovery or withholding</b> The rules of the EABP contain malus and clawback provisions to take account of exceptional and adverse circumstances as described in more detail on page 95</p>	<p><b>For existing Executive Directors</b> Maximum bonus opportunity is 120% of base salary for the Chief Executive and 100% for other Executive Directors</p> <p>The Committee has discretion to increase awards to the existing Executive Directors in order, over time, to re-align their remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 150% of base salary</p> <p><b>For newly recruited Executive Directors</b> Maximum bonus opportunity will be 150% of base salary for newly recruited Executive Directors</p>	<p>The bonus is based on a combination of financial, operational and individual metrics, which the Committee may review from time to time. The precise allocation between financial and non-financial metrics (as well as weightings within these metrics), will depend on the strategic focus of the Company from year to year. At least half of any award will be subject to financial measures. Details of the bonus measures for EABP awards to be made in respect of the financial year ending 31 March 2016 are set out on page 91</p> <p>Vesting of deferred shares is dependent on continued employment or good leaver status</p> <p>The Committee retains the discretion, acting fairly and reasonably, to alter the bonus outcome in light of the underlying performance of the Company, taking account of any factors it considers relevant. The Committee will consult with major investors before any exercise of its discretion to increase the bonus outcome</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Long Term Incentive Plan</b>			
Incentivises the execution of strategy, and drives long term value creation and alignment with longer term returns to shareholders	<p>Awards under the LTIP are rights to receive conditional shares or nil-cost options over shares, subject to continued employment and performance conditions</p> <p>An amount of up to 25% of the maximum may be payable for threshold performance, with maximum vesting being equal to 100% of any award made</p> <p>Shares which vest under the LTIP are subject to an additional holding period of two years following the three year performance period. Shares may be sold in order to satisfy tax or other relevant liabilities as a result of an award vesting</p> <p>The Committee has a discretion to permit a dividend equivalent amount to accrue on shares which vest under the LTIP</p> <p><b>Recovery or withholding</b> The rules of the LTIP contain malus and clawback provisions to take account of exceptional and adverse circumstances as described in more detail on page 95</p>	<p><b>For existing Executive Directors</b> Normal award policy currently set at a maximum opportunity of 150% of base salary, although the Committee has the discretion to make an award of up to 200% of base salary</p> <p>The Committee has discretion to increase awards to the existing Chief Executive and existing Group Finance Director in order, over time, to re-align their remuneration to create a more leveraged package. Any such increase would be subject to prior consultation with major investors and be limited to 200% of base salary for the existing Chief Executive and 175% of base salary for the existing Group Finance Director</p> <p><b>For newly recruited Executive Directors</b> Maximum award opportunity will be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors</p> <p>In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment</p>	<p>LTIP awards will be subject to the achievement of a combination of stretching targets designed to incentivise performance in support of the Group's strategy and business objectives, measured over a three year performance period. The Committee determines the measures, their relative weightings and targets prior to each award</p> <p>The Committee retains the discretion, acting fairly and reasonably, to alter the LTIP vesting outcome in light of the underlying performance of the Company during the performance period, taking account of any factors it considers relevant. The Committee will consult with major shareholders before any exercise of its discretion to increase the LTIP vesting outcome</p>

#### All-Employee Share Plans

To encourage all employees to make a long term investment in the Company's shares in a tax efficient way	<p>Opportunity to participate in Sharesave and Share Incentive Plan on the same terms as other eligible employees</p> <p><b>Recovery or withholding</b> No recovery or withholding applies</p>	The maximum participation level is in accordance with HMRC limits	N/A
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#### Changes to the remuneration policy from previous policy

Following the review of executive remuneration during the year, the remuneration policy has been revised. The following summary sets out the changes when compared to last year's approved policy. No changes have been made to benefits and pensions.

Policy element	Previous policy	Change to policy	Rationale for change
<b>Overall remuneration policy</b>	Separate peer groups used for benchmarking remuneration and relative TSR performance	The Committee will use a single comparator group for benchmarking remuneration and any relative TSR performance. The comparator group will comprise companies in the travel, business services and industrial sectors that are of comparable scale, complexity and activity to FirstGroup. Changes to the comparator group may be made over time to ensure it remains appropriate	Provides a more tightly defined comparator group and a clearer reference point for the Company and shareholders
<b>Salary</b>	Salary levels take into account the market for executives in the passenger transport sector, and other companies of comparable scale, complexity and geographical spread	For a new Executive Director salary level to take into account companies in the comparator group as defined above In exceptional circumstances to be able to pay above market levels	Provides a clearer reference point for the Company and shareholders Provides the ability to secure or retain an individual who possesses significant and relevant experience which is critical to the delivery of the Company's strategy
<b>Annual Bonus</b>	Maximum opportunity for the Chief Executive of 120% of base salary and for other Executive Directors of 100% of base salary	For newly recruited Executive Directors the maximum opportunity will be 150% of base salary The Committee has discretion to make awards of up to 150% to the existing Executive Directors, with any increase subject to prior consultation with major investors	Creates a more leveraged package, which in the longer term will provide a more sustainable and competitive quantum of remuneration in line with the Company's peers Provides the ability, over time, to re-align the existing Executive Directors' remuneration to create a more leveraged package



## Directors' remuneration report

### continued

Policy element	Previous policy	Change to policy	Rationale for change
<b>Long Term Incentive Plan</b>	Maximum opportunity for the Chief Executive and other Executive Directors of 150% of salary, although the Committee may in exceptional circumstances make an award of up to 200% of base salary No holding period post-vesting	For a newly recruited Chief Executive the maximum opportunity will be 200% of base salary and for other newly recruited Executive Directors will be 175% of base salary In exceptional circumstances up to 300% of base salary may be awarded The Committee has discretion to make awards of up to 200% of base salary to the existing Chief Executive and 175% of base salary to the existing Group Finance Director, with any increase subject to prior consultation with major investors Two-year holding period following three-year vesting period	Creates a more leveraged package, which will provide a quantum of remuneration more in line with the Company's peers Provides the ability in exceptional circumstances, such as the buy-out of awards to facilitate the recruitment of a new Executive Director, to give higher LTIP awards than 200% of base salary Provides the ability, over time, to re-align the existing Executive Directors' remuneration to create a more leveraged package. Supports the alignment of Executive Directors' interests with that of the long term business strategy and shareholders
<b>Clawback</b>	Malus arrangements apply to the EABP and LTIP plans	In conjunction with malus arrangements, clawback introduced for annual bonus and LTIP plans in line with UK Corporate Governance Code requirements	The Committee believes it is appropriate to have the power to withhold and clawback payments in certain circumstances
<b>Shareholding guidelines</b>	Requirement to build a holding of shares in the Company equal to a minimum of 100% of base salary within a five year period Requirement to retain at least 50% of the shares, net of tax, vesting under a Group share incentive plan	Required holding will be increased to 200% of base salary for the Chief Executive and 150% of base salary for other Executive Directors Required retention will increase to 75%, net of tax, until the guideline is achieved	Provides greater alignment of Executive Directors' interests with those of shareholders Supports build up of shareholding in the Company

### EABP and Long Term Incentive Plan flexibility

The Committee operates within its policy at all times. It will also operate the EABP and LTIP according to the rules of each respective plan and consistently with normal market practice and the Listing Rules, including flexibility in a number of areas. How the Committee will retain flexibility includes:

- when to make awards and payments;
- how to determine the size of an award, a payment, or when and how much of an award should vest;
- who receives an award or payment;
- how to deal with a change of control, restructuring or any other corporate event of the Group;
- whether an Executive Director or senior manager is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s);
- how and whether an award or its performance conditions may be adjusted in certain circumstances (e.g. change of accounting policy);
- the choice of (and adjustment of) performance measures, weightings and targets for each incentive plan from year to year in accordance with the remuneration policy set out above and the rules of each plan; and
- amending plan rules in accordance with their terms.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

### Setting performance measures and targets

In determining the levels of executive reward, the Committee places considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received and the delivery of FirstGroup's strategic plans.

The measures and weightings used under the EABP are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives. The targets for the EABP are set by reference to the Company's strategy and internal budgets as well as the external context, such as market forecasts. This approach seeks to ensure that the targets are appropriately challenging.

The LTIP provides a focus on delivering superior returns to shareholders by providing rewards for longer term growth and shareholder return outperformance. The Committee reviews annually whether the performance measures, weightings and calibration of targets remain appropriate and sufficiently challenging taking into account the Company's strategic objectives and shareholder interests.

All-employee share awards are not subject to performance conditions in line with the treatment of such awards for all employees and in accordance with the applicable tax legislation.

## Shareholding guidelines

The CEO is expected to hold shares equivalent in value to a minimum of 200% of base salary and other Executive Directors 150% of base salary within a five-year period from the later of their date of appointment or the approval of this remuneration policy. Executive Directors are further required 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 until the shareholding guideline is met. The Committee reserves the right to relax or waive the application of the guidelines where it believes it is justified by the circumstances.

In addition, Executive Directors are required to hold shares which vest under the LTIP for an additional holding period of two years following the three year performance period, with only those shares required to cover a tax liability on exercise or vesting of an LTIP award permitted to be sold.

## Group employee considerations

In setting the remuneration of the Executive Directors, the Committee takes into account the overall approach to reward for employees in the Group. FirstGroup operates in a number of markets and its employees carry out a diverse range of roles across the UK and US. All employees, including Directors, are paid by reference to the market rate and base salary levels are reviewed regularly. When considering salary increases for Executive Directors, the Committee pays close attention to pay and employment conditions across the wider workforce.

The key difference between Executive Director remuneration and other employees is that, overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay linked to business performance than for other employees, so that remuneration will increase or decrease in line with business performance and align the interests of Executive Directors and shareholders. In particular, long term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

The Committee does not formally consult with employees on Executive Director remuneration, but as a result of the Company's all-employee share plans UK-based employees are able to become shareholders in the Company and can comment on the remuneration policy in the same way as other shareholders. In addition, the Company provides a number of forums for employees to provide feedback on remuneration as well as receiving employee views from the Group Employee Director, who attends meetings of the Committee at the invitation of the Chair of the Committee.

## Legacy arrangements

The Committee may approve payments to satisfy commitments agreed prior to the approval of this remuneration policy. This includes previous incentive awards that are currently outstanding and unvested which have been disclosed to shareholders in previous remuneration reports. The Committee may also approve payments outside of this remuneration policy in order to satisfy legacy arrangements made to an employee prior to (and not in contemplation of) promotion to the Board of Directors.

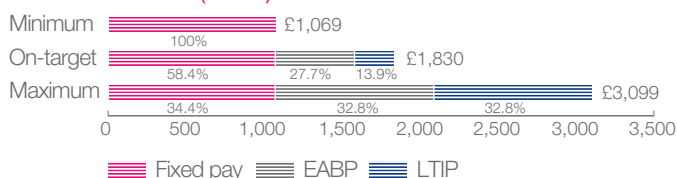
All historic awards that were granted but remain outstanding remain eligible to vest based on their original award terms.

## Reward scenarios

The graphs below provide an indication of the reward opportunity for each of the current Executive Directors based on their roles as at 1 April 2015.

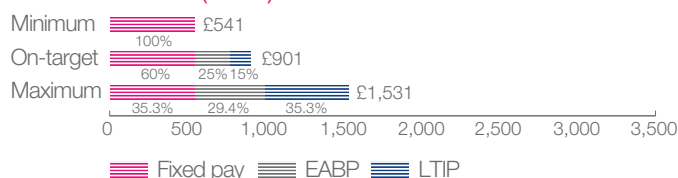
### Chief Executive

#### Total remuneration (£000s)



### Group Finance Director

#### Total remuneration (£000s)



The basis of calculation and key assumptions used to complete the charts above are as follows:

**Minimum** – only fixed pay is payable i.e. base salary, benefits and pension or cash in lieu of pension. No bonus is payable i.e. performance is below threshold levels. Base salary levels (on which other elements of the remuneration package are calculated) are based on those applying for 2015/16 and benefits are based on the cash cost to the Company or the taxable value to the Executive Director. The value of the Chief Executive's pension benefit and allowance is assumed to be in line with that for 2014/15 as set out in the Executive Directors' total remuneration table. The value of the Group Finance Director's pension allowance is 20% of his base salary.

**On-target** – fixed pay plus 50% of maximum EABP payout and a LTIP award with a face value of 120% of base salary vests at 25% of maximum.

**Maximum** – fixed pay plus 100% of maximum EABP payout and a LTIP award with a face value of 120% of base salary vests in full.

## Directors' remuneration report

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#### Approach to recruitment remuneration

The Committee believes it is vital to be able to attract and recruit high calibre executives who are focused on delivering the Group's strategic plans, while relating reward to performance in the context of appropriate risk management, and aligning the interests of Executive Directors and senior managers with those of shareholders to build a sustainable performance culture.

The Committee's approach when considering the overall remuneration arrangements in the recruitment of a new Executive Director is to take account of his or her remuneration package in their prior role, the market positioning of the remuneration package and not to pay more than is necessary to facilitate their recruitment.

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment, except:

<b>Salary</b>	<p>The salary level shall take into account companies in the comparator group, which comprises companies that are broadly in line with FirstGroup's size, structure and complexity and have features that are comparable to FirstGroup.</p> <p>The Committee has the flexibility to set the salary of a new Executive Director at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.</p> <p>In exceptional circumstances, the Committee has the ability to set the salary of a new Executive Director at a rate higher than the market level to reflect the criticality of the role and the experience and performance of the individual.</p>
<b>Benefits</b>	<p>The Company may award certain additional benefits and other allowances including, but not limited to, those to assist with relocation support, temporary living and transportation expenses, educational costs for children and tax equalisation to allow flexibility in employing an overseas national.</p>
<b>Pension benefits</b>	<p>Any new Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice.</p>
<b>Annual bonus</b>	<p>The maximum bonus opportunity shall be 150% of base salary.</p>
<b>Long Term Incentive Plan</b>	<p>The maximum opportunity shall be 200% of base salary for a newly recruited Chief Executive and 175% of base salary for other newly recruited Executive Directors. However, a maximum opportunity of 300% of base salary may be used in exceptional circumstances, in addition to any buy-out of forfeited awards.</p>
<b>Replacement awards</b>	<p>The Committee shall consider what cash or replacement share-based awards, if any, are reasonably necessary to facilitate the recruitment of a new Executive Director in all circumstances. This includes an assessment of the awards and any other compensation or benefits item that would be forfeited on leaving their current employer.</p> <p>These payments would not exceed what is considered by the Committee to be a fair estimate of remuneration lost when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions.</p> <p>If the Executive Director's former employer pays a portion of the remuneration that was deemed foregone, the replacement payments will be reduced by an equivalent amount.</p> <p>In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue.</p>
<b>Notice periods</b>	<p>The Committee shall utilise notice periods of up to 12 months.</p>

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement shall be set in accordance with the approved remuneration policy in force at that time.

### 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
Chris Surch	9 May 2012	6 months

### Policy on payment for loss of office

Executive Directors' service agreements contain provisions for payment in lieu of notice. The Company is unequivocally against rewards for failure; the circumstances of any departure, including the individual's performance, would be taken into account in every case. Directors' service agreements are kept for inspection by shareholders at the Company's registered office.

Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct. The Company may require the Executive Director to work during their notice period or may choose to place the individual on garden leave, for example to ensure the protection of the Company's and shareholders' interests where the Executive Director has access to commercially sensitive information.

Except in the case of gross misconduct or resignation, the Company may at its absolute discretion reimburse for reasonable professional fees relating to the termination of employment and, where an Executive Director has been required to re-locate, to pay reasonable repatriation costs, including possible tax exposure costs.

In the event of an Executive Director's departure, any outstanding share awards will be treated in accordance with the plan rules as follows:

Plan	Treatment on cessation
<b>EABP</b>	<p>The EABP provides no entitlement to a bonus following cessation of employment, unless the leaver is considered a good leaver. Where an individual is considered a good leaver (in the event of death or termination of employment by reason of ill-health, disability, injury, statutory redundancy, agreed retirement, sale of employing company or business out of the Group or at the discretion of the Committee) a performance-related bonus will be paid. This will be based on the proportion of the bonus year for which the individual has been actively employed and bonus (if any) will be paid at the normal time, although the Committee retains discretion to pay it earlier in appropriate circumstances.</p> <p>There is no entitlement to any bonus award under the EABP for any financial year where an Executive Director has not been actively working, even if still in employment. The Committee has discretion to make an award in these circumstances, but would only consider exercising its discretion if this were justified by the circumstances and timing of the Executive Director's departure. The Committee will not exercise that discretion in respect of any period when the Executive Director is on garden leave. Any resulting bonus payment will normally be time pro-rated and be based on the level of performance achieved.</p> <p>Deferred share awards will normally lapse on cessation of employment or, at the Committee's discretion, on service of notice of termination of employment. However, under 'good leaver' provisions (other than in the case of death) unvested EABP deferred shares will vest either at the end of the vesting period or in the event of termination by reason of ill-health on the date of cessation of employment or any other date determined by the Committee. Where an award vests early, the good leaver will receive a pro-rated number of shares to reflect the acceleration of vesting, although in the event of termination by reason of ill-health the Company may exercise discretion to waive pro-rating. In the case of death, deferred share awards vest on the date of death and no pro-rating is applied.</p>
<b>Long Term Incentive Plan</b>	<p>Awards will normally lapse on cessation of employment.</p> <p>However, in 'good leaver' circumstances (other than in the case of death) unvested LTIP shares will vest either at the end of the performance period or in the event of termination of employment by reason of ill-health on the date of cessation of employment to the extent the performance conditions have been satisfied as determined by the Committee. A good leaver will normally receive a pro-rated proportion of any outstanding LTIP awards. The Committee may choose to allow certain awards to vest while others lapse, depending on the circumstances of the case. In the case of death, awards vest on the date of death and are not subject to the performance conditions, with pro-rating applying in the same way as for good leavers.</p>

## Directors' remuneration report

### continued

Plan	Treatment on cessation
All-employee share plans	Awards will vest in accordance with the rules of the relevant plan, which do not permit the exercise of any discretion by the Committee.

### Policy on external appointments

The Committee believes that the Company can benefit from Executive Directors holding one approved non-executive directorship of another company, offering Executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Executive Directors to retain the fees earned from such appointments.

### Chairman and other Non-Executive Directors' letters of appointment

The Chairman and other Non-Executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment generally provides for a three-month notice period. Non-Executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board.

In line with the requirement of the UK Corporate Governance Code, all Non-Executive Directors including the Chairman are subject to annual re-election by shareholders at each AGM. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he or she is not re-appointed at a meeting of shareholders.

### Remuneration policy for Non-Executive Directors

Non-Executive Directors may on occasion receive reimbursement of costs incurred in relation to professional advice. These payments, if made, are taxable benefits to the Non-Executive Director and the tax arising is paid by the Company on the Director's behalf.

### Chairman's fee

The fee for the Chairman is determined by the Committee and reflects the commitment, demands and responsibility of the role. The fee is paid monthly and can either be taken in cash or shares or a combination of both. The fee is inclusive of all Committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals may also be payable in certain circumstances, with the tax arising being paid by the Company on the Chairman's behalf.

John McFarlane receives a fee of £250,000 per annum and Wolfhart Hauser will receive a fee of £280,000 upon succession to the role. The fee payable to the Chairman may be varied (either up or down) from this level during the three year period that this remuneration policy operates to ensure it continues to appropriately recognise the requirements of the role.

### Group Employee Director

The Group Employee Director receives a normal remuneration package, including participation in any benefit and incentive arrangements and pension scheme, for his or her regular employment duties appropriate to the role performed. The Group Employee Director's fee as a Non-Executive Director is payable in addition to normal remuneration as an employee of FirstGroup.



## Non-Executive Director fees

Fees for the Non-Executive Directors are determined by the Board as a whole, upon the recommendation of the Executive Directors and the Chairman.

The policy on Non-Executive Directors' fees is:

<b>Purpose and link to strategy</b>	To be sufficient to attract, motivate and retain Non-Executive Directors necessary to contribute to a high performing Board.
<b>Operation</b>	<p>Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-Executive Directors abstaining from any discussion or decision on their fees.</p> <p>The Board takes account of recognised best practice standards for such positions when determining the fee level and structure.</p> <p>The Non-Executive Directors receive a base fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. Fees are paid monthly and can either be taken in cash or shares or a combination of both.</p> <p>Non-Executive Directors' letters of appointment contain provisions for payment in lieu of notice.</p> <p>Other than the Group Employee Director, Non-Executive Directors do not participate in any of the Company's incentive arrangements or receive any pension provision.</p> <p>Non-Executive Directors are reimbursed for expenses, and any tax arising on those expenses is settled directly by the Company. To the extent that these are deemed taxable benefits, they will be included in the Annual Report on Remuneration, as required.</p> <p>Reasonable costs of travel and accommodation for business purposes are reimbursed to Non-Executive Directors. On the limited occasions when it is appropriate for a Non-Executive Director's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.</p>
<b>Fee levels</b>	<p>Fees (per annum) are:</p> <ul style="list-style-type: none"> <li>■ Non-Executive Director base fee: £52,500</li> <li>■ Group Employee Director: £39,375</li> <li>■ Senior Independent Director: £7,500</li> <li>■ Chair of Audit Committee: £12,000</li> <li>■ Chairs of Remuneration Committee and Board Safety Committee: £10,000.</li> </ul> <p>The above fee levels may be varied (either up or down) during the three year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment and responsibilities of the role, increases or decreases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.</p>

## 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.

## Directors' remuneration report

### continued

## 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 will be put to an advisory shareholder vote at the Annual General Meeting on 16 July 2015.

### Executive Directors' total remuneration

Executive Directors	Year	Salary £000s	Benefits £000s	Bonus <sup>3</sup> £000s	LTIP <sup>4</sup> £000s	Share retention award £000s	Pension £000s	Total £000s
Tim O'Toole	2015	846	47 <sup>1</sup>	578	–	N/A	176 <sup>2</sup>	1,647
	2014	846	37	600	–	324 <sup>5</sup>	179	1,986
Chris Surch	2015	450	1 <sup>1</sup>	256	–	N/A	90 <sup>2</sup>	797
	2014	450	1	266	N/A	N/A	90	807

<sup>1</sup> Taxable benefits include: Tim O'Toole – £12,000 car allowance, £14,800 US private medical insurance, £11,000 travel expenses and £9,000 reimbursement of advisory fees (principally relating to taxation in the UK and US). Chris Surch – £1,400 UK private medical insurance.

<sup>2</sup> The following pension-related benefits were received during the year: Tim O'Toole – £141,000 pension allowance and a defined benefit pension input amount (net of Director's contributions) of £34,800. Chris Surch received a £90,000 pension allowance.

<sup>3</sup> The total cash equivalent (including the cash value of deferred shares) of the EABP bonus award for Tim O'Toole and Chris Surch is detailed above for 2013/14 and 2014/15. For each year, half of the bonus was in the form of share awards deferred for three years.

<sup>4</sup> The LTIP awards granted in 2011 and 2012 lapsed in May 2014 and June 2015, respectively, on failing to meet the performance criteria.

<sup>5</sup> In 2011, Tim O'Toole was awarded 263,490 shares under a Retention Award Plan in the form of a conditional share award for nil consideration. It vested and shares were released on 6 November 2013 at a market value of 122.90 pence per share. This was a one-off award and no further awards will be made under the Plan.

### Base salary

	2014	2015	% increase
Tim O'Toole	846	846	Nil
Chris Surch	450	450	Nil

The Committee takes account of a number of factors when considering salaries, with particular focus on the experience, performance, and the internal and external relative positioning for total reward of the individuals, and also the average budgeted increase in base salaries of the Group's workforce of 2.2%. As a result of these considerations and the emphasis on salary restraint from shareholders, the Committee determined that the base salaries of Tim O'Toole and Chris Surch would not increase in 2015/16. The Committee considers overall pay to be competitive for the current post holders against the newly defined comparator group as set out on page 92.

### Benefits

For 2014 and 2015 benefits for Executive Directors include the provision of a company car allowance for the Chief Executive, US and UK private medical cover, life assurance, travel expenses and advisory fees.

### Pension

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. He has chosen a normal retirement age of 60 and can receive his benefits 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 2015 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 2015	Pension age	Total accrued benefit at 31 March 2015 £000s	Increase in accrued annual pension in the year to 31 March 2015 £000s
Tim O'Toole	59	60 <sup>1</sup>	13	4

<sup>1</sup> Pension age is the earliest date a non-reduced pension is payable.

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

<sup>3</sup> No additional benefits are available on early retirement.

Each 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 Chris Surch were £141,000 and £90,000, respectively.

### Performance-related pay

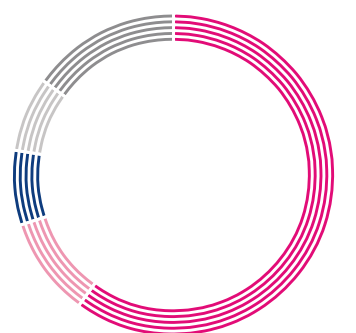
The Committee believes it is important that for Executive Directors a significant proportion of the remuneration package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and transformation plans. The Committee considers performance against a range of metrics 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 current performance-related incentives and how they support the Company's strategy, transformation plans and business objectives as outlined in the Strategic Review.

	KPIs	Strategic objectives	Our values
<b>LTIP</b>			
EPS	○	○	
TSR		○	
<b>Bonus</b>			
Group adjusted operating profit	○	○	
Group cash flow		○	
Safety	○		○
Customer satisfaction	○	○	○
Individual performance	○	○	○

### Executive Annual Bonus Plan

#### 2014/15 Executive Directors' annual bonus awards



Group adjusted operating profit	60%
Group cash flow	10%
Safety	7.5%
Customer satisfaction	7.5%
Individual performance	15%

For 2014/15, the EABP comprised five discrete elements as set out below.

**Group adjusted operating profit** – a key KPI used in managing the business

**Group cash flow** – adjusted for UK Rail franchise portfolio changes of £107.9m, 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** – performance was assessed against a balanced scorecard of measures: customer satisfaction surveys, punctuality, cancellations and complaints across UK Bus, UK Rail, First Student, First Transit and Greyhound






**Individual performance** – performance was assessed against individual objectives for the year, which were aligned with the Group's strategy and transformation plans, and the Executive Director's core areas of responsibility

The Committee assessed each discrete element of the EABP separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements and formed a rounded assessment of the performance of Executive Directors at the end of the year. Awards were also subject to an underlying performance override enabling them to be scaled back to reflect the Group's performance.

## Directors' remuneration report

### continued

For 2014/15, the financial and non-financial performance outcomes were as follows:

Metric	Weighting	Performance outcome	Threshold	Target	Maximum	Commentary	Performance outcome as a percentage of maximum bonus
Group adjusted operating profit	60%	Between target and maximum				Group adjusted operating profit of £303.6m was ahead of target of £295.0m and within the threshold to maximum range of £277.5m to £309.4m	An assessment of 48% relative to a target outcome of 30% and a maximum outcome of 60%
Group cash flow	10%	Maximum				Group cash flow of £39.4m was ahead of target of £(9.7)m and threshold of £(29.7)m, and exceeded the maximum of £10.3m	An assessment of maximum outcome of 10% relative to a target of 5%
Safety	7.5%	Between threshold and target				Safety was below target	An assessment of 3% relative to a target of 3.75% and a maximum outcome of 7.5%
Customer satisfaction	7.5%	Broadly in line with target				Customer satisfaction was broadly in line with target	An assessment of 4% relative to a target of 3.75% and a maximum outcome of 7.5%
Overall performance		Between target and maximum				Overall performance was robust despite the challenging environment	An overall assessment of 65% relative to a target of 42.5% and a maximum outcome of 85%

The maximum bonus potential of Tim O'Toole was 120% of base salary and for Chris Surch was 100% of base salary.

During the year, the Company achieved robust year on year operating profit growth of 13.3%, principally reflecting increased profits in First Student, UK Rail and UK Bus, resulting in a Group adjusted operating profit of £303.6m. Group cash flow of £39.4m was above the maximum target, principally driven by improved working capital, stronger cash generation from the Group's operations and lower tax, interest and pension payments (this excludes the impact of rail end of franchise cash outflow, as the Committee believes this better reflects the underlying performance). The customer satisfaction measure was broadly in line with target and the safety measure was below target, with solid performances from First Student, First Transit and Greyhound offset by below target performances from UK Bus and UK Rail.

The individual performance element of the EABP represents 15% of the total award. The Committee also carefully reviewed the performance of the Executive Directors against objectives that were set at the start of the year. Tim O'Toole's individual objectives related to supporting long term growth through effective leadership, delivery of the transformation plans and developing the management structure. The Committee judged that he had met the vast majority of his objectives and accordingly agreed a bonus of 10% against his individual objectives, relative to a target of 7.5%. Chris Surch's individual objectives related to corporate finance initiatives, supporting the divisions in achieving financial objectives and driving cost savings across the Group. The Committee judged that he had also met the vast majority of his objectives and accordingly agreed a bonus of 10% against his individual objectives relative to a target of 7.5%.

Whilst overall the Group is broadly where it was expected to be at this stage of the transformation plan, the Group lost three rail franchises in the year, which will impact future earnings. Therefore, after careful consideration, the Committee agreed that the Group adjusted operating profit element should be reduced to 30%, the equivalent of target performance, to reflect the loss of the rail franchises and the future impact on earnings. This resulted in a bonus award of 57% of maximum potential to Tim O'Toole and Chris Surch.

Based on the above performance outcomes, the table below sets out the Executive Directors' bonus payments for 2014/15.

Executive Director	Cash £000s	Shares £000s	Total value £000s	Per cent of salary	Per cent of maximum
Tim O'Toole	289	289	578	68	57
Chris Surch	128	128	256	57	57

<sup>1</sup> Share awards to Tim O'Toole will be granted as conditional share awards for nil consideration and those to Chris Surch as nil-cost options. Share awards are deferred for three years, subject to continued employment.

### 2015/16 Executive Directors' annual bonus awards

In line with the 2014/15 annual bonus awards, performance will be assessed against five metrics: Group operating profit (65% of award), cash generation (10% of award), safety (7.5% of award), customer satisfaction (7.5% of award) and individual performance (10% of award). The Group operating profit and cash generation targets were set against the Company's budgeted performance and were subject to a rigorous process of challenge by the Committee and the Board. In particular, the impact of the loss of rail franchises means that in assessing performance, the Committee will continue to monitor each division and also the Company's performance on a rail and non-rail basis. 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.

The maximum annual bonus opportunity for Tim O'Toole and Chris Surch will be 120% and 100% of base salary, respectively. Half of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

### Long Term Incentive Plan

#### 2015 Long Term Incentive Awards

The Committee has reviewed the Company's LTIP arrangements as part of its comprehensive review of Executive Director and senior management remuneration, which included consultations with major investors and their representative bodies on the inclusion of a returns-based metric (ROCE) alongside the existing LTIP performance metrics of EPS and TSR, with the TSR peer group amended to reflect the comparator group selected for benchmarking of remuneration policies and practices. Following feedback from major investors, which was supportive of the overall proposed approach, it is intended that the 2015 LTIP awards will be based on a combination of metrics which are aligned to the Company's strategic objectives and hence with sustainable shareholder value creation. A further investor consultation will be conducted later in the year following the publication of the Company's 2015 preliminary results and Annual Report and Accounts. The consultation will cover the choice of performance metrics as well as their definitions, weightings and target levels of performance.

To ensure the outcomes from the consultation are appropriately reflected, and to allow for full input from the new Chairman, grants of LTIP awards will be deferred until immediately after the announcement of the Company's half-yearly results in November 2015. Awards will be subject to a holding period of two years following the three year performance period as well as malus and clawback. On this basis an award will be granted to an existing Executive Director as follows:

Face value (% of base salary)	Minimum threshold performance (% of maximum potential)	Maximum performance (% of maximum potential)	Performance period
120%	25%	100%	1.4.15 – 31.3.18

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 underpin is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.



## Directors' remuneration report

### continued

The single comparator group for the benchmarking of remuneration and any relative TSR metric retained for the LTIP will comprise the following 32 companies:

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

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-rate an award if it is inappropriate to do so in the particular circumstances.

### 2014 Long Term Incentive Awards

In 2014 the Committee granted awards to Executive Directors on the following basis:

Executive Director	Share price at date of grant	Face value (% of base salary)	Number of shares awarded	Face value of award £000s	% of award which vests at threshold	Performance period
Tim O'Toole	129p	120	785,288	1,014,750	10%	1.4.14 – 31.3.17
Chris Surch	129p	120	417,891	540,000	10%	1.4.14 – 31.3.17

<sup>1</sup> Awards were granted to Tim O'Toole as conditional nil-cost awards and those to Chris Surch as nil-cost options.

<sup>2</sup> Awards were calculated using the average five day closing mid-market share price at the time of grant.

The awards are exercisable at the end of a three-year performance period subject to the satisfaction of performance conditions and continued employment. Half of the award is subject to the growth in the Company's earnings per share and the remaining half of the award is subject to the Company's relative total shareholder return. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory.

Details of the performance measures and targets for the 2014 LTIP award are set out below.

EPS	% of award which vests
< 10p	0%
10p	5%
12p	12.5%
≥ 16p	50%

Between 5% and 12.5% of the award will vest on a straight-line basis if EPS at the end of the performance period is between 10p and 12p.  
Between 12.5% and 50% of an award will vest on a straight-line basis if EPS at the end of the performance period is between 12p and 16p.

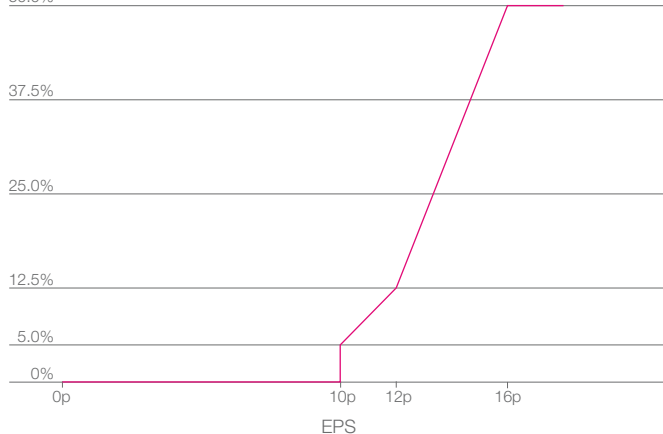
**Relative TSR**

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

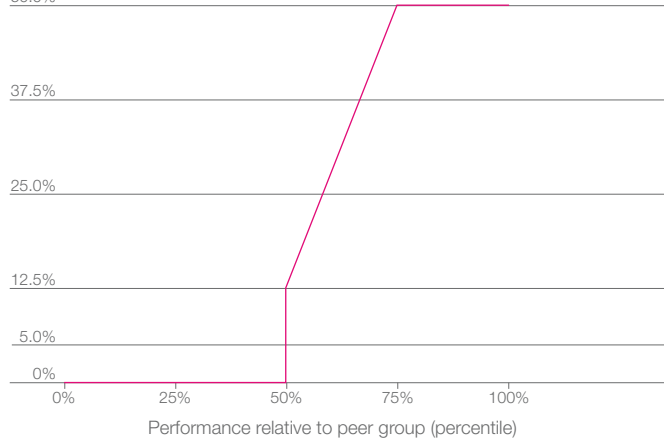
Between median and the upper quartile of the peer group, vesting will be on a straight-line basis between 12.5% and 50%. The TSR comparator group for the 2014 award was the FTSE 250 (excluding financial services and extraction companies).

**EPS performance vesting schedule**

% of total  
award vesting  
50.0%

**TSR performance vesting schedule**

% of total  
award vesting  
50.0%

**2012 Long Term Incentive Awards**

The LTIP award granted in 2012 to Tim O'Toole lapsed in full in June 2015 on failing to achieve its TSR and EPS performance targets. The awards granted in 2008, 2009, 2010 and 2011 also lapsed.

## Directors' remuneration report

### continued

#### Executive Directors' interests in share awards

The outstanding share awards under the LTIP, deferred share bonus under the EABP and SAYE 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 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 1.4.14	Awards granted	Awards vested	Awards lapsed during the year	Number of awards held as at 31.3.15	Exercise price	Date on which award vests/ becomes exercisable	Expiry date
Mick Barker	SAYE	7.12.10	870	—	—	870 <sup>2</sup>	—	260p	1.2.14	31.7.14
		9.12.11	681	—	—	—	681	221p	1.2.15	31.7.15
		11.12.12	705	—	—	—	705	117p	1.2.16	31.7.16
		10.12.13	1,645	—	—	—	1,645	94p	1.2.17	31.7.17
		9.12.14	—	2,782	—	—	2,782	97p	1.2.18	31.7.18
Tim O'Toole	Deferred share bonus	11.5.11	85,350	—	85,350 <sup>4</sup>	—	—	nil	1.4.14	N/A
		10.6.14	—	223,554 <sup>3</sup>	—	—	223,554	nil	1.4.17	N/A
	LTIP	3.6.11	460,152	—	—	460,152 <sup>5</sup>	—	nil	1.4.14	N/A
		3.7.12	563,278	—	—	—	563,278 <sup>6</sup>	nil	1.4.15	N/A
		12.12.13	871,329	—	—	—	871,329	nil	1.4.16	N/A
Chris Surch	Deferred share bonus	2.7.14	—	785,288	—	—	785,288	nil	1.4.17	N/A
		10.6.13	73,875	—	—	—	73,875	nil	1.4.16	9.6.23
	LTIP	10.6.14	—	99,137 <sup>3</sup>	—	—	99,137	nil	1.4.17	9.6.24
		12.12.13	463,678	—	—	—	463,678	nil	1.4.16	1.4.17
		2.7.14	—	417,891	—	—	417,891	nil	1.4.17	1.4.18

<sup>1</sup> The table above shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends on unvested shares.

<sup>2</sup> Lapsed in August 2014.

<sup>3</sup> In respect of the deferred share element of the 2013/14 bonus award, Tim O'Toole was granted an award over 223,554 shares structured as a conditional award for nil consideration with a face value of £300,009 and Chris Surch an award over 99,137 shares structured as a nil-cost option with a face value of £133,041. These awards were granted at an average five day closing mid-market price of 134p per share and will be deferred for three years from 1 April 2014. Tim O'Toole waived his bonus for 2011/12 and 2012/13.

<sup>4</sup> Award vested in May 2014, with all shares being retained. Share price on the vesting date was 134p.

<sup>5</sup> Award lapsed in May 2014 on failing to meet the performance conditions.

<sup>6</sup> Award lapsed in June 2015 on failing to meet the performance conditions.

<sup>7</sup> 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.

#### Shareholding guidelines

In accordance with the existing remuneration policy, 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 50% of the shares, net of tax, vesting under a Group share incentive plan or otherwise acquire shares in the Company over a period of five years until a shareholding with a market value (calculated by reference to the year-end share price) equal to 100% of base salary 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 2015.

Executive Director	Ordinary shares beneficially owned at 1.4.14	Ordinary shares beneficially owned at 31.3.15	Unvested EABP awards subject to continued employment	Unvested LTIP awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary)
Tim O'Toole <sup>2</sup>	685,532	770,882	223,554	2,219,895	—	100%	83%
Chris Surch <sup>3</sup>	76,335	76,335	173,012	881,569	—	100%	15%

<sup>1</sup> Based on the middle market closing price of an ordinary share of the Company of 91p per share on 31 March 2015. The range of the Company's share price for the year was 91p to 140p.

<sup>2</sup> Tim O'Toole has not met the shareholding requirement as a result of the fall in the Company's share price.

<sup>3</sup> Chris Surch was appointed a Director on 1 September 2012 and has until 2017 to meet the shareholding requirement.

<sup>4</sup> No changes in Executive Directors interests occurred in the period of 1 April to 10 June 2015.

Subject to the approval by shareholders of the new remuneration policy at the 2015 Annual General Meeting, the shareholding requirement of the Chief Executive will be increased to 200% of base salary and for other Executive Directors to 150% of base salary within a five year time period. The new guidelines will also 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 until the shareholding guideline is met. In addition, any shares vesting under the LTIP will be required to be held by Executive Directors for a further period of two years following the three year performance period.

From June 2015, Tim O'Toole will allocate £15,000 of his gross monthly base salary (equivalent to over 20% of his base salary) to acquire shares in the Company, with shares being purchased from the post-tax and post-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 with participants granted linked share options, by reference to projected savings, with a strike price up to a 20% discount to the prevailing share price at the time of grant. On the maturity of the savings contracts, participants can elect to use the accumulated savings to exercise the option or request the return of their savings.

#### BAYE

The maximum participation level in the BAYE is as per HMRC limits and provides for a combination of the following:

- free shares – the Company can give each participant free shares worth up to £3,600 each;
- partnership shares – participants can use up to £1,800 per year out of pre-tax and pre-NI pay to buy partnership shares;
- matching shares – the Company can give matching shares at a ratio of up to two matching shares for each partnership share bought by the employee; and
- dividend shares – participants can use up to £1,800 of dividends from plan shares each year to buy further shares in the Company through the plan.

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 and any dividend shares. No free shares are provided. The shares are held in trust for up to five years, in which case no income tax or NI will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from 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 LTIP, from 2015 onwards, in the event of a triggering event, such as a material mis-statement of accounts, gross misconduct or computational error, the Company will have the ability to clawback awards. 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.

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 mis-statement of accounts or gross misconduct.

### 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 2015, 5.5% of the Company's issued share capital had been allocated for the purposes of its share incentive plans over a ten-year period, including 2.6% in respect of the LTIP and EABP.

### Employee Benefit Trust

The FirstGroup Employee Benefit Trust 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 trustees of the FirstGroup Employee Benefit Trust have informed the Company that their intention is to abstain from voting in respect of the FirstGroup shares held in the trust. As at 31 March 2015, 1,063,008 shares were held by the Employee Benefit Trust to hedge outstanding awards of 52,878,940. This means that the trust holds sufficient to satisfy 2.0% of outstanding awards.

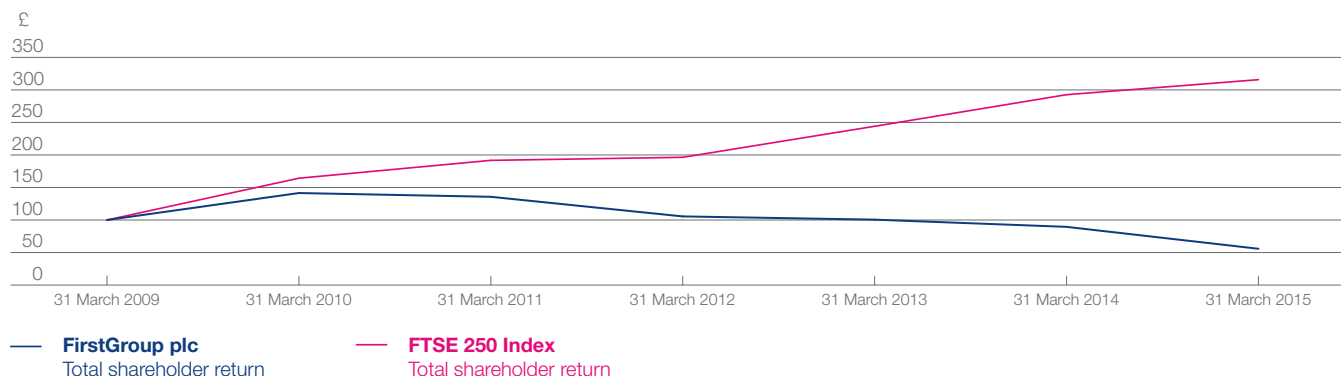
## Directors' remuneration report

### continued

#### Performance graph

The graph below shows the total shareholder return performance of £100 invested in FirstGroup plc shares over the last six years compared to an equivalent investment in the FTSE 250. The FTSE 250 Index has been selected as it provides an established and broad-based index, of which the Company is a constituent.

#### Total shareholder return



#### 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 last six years. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus percentages show the payout for each year as a percentage of the maximum.

	2010 <sup>1</sup>	2011 <sup>1</sup>	2012 <sup>2</sup>	2013 <sup>2</sup>	2014 <sup>2</sup>	2015 <sup>2</sup>
Total remuneration (£000s)	643	503	1,055	1,068	1,986	1,647
Annual bonus	0%	43.6%	0% <sup>3</sup>	0% <sup>3</sup>	59.1%	57.0%
LTIP vesting	—	—	0%	0%	0%	0%

<sup>1</sup> 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.

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

<sup>3</sup> Tim O'Toole waived his bonus in 2012 and 2013.

#### 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 (UK Bus and UK 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. 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	Nil	27.0% <sup>1</sup>	(3.7)%
UK employees	2.2%	Nil	Nil

<sup>1</sup> Increase reflects travel expenses of £11,000 incurred in 2014/15.



## 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.

	2014 £million	2015 £million	% change
Group adjusted operating profit	268	304	13
Distributions to shareholders	–	–	–
Total employee pay	2,824	2,833	<1%

<sup>1</sup> 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.

<sup>2</sup> Total employee pay is the total pay for all Group employees, including pension and social security costs. The average monthly number of employees in 2014/15 was 114,370 (2013/14: 116,497).

## Non-Executive Directors' fees

Non-Executive Directors' fees were reviewed in 2014 and the Chairman's fee was reviewed as part of the appointment of the new Chairman in 2015. Fees paid to the Chairman and Non-Executive Directors during the year ended 31 March 2015 are set out below:

Non-Executive Director	Fees		Benefits		Totals	
	2014 £000s	2015 £000s	2014 £000s	2015 £000s	2014 £000s	2015 £000s
John McFarlane <sup>1</sup>	66	250	–	–	66	250
Mick Barker <sup>2</sup>	38	39	3	2	41	41
David Begg <sup>3,5</sup>	60	14	–	–	60	14
Warwick Brady <sup>4</sup>	–	40	–	–	–	40
Drummond Hall <sup>4</sup>	–	46	–	1	–	47
Colin Hood <sup>3,5</sup>	60	14	3	1	63	15
John Sievwright <sup>3</sup>	56	12	–	–	56	12
Brian Wallace	54	63	1	1	55	64
Imelda Walsh <sup>4</sup>	–	48	–	–	–	48
Jim Winestock <sup>6</sup>	50	60	2	7	52	67

<sup>1</sup> John McFarlane was appointed a Non-Executive Director and Chairman designate on 5 December 2013 and became Chairman on 1 January 2014.

<sup>2</sup> In addition to his fee as a Non-Executive Director, Mick Barker receives earnings from the Group as an employee (including pension) and as an Employee Director up to September 2014 amounting to £57,000 (2013/14: £59,000). As a participant in the BAYE he received 193 matching shares during the financial year. Based on the middle market closing price of a share on 31 March 2015 of 91p, the value of these were £176.

<sup>3</sup> David Begg, Colin Hood and John Sievwright stood down as Directors on 24 June 2014.

<sup>4</sup> Warwick Brady, Drummond Hall and Imelda Walsh were appointed as Non-Executive Directors on 24 June 2014.

<sup>5</sup> In addition to their fees, David Begg and Colin Hood received payments of £15,000 and £12,500, respectively, in lieu of three months' notice under the terms of their letters of appointment following their stepping down as Directors. No other payments were made to former Directors or for loss of office.

<sup>6</sup> Benefits include accommodation expenses to attend UK Board and Committee meetings and travel expenses to attend a corporate event.

Each Non-Executive Director of the Company has elected to receive 40% of their fees in the form of shares in the Company, except for John McFarlane and Warwick Brady who receive 100% of their fees in shares and Imelda Walsh who receives 25% of her fee in shares.

## 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 receives a fee of \$75,000 per annum which is taken in CSX common shares and an annual grant of \$150,000 also in CSX common shares. Both elements are deferred until Tim O'Toole leaves the board of CSX Corporation and therefore he does not receive any current compensation.

## Directors' remuneration report

### continued

#### Non-Executive Directors' interest in ordinary shares

The beneficial interests of the Non-Executive Directors and their connected persons who held office at 31 March 2015 in the shares of the Company as at that date and 1 April 2014 are shown below:

	Ordinary shares beneficially owned at 1.4.14 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.15
John McFarlane	26,192	144,388
Mick Barker <sup>1</sup>	44,585	59,062
Warwick Brady	12,500	35,252
Drummond Hall	–	16,326
Brian Wallace	32,720	53,455
Imelda Walsh	–	9,933
Jim Winestock	29,329	49,434

<sup>1</sup> Mick Barker's total shareholding includes shares acquired under the Company's BAYE plan comprising Partnership Shares, Matching Shares and any Dividend Shares.

<sup>2</sup> Between 1 April and 10 June 2015, Non-Executive Directors received the following shares as payment of fees: John McFarlane – 21,237; Mick Barker – 2,207; Warwick Brady – 5,156; Drummond Hall – 3,679; Brian Wallace – 3,958; Imelda Walsh – 2,383; and Jim Winestock – 3,842. In addition, Mick Barker received 260 shares under the Company's BAYE plan.

#### 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 UK Corporate Governance Code, all Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at each Annual General Meeting. The table below sets out these terms for those Non-Executive Directors serving as at 31 March 2015.

	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment
John McFarlane <sup>1</sup>	5 December 2013	3 months	AGM 2015
Mick Barker	1 January 2012	3 months	AGM 2015
Warwick Brady	24 June 2014	3 months	AGM 2015
Drummond Hall	24 June 2014	3 months	AGM 2015
Brian Wallace	1 August 2012	3 months	AGM 2015
Imelda Walsh	24 June 2014	3 months	AGM 2015
Jim Winestock	1 August 2012	3 months	AGM 2015

<sup>1</sup> John McFarlane will be standing down as a Director at the conclusion of the 2015 Annual General Meeting.

#### 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;
- determining any share incentive plan performance targets; and
- determining the terms of employment and remuneration of each Executive Director and senior manager, including recruitment and termination arrangements.

## Composition of the Remuneration Committee

The current members of the Committee are Imelda Walsh (Chair) and Drummond Hall, both from 24 June 2014. All members of the Committee are independent Non-Executive Directors. David Begg, Colin Hood, John Sievwright and Jim Winestock stood down from the Committee on 24 June 2014. Other attendees at the Committee meetings include the Chairman, Chief Executive, Group Finance Director, Group Employee Director, Group Reward & Pensions Director and PwC. The Company Secretary attends meetings as secretary to the Committee. Attendees are not involved in any decisions, and are not present for any discussions, regarding their own remuneration.

Given the large time commitment required from Committee members over the past year and the existing commitments of the other Non-Executive Directors, it was not possible to appoint a third Committee member with the time to commit fully to the Committee. The appointment of a further member will be discussed with Wolfhart Hauser following his appointment as Chairman at the conclusion of the forthcoming Annual General Meeting and a new Committee member appointed during the 2015/16 financial year.

## Committee attendance

The table below shows the Committee members during 2014/15 and their attendance at scheduled Committee meetings.

Members	Number of scheduled Committee meetings eligible to attend	Number of scheduled Committee meetings attended
Imelda Walsh	4	4
Drummond Hall	4	4

<sup>1</sup> David Begg, Colin Hood, John Sievwright and Jim Winestock stood down as members of the Committee on 24 June 2014. Between 1 April 2014 and 24 June 2014 there was one scheduled Committee meeting on 24 June 2014 which they all attended.

<sup>2</sup> Drummond Hall and Imelda Walsh were appointed members of the Committee on 24 June 2014, following the conclusion of the Committee meeting held that day.

After each meeting, the Chair of the Committee presented 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:

- reviewed the current trends in remuneration practice and updated UK governance requirements;
- reviewed the Annual General Meeting outcome and feedback from institutional shareholders and shareholder bodies, giving consideration to the implications for future remuneration policy;
- undertook a comprehensive review of the remuneration packages of the Executive Directors and senior managers, including incentive arrangements and benchmarking comparator groups;
- approved individual remuneration arrangements for Executive Directors and senior managers;
- reviewed and agreed to a further consultation on the performance metrics, weightings and targets of the LTIP;
- reviewed and agreed to amend the structure of divisional incentives for certain senior managers;
- reviewed the remuneration arrangements for new Executive Directors;
- approved the introduction of clawback;
- approved revised shareholding guidelines and the introduction of holding periods for Executive Directors and senior managers;
- reviewed the fee for the new Chairman;
- assessed the level of achievement against objectives under the EABP and LTIP;
- engaged major investors and their representative bodies on the Company's new remuneration policy and its implementation;
- reviewed and approved the Directors' Remuneration Report; and
- reviewed the Committee's performance and its terms of reference.

## Directors' remuneration report

### continued

#### Priorities for 2015/16

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

- supporting the Group's strategy and transformation plans;
- ensuring compliance with regulatory requirements;
- consulting with major shareholders on the definitions of LTIP performance metrics, weightings and targets;
- developing revised incentive arrangements for those senior managers immediately below the Executive Directors;
- implementing the new remuneration policy, subject to approval by shareholders;
- ongoing training of Committee members; and
- ensuring that remuneration arrangements continue to attract, motivate and retain Executive Directors and senior managers, and reward Company performance, with a focus on maintaining the link between performance and reward, whilst maintaining a prudent approach to cost and the risk to the business.

#### 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. During the year the Committee carried out a review of remuneration advisers to the Committee. As a result of the review, the Committee decided to appoint PwC to provide it with independent advice on executive remuneration. The Chair of the Committee agrees the protocols under which PwC provides advice and the Committee is satisfied that the advice it has received from PwC has been objective and independent.

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.

PwC provided independent commentary on matters under consideration by the Committee and provided updates on market practice and legislative requirements. PwC fees for advice provided to the Committee were £149,000. 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.

#### Shareholder engagement

During the year, the Committee wrote to, and had discussions with, a number of major investors and their representative bodies to seek their views on the remuneration policy to be submitted to shareholders on 16 July 2015 to provide them with an opportunity to see the policy at an early stage and provide feedback. The dialogue was constructive and shareholders were broadly supportive of the Committee's approach on these matters. When reviewing the remuneration framework of Executive Directors and senior managers, the Committee takes into account the views and guidance expressed by major investors and their representative bodies.

#### Shareholder votes on remuneration matters

At the AGM on 16 July 2014, the resolutions on the remuneration policy and Annual Report on Remuneration received the following votes from shareholders:

	Remuneration Policy	Annual Report on Remuneration (including the Annual Statement of the Chair of the Committee)
Votes for	767,562,067 (89%)	606,528,428 (74%)
Votes against	95,204,285 (11%)	208,086,339 (26%)
Total votes cast	862,766,352	814,614,767
Votes withheld	15,581,485	63,733,071

In light of the size of the vote against the Annual Report on Remuneration, the Committee has had positive and constructive discussions and dialogue with shareholders and their representative bodies regarding a revised remuneration policy and practices. The views of shareholders and their representative bodies are very important and the material points discussed have helped shape the revised remuneration policy to be proposed at the 2015 Annual General Meeting.

#### Audit requirements

The Group's auditor, Deloitte LLP, has audited the information contained in the sections and tables headed Executive Directors' total remuneration, Benefits, Pension, 2014/15 Executive Directors' annual bonus awards, 2014 Long Term Incentive Awards, 2012 Long Term Incentive Awards, Executive Directors' interests in share awards, Shareholding guidelines, Non-Executive Directors' fees and Non-Executive Directors' interests in ordinary shares.

On behalf of the Board

**Imelda Walsh**

Chair, Remuneration Committee

10 June 2015

## Other statutory information

### Directors

The Directors of the Company who served during the year and their biographical details are shown on pages 56 and 57, together with David Begg, Colin Hood and John Sievwright who stood down from the Board on 24 June 2014. Details of Directors' interests in shares can be found in the Directors' Remuneration Report.

The Company's Articles of Association provide that each Director who has been appointed by the Board since the last Annual General Meeting must retire from office and stand for election by the shareholders at the first Annual General Meeting after their appointment. Wolfhart Hauser, having been appointed to the Board on 18 May 2015, will be seeking election as a Director at the forthcoming Annual General Meeting. In accordance with the UK Corporate Governance Code, all other Directors (excluding John McFarlane who will be stepping down from the Board at the conclusion of the forthcoming Annual General Meeting) will retire and submit themselves for re-election at the Company's forthcoming Annual General Meeting. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report.

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 of the Chairman was reviewed 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.

### Directors' indemnities and liability insurance

Directors' and Officers' liability insurance is maintained by the Company and is in place at the date of this report. The Company reviews its level of cover on an annual basis and is satisfied that it remains adequate. The Directors also have the benefit of indemnity provisions in the Company's Articles of Association. These provisions are qualifying third party indemnity provisions as defined in section 234 of the Companies Act 2006.

### Annual General Meeting

The Company's Annual General Meeting will be held at 1.30pm on Thursday 16 July 2015 at Norwood Hall Hotel, Garthdee Road, Aberdeen AB15 9FX, United Kingdom. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of Annual General Meeting which accompanies this Annual Report and Accounts.

A summary of the business carried out at the Annual General Meeting will be published on the Company's website ([www.firstgroupplc.com](http://www.firstgroupplc.com)).

### Share capital

As at 31 March 2015, the Company's issued share capital was 1,204,926,756 ordinary shares of 5p, each credited as fully paid. As at the date of this Governance 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 1,204,769,527 ordinary shares (excluding treasury shares). Further

details of the Company's issued share capital are shown in note 8 to the Company financial statements.

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

A list of main subsidiary undertakings and their principal activity, is given in note 3 to the Company financial statements.

### Substantial shareholdings

As at the date of this Governance section, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares	% of total voting rights
Schroders plc	64,283,712	5.34
Franklin Mutual Advisers, LLC	60,595,200	5.03
Jupiter Asset Management Limited	60,603,024	5.03
Orbis Investment Management Limited	60,263,833	5.00

### Results

The results for the year are set out in the consolidated income statement on page 106.

### Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable Scottish law concerning companies (the Companies Act 2006). This summary is qualified in its entirety by reference to this Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

### Shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association. 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 2015 Annual General Meeting 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 payment of a final dividend this year.



## Other statutory information

### continued

#### 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 of Association 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 in the Company's LTIP, EABP and SAYE plan. 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. The trustee does not vote on the shares if no direction is given to it.

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.

#### 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 of Association.

#### Purchase of own shares

At the Annual General Meeting of the Company in 2014 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 Annual General Meeting on 16 July 2015 when it is intended to seek a renewal.

#### Political donations

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year.

#### Employee involvement

An informed and consultative approach to employee communication is taken across the Group. 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. Work will be undertaken during the next 12 months to develop further the portal to provide learning and performance management capabilities. 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.

A significant proportion of the workforce belongs to trade unions, with our employees represented by approximately 30 different unions. The majority of our employees in North America, approximately 76% of our UK Bus employees and a significant proportion of our UK Rail employees are represented by unions.

Throughout the Group, regular dialogue with employee representatives, such as trade unions, is maintained. Each division has its own information and consultation arrangements and levels of employee involvement in the business differ.

As well as gathering feedback throughout the year through formal and informal channels, 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. The priorities identified by employees help to shape the future employee strategy.

#### Policies concerning disabled employees

Full and fair consideration is given to applications for employment by disabled persons. We are committed to supporting disabled employees including employees who become disabled persons 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 15 May 2014. 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\$150m 4.26% notes due in three instalments of US\$50m from 2016 to 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\$150m 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) UK Rail

The Group's franchised passenger rail operators, First TransPennine Express and First Great Western, are each party to a franchise agreement with the Secretary of State for Transport. These franchise agreements are subject to termination clauses which may apply on a change of control. These operators and the Group's non-franchised rail operator, First Hull Trains, 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. 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) Joint venture agreements

The Company has joint venture agreements with Keolis (UK) Limited in relation to First TransPennine Express and with Danske Statsbaner (Danish State Railways) in relation to DSB/First Aps and DSB Sverige AB. As is customary, these joint venture 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 23 to the consolidated financial statements.

### Audit information

The Directors who held office at the date of this Governance report confirm that so far as they each are aware, there is no relevant audit information (being information needed by the auditors 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 he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Deloitte LLP has indicated its willingness to continue in office as auditors of the Company. Upon the recommendation of the Audit Committee, resolutions seeking to reappoint Deloitte as auditors and to authorise the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

### Going concern

Whilst the Group is affected by macro-economic developments, it has a strong balanced portfolio of businesses with approximately half of Group revenues secured under medium term contracts with government agencies and other large organisations in the UK and North America.

While any changes in economic activity will impact UK Bus and UK Rail passenger numbers this potential risk is reduced in UK Bus by the ability of the Group to modify services on relatively short notice. In North America, the First Student and First Transit businesses are highly contracted and, whilst Greyhound is more susceptible to the economy, its costs are largely variable.

The Group has a diversified funding structure which is largely represented by medium term unsecured committed bank facilities and long term unsecured bond debt. The Group has a £800m committed revolving banking facility, which expires on 28 June 2019.

The Group's management of exposure to financial risk, including liquidity, currency, interest rate and commodity risks, is disclosed in note 23 to the consolidated financial statements.

The Directors have carried out a detailed review of the Group's 2015/16 budget and medium term plans, with due regard to the risks and uncertainties to which the Group is exposed (of which the principal items are set out on pages 45 to 49), the uncertain economic climate and the impact that this could have on trading performance.

## Other statutory information

### continued

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 (which is for this purpose a period of at least 12 months from the date of approval of these financial statements). Accordingly, the financial statements have been prepared on a going concern basis.

#### Post-balance sheet events

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

#### Statement of Directors' responsibilities in respect of the annual report and the financial statements

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 Companies Act 2006. 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.

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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategy report, Directors' remuneration report and Governance section that comply with that law and those regulations.

#### Responsibility statement

Each Director confirms to the best of his or her 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 performance, business model and strategy.

The Strategic report comprising pages 2 to 54 and the Governance section comprising pages 56 to 104, 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:

**Robert Welch**  
Company Secretary  
10 June 2015  
395 King Street, Aberdeen AB24 5RP



## Financial statements

This section contains the financial statements, the auditor's report, the accounting policies and the notes to the accounts, together with a glossary of key terms, information for shareholders and the financial calendar.

Consolidated income statement	106
Consolidated statement of comprehensive income	107
Consolidated balance sheet	108
Consolidated statement of changes in equity	109
Consolidated cash flow statement	110
Notes to the consolidated financial statements	111
Independent auditor's report	160
Group financial summary	164
Company balance sheet	165
Notes to the Company financial statements	166
Shareholder information	174
Financial calendar	175
Glossary	176

## Consolidated income statement

For the year ended 31 March

	Notes	2015 £m	2014 £m
<b>Revenue</b>	3,5	<b>6,050.7</b>	6,717.4
Operating costs		<b>(5,804.9)</b>	(6,485.2)
<b>Operating profit</b>	5,6	<b>245.8</b>	232.2
Investment income	8	<b>1.8</b>	1.7
Finance costs	8	<b>(141.8)</b>	(175.4)
<b>Profit before tax</b>		<b>105.8</b>	58.5
Tax	9	<b>(20.3)</b>	5.7
<b>Profit for the year</b>		<b>85.5</b>	64.2
Attributable to:			
<b>Equity holders of the parent</b>		<b>75.2</b>	54.2
<b>Non-controlling interests</b>		<b>10.3</b>	10.0
		<b>85.5</b>	64.2
<b>Earnings per share</b>			
Basic	10	<b>6.2p</b>	5.1p
Diluted	10	<b>6.2p</b>	5.1p
<b>Adjusted results<sup>1</sup></b>			
Adjusted operating profit	4	<b>303.6</b>	268.0
Adjusted profit before tax	4	<b>163.9</b>	111.9
Adjusted EPS	10	<b>9.8p</b>	7.5p

<sup>1</sup> 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

	2015 £m	2014 £m
<b>Profit for the year</b>	<b>85.5</b>	64.2
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Actuarial gains/(losses) on defined benefit pension schemes	<b>33.9</b>	(33.5)
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	<b>(6.7)</b>	3.0
	<b>27.2</b>	(30.5)
<b>Items that may be reclassified subsequently to profit or loss</b>		
Derivative hedging instrument movements	<b>(89.9)</b>	44.3
Deferred tax on derivative hedging instrument movements	<b>26.6</b>	(3.9)
Exchange differences on translation of foreign operations	<b>223.9</b>	(231.1)
	<b>160.6</b>	(190.7)
<b>Other comprehensive income/(expense) for the year</b>	<b>187.8</b>	(221.2)
<b>Total comprehensive income/(expense) for the year</b>	<b>273.3</b>	(157.0)
<b>Attributable to:</b>		
Equity holders of the parent	<b>263.0</b>	(167.0)
Non-controlling interests	<b>10.3</b>	10.0
	<b>273.3</b>	(157.0)

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

# Consolidated balance sheet

Year ended 31 March

	Note	2015 £m	2014 £m	2013 £m
<b>Non-current assets</b>				
Goodwill	11	<b>1,659.2</b>	1,509.5	1,665.8
Other intangible assets	12	<b>197.0</b>	217.9	281.8
Property, plant and equipment	13	<b>2,027.1</b>	1,864.9	1,977.6
Deferred tax assets	24	<b>60.5</b>	35.8	53.2
Retirement benefit assets	34	<b>32.9</b>	29.9	15.4
Derivative financial instruments	23	<b>45.3</b>	25.9	63.3
Investments		<b>3.1</b>	2.8	3.2
		<b>4,025.1</b>	3,686.7	4,060.3
<b>Current assets</b>				
Inventories	15	<b>69.9</b>	71.4	79.9
Trade and other receivables	16	<b>716.6</b>	663.6	641.0
Cash and cash equivalents	19	<b>420.5</b>	553.9	682.1
Assets held for sale	17	<b>1.4</b>	6.2	44.7
Derivative financial instruments	23	<b>15.5</b>	26.0	23.3
		<b>1,223.9</b>	1,321.1	1,471.0
<b>Total assets</b>		<b>5,249.0</b>	5,007.8	5,531.3
<b>Current liabilities</b>				
Trade and other payables	18	<b>1,139.0</b>	1,219.8	1,256.7
Tax liabilities		<b>35.3</b>	34.2	28.7
Financial liabilities	20	<b>136.0</b>	127.8	441.3
Derivative financial instruments	23	<b>74.5</b>	17.7	64.7
		<b>1,384.8</b>	1,399.5	1,791.4
<b>Net current liabilities</b>		<b>160.9</b>	78.4	320.4
<b>Non-current liabilities</b>				
Financial liabilities	20	<b>1,805.7</b>	1,823.9	2,317.4
Derivative financial instruments	23	<b>22.6</b>	9.2	21.7
Retirement benefit liabilities	34	<b>272.3</b>	290.6	263.2
Deferred tax liabilities	24	<b>40.7</b>	37.0	62.2
Provisions	25	<b>236.7</b>	224.6	260.9
		<b>2,378.0</b>	2,385.3	2,925.4
<b>Total liabilities</b>		<b>3,762.8</b>	3,784.8	4,716.8
<b>Net assets</b>		<b>1,486.2</b>	1,223.0	814.5
<b>Equity</b>				
Share capital	26	<b>60.2</b>	60.2	24.1
Share premium	27	<b>676.4</b>	676.4	676.4
Hedging reserve	27	<b>(55.5)</b>	7.8	(32.6)
Other reserves	27	<b>4.6</b>	4.6	4.6
Own shares		<b>(1.9)</b>	(1.8)	(1.1)
Translation reserve	28	<b>241.7</b>	17.8	248.9
Retained earnings		<b>533.1</b>	446.4	(130.5)
<b>Equity attributable to equity holders of the parent</b>		<b>1,458.6</b>	1,211.4	789.8
<b>Non-controlling interests</b>		<b>27.6</b>	11.6	24.7
<b>Total equity</b>		<b>1,486.2</b>	1,223.0	814.5

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

## Consolidated statement of changes in equity

	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
<b>Balance at 1 April 2013</b>	<b>24.1</b>	<b>676.4</b>	<b>(32.6)</b>	<b>4.6</b>	<b>(1.1)</b>	<b>248.9</b>	<b>(130.5)</b>	<b>789.8</b>	<b>24.7</b>	<b>814.5</b>
Rights issue <sup>1</sup>	36.1	—	—	—	—	—	548.3	584.4	—	584.4
Total comprehensive income for the year	—	—	40.4	—	—	(231.1)	23.7	(167.0)	10.0	(157.0)
Dividends paid	—	—	—	—	—	—	—	—	(23.1)	(23.1)
Movement in EBT and treasury shares	—	—	—	—	(0.7)	—	0.3	(0.4)	—	(0.4)
Share-based payments	—	—	—	—	—	—	4.6	4.6	—	4.6
<b>Balance at 31 March 2014</b>	<b>60.2</b>	<b>676.4</b>	<b>7.8</b>	<b>4.6</b>	<b>(1.8)</b>	<b>17.8</b>	<b>446.4</b>	<b>1,211.4</b>	<b>11.6</b>	<b>1,223.0</b>
Total comprehensive income for the year	—	—	(63.3)	—	—	223.9	102.4	263.0	10.3	273.3
Purchase of non-controlling interests <sup>2</sup>	—	—	—	—	—	—	(7.0)	(7.0)	(4.0)	(11.0)
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	11.7	11.7
Non-controlling interests put option <sup>3</sup>	—	—	—	—	—	—	(12.8)	(12.8)	—	(12.8)
Dividends paid	—	—	—	—	—	—	—	—	(2.0)	(2.0)
Movement in EBT and treasury shares	—	—	—	—	(0.1)	—	(1.0)	(1.1)	—	(1.1)
Share-based payments	—	—	—	—	—	—	5.2	5.2	—	5.2
Deferred tax on share-based payments	—	—	—	—	—	—	(0.1)	(0.1)	—	(0.1)
<b>Balance at 31 March 2015</b>	<b>60.2</b>	<b>676.4</b>	<b>(55.5)</b>	<b>4.6</b>	<b>(1.9)</b>	<b>241.7</b>	<b>533.1</b>	<b>1,458.6</b>	<b>27.6</b>	<b>1,486.2</b>

<sup>1</sup> The rights issue which completed in June 2013 was effected through a legal structure that resulted in the excess of the proceeds over the nominal value of the share capital being recognised within retained earnings as a distributable reserve.

<sup>2</sup> On 14 August 2014, the Group purchased the non-controlling interests share of Hull Trains Limited for a consideration of £3.0m and on 24 March 2015, the Group purchased the non-controlling interests share of Cardinal Coach Lines UCL for a consideration of CAD\$17.0m. As both of these represent a transaction with minority equity owners of the business without a change of control, they have been recognised as an equity transaction in the Group's reserves and not as a business combination or investment.

<sup>3</sup> On 25 August 2014, the Group completed the acquisition of a 51% share in Miles Square Transportation, Inc, a school bus transportation company based in New York. Included within the purchase agreement is a put option for the Group to purchase the remaining 49% from the non-controlling interest party for a fixed price of US\$19.1m. As the put option is a contract to purchase the Group's own equity instruments it gives rise to a financial liability for the fixed price amount in accordance with paragraph 23 in IAS 32. The financial liability has been recognised in the balance sheet and the initial recognition is treated as reclassified from equity.

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

## Consolidated cash flow statement

Year ended 31 March

	Note	2015 £m	2014 £m
<b>Net cash from operating activities</b>	30	<b>325.2</b>	292.3
<b>Investing activities</b>			
Interest received		1.8	2.0
Proceeds from disposal of property, plant and equipment		47.5	14.1
Purchases of property, plant and equipment		(428.9)	(277.0)
Acquisition of subsidiary/business		(11.0)	–
Disposal of subsidiary/business		–	76.3
<b>Net cash used in investing activities</b>		<b>(390.6)</b>	(184.6)
<b>Financing activities</b>			
Dividends paid to non-controlling shareholders		(2.0)	(21.3)
Shares purchased by Employee Benefit Trust		(1.1)	(2.0)
Proceeds from rights issue		–	614.4
Fees paid on rights issue		–	(30.0)
Repayment of bonds		–	(300.0)
Drawdowns from bank facilities		–	20.1
Repayment of bank debt		–	(416.9)
Repayments under HP contracts and finance leases		(67.9)	(101.8)
Fees for bank facility amendments		(4.7)	–
<b>Net cash flow from financing activities</b>		<b>(75.7)</b>	(237.5)
<b>Net decrease in cash and cash equivalents before foreign exchange movements</b>		<b>(141.1)</b>	(129.8)
<b>Cash and cash equivalents at beginning of year</b>		<b>553.9</b>	682.1
Foreign exchange movements		7.7	1.6
<b>Cash and cash equivalents at end of year per consolidated balance sheet</b>		<b>420.5</b>	553.9

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

	2015 £m	2014 £m
Net decrease in cash and cash equivalents in year	(141.1)	(129.8)
Decrease in debt and finance leases	67.9	798.6
Inception of new HP contracts and finance leases	–	(57.5)
Fees capitalised against bank facilities	4.7	–
<b>Net cash flow</b>	<b>(68.5)</b>	611.3
Foreign exchange movements	(31.7)	68.2
Other non-cash movements in relation to financial instruments	(3.3)	(4.2)
Movement in net debt in year	(103.5)	675.3
Net debt at beginning of year	(1,303.8)	(1,979.1)
<b>Net debt at end of year</b>	<b>(1,407.3)</b>	(1,303.8)

Net debt excludes all accrued interest.

The accompanying notes form an integral part of this consolidated cash flow statement.

# Notes to the consolidated financial statements

## 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 6 to 54.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. 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 in the Directors' report on pages 103 to 104. The principal accounting policies adopted are set out below.

The figures for the year to 31 March 2015 include the results of the rail business for the year to 31 March 2015 and the results of all the other businesses for the 52 weeks ended 28 March 2015. The figures for the year to 31 March 2014 include the results of the rail businesses for the year to 31 March 2014 and the results of all the other businesses for the 52 weeks ended 29 March 2014.

### 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 acquisition 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.



# Notes to the consolidated financial statements

## continued

### 2 Significant accounting policies continued

#### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As a general rule, significant influence will be presumed to exist when the Group holds, directly or indirectly through subsidiaries, 20% or more of the voting power, of the investee. However, where it is clear that the Group, although holding 20% or more of the voting power does not have significant influence, the investment is not accounted for as an associate. The Group has a 30% holding in DSBFirst but does not have significant influence and therefore the holding is treated as an investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

#### 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.

#### 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.

The existing finite life intangible assets have a residual value of nil and are amortised 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).

In the event of a franchise extension a new intangible asset is set up and is amortised over the term of the extension on a straight-line basis.

#### 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 UK Rail includes franchise subsidy receipts from the Department for Transport (DfT) and Transport Scotland and amounts receivable under franchise revenue support arrangements. 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.

## 2 Significant accounting policies continued

UK 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 based on a predetermined formula as agreed with the relevant local authority. 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.

### 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 non-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 23 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 unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. 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 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 amortisation, business disposals, aged legal claims and revisions to onerous contracts, as management consider that this basis more appropriately reflects operating performance and 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 amortisation charges, gain on disposal of property, aged legal claims associated with previous acquisitions, the impairment of a number of Group IT licences and business disposals. In the prior year the non-GAAP adjusting items principally related to amortisation charges and business disposals.

# Notes to the consolidated financial statements

## continued

### 2 Significant accounting policies continued

#### Retirement benefit costs

The Group operates or participates in a number of pension schemes, which include both defined benefit schemes and defined contribution schemes.

Payments to defined contribution 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.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit position recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Various TOCs in the UK 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.

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 tax 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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

## 2 Significant accounting policies continued

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.

### 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 four 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.

# Notes to the consolidated financial statements

## continued

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### 2 Significant accounting policies continued

#### 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 have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through amortisation.

The most significant financial assets under this category are trade receivables and bank deposits.

Trade receivables are measured at fair value, i.e. original invoice amount, less an allowance for uncollectable amounts. 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 UK 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.

#### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as such, or that are not classified in any of the other categories. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the income statement.

#### Financial liabilities and equity

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.

##### Sterling 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.



## 2 Significant accounting policies continued

### 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 which might be subject to an insurance deductible. To provide protection against these major losses, cover is obtained through third-party insurance policies. 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.

### 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 model. 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.

### 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 IFRS 10, IFRS 12 and IAS 28 (December 2015)	Investment Entities: Applying the Consolidation Exception	1 January 2016 <sup>1</sup>
Amendments to IAS 1 (December 2015)	Disclosure Initiative	1 January 2016 <sup>1</sup>
Amendments to IFRS 10 and IAS 28 (September 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016 <sup>1</sup>
Amendments to IAS 27 (August 2014)	Equity Method in Separate Financial Statements	1 January 2016 <sup>1</sup>
IFRS 9	Financial Instruments	1 January 2018 <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers	1 January 2017 <sup>1</sup>
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016 <sup>1</sup>
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016 <sup>1</sup>
Amendments to IAS 19 (November 2013)	Defined Benefit Plans: Employee Contributions	1 July 2014 <sup>2</sup>
IFRIC 21	Leases	1 January 2014 <sup>3</sup>

<sup>1</sup> The mandatory adoption under EU adopting regulations has not yet been confirmed.

<sup>2</sup> Mandatory for accounting periods starting on or after 1 February 2015 under EU adopting regulations.

<sup>3</sup> Mandatory for accounting periods starting on or after 17 June 2014 under EU adopting regulations.

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.

### Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following 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.

IFRS 10 Consolidated Financial Statements – the standard establishes the principles for the presentation of consolidated accounts when an entity controls one or more other entities.

IFRS 11 Joint Arrangements – the standard determines the type of joint arrangement by assessing the rights and obligations, and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 Disclosure of Interests in Other Entities – the standard sets out the requirements to disclose information that enables users of accounts to evaluate the nature of, and risks associated with, its interests in other entities and the effects of these interests on its financial position, financial performance and cash flows.

# Notes to the consolidated financial statements

## continued

### 2 Significant accounting policies continued

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities – the amendment to the standard clarifies the existing application issues relating to the offsetting rules. It clarifies the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – the amendment to the standard restricts the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognised or reverses. It also expands the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less costs of disposal.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – this amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

### Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group’s accounting policies which are described above, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

### 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 £1,659.2m (2014: £1,509.5m; 2013: £1,665.8m) as set out in note 11 and the carrying amount of other intangible assets at the balance sheet date was £197.0m (2014: £217.9m; 2013: £281.8m) as set out in note 12.

### Contract and franchise accounting

Judgements 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 judgements relating to the expected level of revenues and costs 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 UK Rail has a number of contractual relationships including those with the DfT and Network Rail. Due to the regulated nature of the UK 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. Judgement is required by management as to the amounts receivable and also payable taking account of the information available at the time.

### Defined benefit pension arrangements

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions. A 0.1% movement in the discount rate would impact operating profit and the balance sheet position by approximately £3m and £32m respectively. A 0.1% movement in the inflation rate would impact operating profit and the balance sheet position by approximately £3m and £24m respectively. The net pension deficit as at the balance sheet date was £239.4m (2014: £260.7m; 2013: £247.8m) as set out in note 34.

### Self-insurance and legal provisions

Provision is made for all known incidents for which there is self-insurance or a legal liability using management’s best estimate of the likely settlement of these incidents or claims, where in the case of legal claims the amount can be reliably measured. The estimated settlement is reviewed on a regular basis with independent actuarial advice or internal legal counsel with external counsel sought as required. The Group’s total self-insurance provisions, including those classified within accruals, as at the balance sheet date were £316.2m (2014: £294.8m; 2013: £332.6m) as set out in Note 25. The Group’s total legal provisions, including those classified within accruals, as at the balance sheet date were £38.5m (2014: £26.0m; 2013: £31.6m) as set out in Note 25.

### 3 Revenue

	2015 £m	2014 £m
Services rendered	5,717.4	5,908.3
UK Rail franchise subsidy receipts	333.3	572.1
UK Rail revenue support	–	237.0
	6,050.7	6,717.4
Finance income	1.8	1.7
<b>Total revenue as defined by IAS 18</b>	<b>6,052.5</b>	<b>6,719.1</b>

#### 4 Reconciliation to non-GAAP measures and performance

In measuring the Group adjusted 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 amortisation, business disposals, aged legal claims and revisions to onerous contracts, as the Directors consider that this basis more appropriately reflects operating performance and a better understanding of the key performance indicators of the business.

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
<b>Reconciliation of operating profit to adjusted operating profit</b>		
Operating profit	245.8	232.2
Adjustments for:		
Amortisation charges	54.3	53.4
Gain on disposal of property	(25.3)	–
Legal claims	12.2	–
IT licences	8.7	–
UK Bus depot sales and closures	7.5	(13.0)
UK Rail First Great Western contract provision	–	(4.6)
Other	0.4	–
<b>Adjusted operating profit (note 5)</b>	<b>303.6</b>	<b>268.0</b>
<b>Reconciliation of profit before tax to adjusted profit before tax</b>		
Profit before tax	105.8	58.5
Adjustments for:		
Amortisation charges	54.3	53.4
Gain on disposal of property	(25.3)	–
Legal claims	12.2	–
IT licences	8.7	–
UK Bus depot sales and closures	7.5	(13.0)
Ineffectiveness on financial derivatives	0.3	17.6
UK Rail First Great Western contract provision	–	(4.6)
Other	0.4	–
<b>Adjusted profit before tax</b>	<b>163.9</b>	<b>111.9</b>
Adjusted tax charge	(36.1)	(22.4)
Non-controlling interests	(10.3)	(10.2)
<b>Adjusted earnings</b>	<b>117.5</b>	<b>79.3</b>

The principal reconciling items are as follows:

##### Amortisation charges

The charge for the year was £54.3m (2014: £53.4m).

##### Gain on disposal of property

A gain on disposal of £25.3m (2014: £nil) was realised on the sale of a Greyhound garage in Miami. The proceeds of this disposal of £31.6m were received during the year.

##### Legal claims

Two separate legal claims that pre-date the Laidlaw acquisition and were acquired with the former Laidlaw entities had adverse developments during the year and we now estimate that it will cost significantly more to settle these cases. As a result there was a charge of £12.2m (2014: £nil).

##### IT licences

A number of Group IT licences have been written off as the projects to which they relate will now be achieved in an alternative, less costly and more appropriate way. The charge for these licences was £8.7m (2014: £nil).

# Notes to the consolidated financial statements

## continued

### 4 Reconciliation to non-GAAP measures and performance continued

#### UK Bus depot sales and closures

There was a charge of £7.5m (2014: £13.0m credit) in the year relating to operating losses and fixed asset impairments. The credit in 2014 largely represents the gain on disposal of London operations.

#### UK Rail First Great Western contract provision

There was a charge of £nil (2014: £4.6m credit) in the year. The credit in 2014 reflected the fact that losses in the final seven periods of the old franchise were not as high as initially projected partly due to contractual changes agreed with the DfT.

#### Ineffectiveness on financial derivatives

There was a £0.3m (2014: £17.6m) non-cash charge during the year due to ineffectiveness on financial derivatives. The principal component of the charge in 2014 related to certain US Dollar swaps which were no longer required as the underlying borrowings were repaid from proceeds of the rights issue.

### 5 Business segments and geographical information

For management purposes, the Group is organised into five operating divisions – First Student, First Transit, Greyhound, UK Bus and UK 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 2015 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items <sup>1</sup> £m	Total £m
<b>Revenue</b>	<b>1,478.8</b>	<b>844.8</b>	<b>609.6</b>	<b>896.1</b>	<b>2,207.1</b>	<b>14.3</b>	<b>6,050.7</b>
<b>EBITDA<sup>2</sup></b>	<b>260.9</b>	<b>72.1</b>	<b>73.1</b>	<b>118.5</b>	<b>137.8</b>	<b>(38.0)</b>	<b>624.4</b>
Depreciation	(146.0)	(12.4)	(31.4)	(66.7)	(96.2)	(0.6)	(353.3)
Capital grant amortisation	–	–	–	–	32.5	–	32.5
<b>Segment results<sup>2</sup></b>	<b>114.9</b>	<b>59.7</b>	<b>41.7</b>	<b>51.8</b>	<b>74.1</b>	<b>(38.6)</b>	<b>303.6</b>
Amortisation charges	(39.8)	(3.4)	(2.9)	–	(8.2)	–	(54.3)
Other adjustments	(12.2)	–	25.3	(7.9)	–	(8.7)	(3.5)
<b>Operating profit<sup>3</sup></b>	<b>62.9</b>	<b>56.3</b>	<b>64.1</b>	<b>43.9</b>	<b>65.9</b>	<b>(47.3)</b>	<b>245.8</b>
Investment income							1.8
Finance costs							(141.5)
Ineffectiveness on financial derivatives							(0.3)
<b>Profit before tax</b>							<b>105.8</b>
Tax							(20.3)
<b>Profit after tax</b>							<b>85.5</b>
	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items <sup>1</sup> £m	Total £m
<b>Other information</b>							
Capital additions	179.9	21.1	50.9	93.9	76.1	3.5	425.4

## 5 Business segments and geographical information continued

Balance sheet <sup>4</sup>	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,524.9	(465.9)	2,059.0
First Transit	460.2	(137.3)	322.9
Greyhound	616.1	(301.7)	314.4
UK Bus	723.6	(230.6)	493.0
UK Rail	275.3	(452.0)	(176.7)
	4,600.1	(1,587.5)	3,012.6
Group items <sup>1</sup>	167.9	(271.5)	(103.6)
Net debt	420.5	(1,827.8)	(1,407.3)
Taxation	60.5	(76.0)	(15.5)
<b>Total</b>	<b>5,249.0</b>	<b>(3,762.8)</b>	<b>1,486.2</b>

The segment results for the year to 31 March 2014 are as follows:

	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items <sup>1</sup> £m	Total £m
<b>Revenue</b>	1,467.4	811.9	624.6	930.2	2,870.1	13.2	6,717.4
<b>EBITDA<sup>2</sup></b>	241.1	72.0	74.9	105.9	117.1	(31.2)	579.8
Depreciation	(147.6)	(11.7)	(28.5)	(61.5)	(94.3)	(0.6)	(344.2)
Capital grant amortisation	–	–	–	–	32.4	–	32.4
<b>Segment results<sup>2</sup></b>	93.5	60.3	46.4	44.4	55.2	(31.8)	268.0
Amortisation charges	(41.5)	(3.9)	(3.0)	–	(5.0)	–	(53.4)
Other adjustments	–	–	–	13.0	4.6	–	17.6
<b>Operating profit<sup>3</sup></b>	52.0	56.4	43.4	57.4	54.8	(31.8)	232.2
Investment income							1.7
Finance costs							(157.8)
Ineffectiveness on financial derivatives							(17.6)
<b>Profit before tax</b>							58.5
Tax							5.7
<b>Profit after tax</b>							64.2
<b>Other information</b>	First Student £m	First Transit £m	Greyhound £m	UK Bus £m	UK Rail £m	Group items <sup>1</sup> £m	Total £m
Capital additions	169.1	17.7	45.8	77.4	69.4	1.6	381.0

<sup>1</sup> Group items comprise Tram operations, central management and other items.

<sup>2</sup> Adjusted.

<sup>3</sup> Although the segment results are used by management to measure performance, statutory operating profit by operating division is also disclosed for completeness.

<sup>4</sup> Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intercompany balances, net debt and taxation.



# Notes to the consolidated financial statements

## continued

### 5 Business segments and geographical information continued

Balance sheet <sup>1</sup>	Total assets £m	Total liabilities £m	Net assets/ (liabilities) £m
First Student	2,280.8	(383.0)	1,897.8
First Transit	404.9	(136.4)	268.5
Greyhound	542.6	(269.2)	273.4
UK Bus	720.7	(271.2)	449.5
UK Rail	328.3	(605.0)	(276.7)
	<b>4,277.3</b>	<b>(1,664.8)</b>	<b>2,612.5</b>
Group items <sup>2</sup>	140.8	(191.1)	(50.3)
Net debt	553.9	(1,857.7)	(1,303.8)
Taxation	35.8	(71.2)	(35.4)
<b>Total</b>	<b>5,007.8</b>	<b>(3,784.8)</b>	<b>1,223.0</b>

<sup>1</sup> 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.

<sup>2</sup> Group items comprise Tram operations, central management and other items.

#### 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	2015 £m	2014 £m
United Kingdom	<b>3,117.5</b>	3,813.5
United States of America	<b>2,460.7</b>	2,409.2
Canada	<b>472.5</b>	494.7
<b>Total revenue</b>	<b>6,050.7</b>	6,717.4

The following is an analysis of non-current assets excluding financial instruments, deferred tax and pensions, the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Non-current assets excluding financial instruments deferred tax and pensions		Additions to property, plant and equipment and intangible assets		Carrying amount of segment total assets	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
United Kingdom	<b>762.7</b>	773.8	<b>173.5</b>	148.4	<b>1,587.2</b>	1,653.9
United States of America	<b>2,757.9</b>	2,435.7	<b>226.6</b>	196.7	<b>3,164.7</b>	2,865.3
Canada	<b>365.8</b>	385.6	<b>25.3</b>	35.9	<b>436.6</b>	452.8
Unallocated corporate items	–	–	–	–	<b>60.5</b>	35.8
	<b>3,886.4</b>	3,595.1	<b>425.4</b>	381.0	<b>5,249.0</b>	5,007.8

## 6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2015 £m	2014 £m
Depreciation of property, plant and equipment (note 13)	353.3	344.2
Operating lease charges (note 32)	489.5	888.3
Amortisation charges (note 12)	54.3	53.4
Capital grant amortisation	(32.5)	(32.4)
Cost of inventories recognised as an expense	666.2	701.3
Employee costs (note 7)	2,832.7	2,824.0
Auditor's remuneration (see below)	1.7	2.5
UK Rail franchise payments	170.3	550.3
Other operating costs <sup>1</sup>	1,269.4	1,153.6
	<b>5,804.9</b>	<b>6,485.2</b>

<sup>1</sup> Includes £65.7m (2014: £71.5m) received or receivable from government bodies in respect of bus service operator grants and fuel duty rebates.

Amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services are shown below:

	2015 £m	2014 £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 their associates for the audit of the Company's subsidiaries pursuant to legislation	1.4	1.4
Total audit fees	1.5	1.5
Audit-related assurance services	0.1	0.2
Other services	–	0.8
Other taxation advisory services	0.1	–
Total non-audit fees	0.2	1.0

Fees payable to Deloitte LLP and their 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 Statement on page 72. No services were provided pursuant to contingent fee arrangements.

# Notes to the consolidated financial statements

## continued

### 7 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2015 Number	2014 Number
Operational	107,843	110,032
Administration	6,527	6,465
	<b>114,370</b>	116,497

The aggregate remuneration (including Executive Directors) comprised:

	2015 £m	2014 £m
Wages and salaries	2,453.4	2,462.4
Social security costs	262.1	254.1
Other pension costs (note 34)	117.2	107.5
	<b>2,832.7</b>	2,824.0

Wages and salaries include a charge in respect of share-based payments of £5.2m (2014: £4.6m).

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Conduct Authority are contained in the tables/notes within the Directors' remuneration report on pages 76 to 100 and form part of these audited financial statements.

### 8 Investment income and finance costs

	2015 £m	2014 £m
<b>Investment income</b>		
Bank interest receivable	(1.8)	(1.7)
<b>Finance costs</b>		
Bonds	84.9	88.9
Bank borrowings	16.8	22.4
Senior unsecured loan notes	4.1	4.1
Loan notes	1.0	1.0
Finance charges payable in respect of HP contracts and finance leases	9.4	13.0
Notional interest on long term provisions	15.2	19.5
Notional interest on pensions	10.1	8.9
Finance costs before adjustments	141.5	157.8
Hedge ineffectiveness on financial derivatives	0.3	17.6
<b>Total finance costs</b>	<b>141.8</b>	175.4
<b>Finance costs before adjustments</b>	<b>141.5</b>	157.8
Investment income	(1.8)	(1.7)
<b>Net finance cost before adjustments</b>	<b>139.7</b>	156.1

Finance costs are stated after charging fee expenses of £3.6m (2014: £4.1m). There was no interest capitalised into qualifying assets in either the year ended 31 March 2015 or 31 March 2014.

## 9 Tax on profit on ordinary activities

	2015 £m	2014 £m
Current tax	17.7	5.3
Deferred tax (note 24)	2.6	(11.0)
<b>Total tax charge/(credit)</b>	<b>20.3</b>	<b>(5.7)</b>

UK corporation tax is calculated at 21% (2014: 23%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge/(credit) for the year can be reconciled to the profit per the income statement as follows:

	2015 £m	2015 %	2014 £m	2014 %
Profit before tax	105.8	100.0	58.5	100.0
Tax at the UK corporation tax rate of 21% (2014: 23%)	22.2	21.0	13.5	23.0
Tax effect of expenses that are not deductible in determining taxable profit	1.8	1.7	(0.1)	(0.1)
Impact of subsidiaries operating outside of the UK	2.9	2.7	(5.0)	(8.6)
Disposal of subsidiaries	–	–	(7.1)	(12.1)
Impact of reduction in UK tax rate on current year's deferred tax	0.2	0.2	2.2	3.8
Impact of reduction in UK tax rate on prior years' deferred tax	–	–	(3.2)	(5.5)
Adjustments relating to taxation of prior years' results/transactions	(6.8)	(6.4)	(6.0)	(10.2)
<b>Tax charge/(credit) and effective tax rate for the year</b>	<b>20.3</b>	<b>19.2</b>	<b>(5.7)</b>	<b>(9.7)</b>

In addition to the amount charged/(credited) to the income statement, deferred tax charge/(credit) relating to actuarial gains/(losses) £6.7m (2014: £(3.0)m) and cash flow and net investment hedges £(26.6)m (2014: £3.9m), amounting to a total charge of £19.9m (2014: £0.9m) have been recognised in other comprehensive income and £0.1m has been charged directly to equity in respect of share-based payments (2014: £nil).

# Notes to the consolidated financial statements

## continued

### 10 Earnings per share (EPS)

EPS is calculated by dividing the profit attributable to equity shareholders of £75.2m (2014: £54.2m) by the weighted average number of ordinary shares of 1,204.0m (2014: 1,059.3m). 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.

	2015 Number m	2014 Number m
Weighted average number of shares used in basic calculation	1,204.0	1,059.3
Executive share options	3.6	3.0
Weighted average number of shares used in the diluted calculation	1,207.6	1,062.3

The adjusted EPS is intended to highlight the recurring 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:

	2015		2014	
	£m	EPS (p)	£m	EPS (p)
<b>Basic profit/EPS</b>	<b>75.2</b>	<b>6.2</b>	54.2	5.1
Amortisation charges <sup>1</sup>	54.3	4.5	53.2	5.0
Ineffectiveness on financial derivatives	0.3	–	17.6	1.7
Other adjustments (note 4)	3.5	0.3	(17.6)	(1.7)
Tax effect of above adjustments	(15.8)	(1.2)	(24.9)	(2.3)
Deferred tax credit due to change in UK corporation tax rate	–	–	(3.2)	(0.3)
<b>Adjusted profit/EPS</b>	<b>117.5</b>	<b>9.8</b>	79.3	7.5

<sup>1</sup> Amortisation charges of £54.3m per note 12 less £nil (2014: £53.4m less £0.2m) attributable to equity non-controlling interests.

	2015 pence	2014 pence
<b>Diluted EPS</b>		
Basic	6.2	5.1
Adjusted	9.7	7.5

### 11 Goodwill

	2015 £m	2014 £m	2013 £m
<b>Cost</b>			
At 1 April	1,513.5	1,669.8	1,604.3
Additions (note 29)	1.7	–	–
Disposals	–	(7.7)	(11.5)
Foreign exchange movements	148.0	(148.6)	77.0
<b>At 31 March</b>	<b>1,663.2</b>	1,513.5	1,669.8
<b>Accumulated impairment losses</b>			
At 1 April	4.0	4.0	5.0
Impairment losses for the year	–	–	4.0
Disposals	–	–	(5.0)
<b>At 31 March</b>	<b>4.0</b>	4.0	4.0
<b>Carrying amount</b>			
<b>At 31 March</b>	<b>1,659.2</b>	1,509.5	1,665.8



## 11 Goodwill continued

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2015 £m	2014 £m	2013 £m
<b>Carrying amount</b>			
First Student	<b>1,073.5</b>	975.7	1,081.4
First Transit	<b>259.5</b>	232.0	254.0
Greyhound	<b>244.6</b>	218.8	239.5
UK Bus	<b>76.0</b>	77.4	85.3
UK Rail	<b>5.6</b>	5.6	5.6
	<b>1,659.2</b>	1,509.5	1,665.8

### Impairment testing

At the year end, the carrying value of net assets, including 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 2015/16 and Five Year Plan projections up to 2019/20 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 in 2019/20 are extrapolated using estimated long term growth rates of 2.5% (2014: 2.5%) for the United Kingdom and 3.0% (2014: 3.0%) for North America which do not exceed the long term average growth rate for the market. A risk adjustment is then made using a pre-tax discount rate of 9.0% (2014: 9.0%) for the United Kingdom CGUs and 10.0% (2014: 10.0%) 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 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, long term 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, UK Bus and UK Rail divisions.

The value in use of the First Student division exceeds its carrying amount by £300.9m (2014: £127.4m). The sensitivity analysis indicates that the First Student margin or long term growth rates would need to fall in excess of 132 or 114 basis points respectively compared to future projections 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 93 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 further impairment to any of the CGUs.

## Notes to the consolidated financial statements

### continued

#### 12 Other intangible assets

	Customer contracts £m	Greyhound brand and trade name £m	Rail franchise agreements £m	Total £m
<b>Cost</b>				
At 1 April 2013	400.3	64.8	57.7	522.8
Additions	1.6	–	13.7	15.3
Disposals	–	–	(35.3)	(35.3)
Foreign exchange movements	(39.7)	(6.7)	–	(46.4)
At 31 March 2014	362.2	58.1	36.1	456.4
Acquisitions (note 29)	15.8	–	–	15.8
Additions	0.3	–	–	0.3
Foreign exchange movements	36.5	5.2	–	41.7
<b>At 31 March 2015</b>	<b>414.8</b>	<b>63.3</b>	<b>36.1</b>	<b>514.2</b>
<b>Amortisation</b>				
At 1 April 2013	167.6	18.3	55.1	241.0
Charge for year	45.4	3.0	5.0	53.4
Disposals	–	–	(35.3)	(35.3)
Foreign exchange movements	(18.5)	(2.1)	–	(20.6)
At 31 March 2014	194.5	19.2	24.8	238.5
Charge for year	43.3	2.9	8.1	54.3
Foreign exchange movements	22.5	1.9	–	24.4
<b>At 31 March 2015</b>	<b>260.3</b>	<b>24.0</b>	<b>32.9</b>	<b>317.2</b>
<b>Carrying amount</b>				
<b>At 31 March 2015</b>	<b>154.5</b>	<b>39.3</b>	<b>3.2</b>	<b>197.0</b>
At 31 March 2014	167.7	38.9	11.3	217.9
At 31 March 2013	232.7	46.5	2.6	281.8

Intangible assets include customer contracts and the Greyhound brand and trade name which were acquired through the purchases of businesses and subsidiary undertakings. 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. The addition in the prior year relates to the new First Great Western franchise and the disposals relate to the ending of the old First Great Western and First Capital Connect contracts. The largest element of the franchise intangible relates to the First Great Western franchise £3.2m (2014: £10.4m).

### 13 Property, plant and equipment

	Land and buildings £m	Passenger carrying vehicle fleet £m	Other plant and equipment £m	Total £m
<b>Cost</b>				
At 1 April 2013	484.6	2,769.3	756.2	4,010.1
Additions in the year	15.4	259.1	106.5	381.0
Disposals	(10.1)	(98.0)	(16.9)	(125.0)
Reclassified as held for sale	(10.2)	(69.2)	–	(79.4)
Foreign exchange movements	(27.8)	(204.9)	(20.4)	(253.1)
At 31 March 2014	451.9	2,656.3	825.4	3,933.6
Additions in the year	32.0	281.8	102.1	415.9
Acquisitions (note 29)	–	7.8	–	7.8
Disposals	(7.4)	(99.3)	(100.2)	(206.9)
Impairment	–	–	(8.7)	(8.7)
Reclassified as held for sale	–	(64.4)	–	(64.4)
Foreign exchange movements	20.6	196.0	23.8	240.4
<b>At 31 March 2015</b>	<b>497.1</b>	<b>2,978.2</b>	<b>842.4</b>	<b>4,317.7</b>
<b>Accumulated depreciation and impairment</b>				
At 1 April 2013	95.1	1,400.3	537.1	2,032.5
Charge for year	9.9	209.5	124.8	344.2
Disposals	(3.5)	(97.2)	(15.9)	(116.6)
Reclassified as held for sale	(6.9)	(62.0)	–	(68.9)
Foreign exchange movements	(5.2)	(103.7)	(13.6)	(122.5)
At 31 March 2014	89.4	1,346.9	632.4	2,068.7
Charge for year	12.2	216.1	125.0	353.3
Disposals	(1.1)	(88.0)	(98.6)	(187.7)
Reclassified as held for sale	–	(63.0)	–	(63.0)
Foreign exchange movements	3.7	98.7	16.9	119.3
<b>At 31 March 2015</b>	<b>104.2</b>	<b>1,510.7</b>	<b>675.7</b>	<b>2,290.6</b>
<b>Carrying amount</b>				
<b>At 31 March 2015</b>	<b>392.9</b>	<b>1,467.5</b>	<b>166.7</b>	<b>2,027.1</b>
At 31 March 2014	362.5	1,309.4	193.0	1,864.9
At 31 March 2013	389.5	1,369.0	219.1	1,977.6

An amount of £33.4m (2014: £18.5m; 2013: £14.3m) in respect of assets under construction is included in the carrying amount of property, plant and equipment.

At 31 March 2015 the Group had entered into contractual capital commitments amounting to £137.6m (2014: £233.3m; 2013: £167.6m), principally representing buses ordered in the United Kingdom and North America and commitments under the First Great Western franchise.

# Notes to the consolidated financial statements

## continued

### 13 Property, plant and equipment continued

Property, plant and equipment held under HP contracts and finance leases are analysed as follows:

	2015 £m	2014 £m	2013 £m
Passenger carrying vehicle fleet – cost	526.7	491.3	607.3
– depreciation	(170.9)	(126.9)	(128.4)
Net passenger carrying vehicle fleet	355.8	364.4	478.9
Other plant and equipment – cost	3.0	4.4	4.4
– depreciation	(1.3)	(2.7)	(2.7)
Net other plant and equipment	1.7	1.7	1.7
<b>Total net book value</b>	<b>357.5</b>	<b>366.1</b>	<b>480.6</b>

The title to the assets under HP contracts and finance leases is held by the lenders.

### 14 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements on page 168.

### 15 Inventories

	2015 £m	2014 £m	2013 £m
Spare parts and consumables	69.8	71.3	79.7
Property development work in progress	0.1	0.1	0.2
	<b>69.9</b>	<b>71.4</b>	<b>79.9</b>

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. The provision for stock obsolescence at the balance sheet date was £7.6m (2014: £8.0m; 2013: £8.2m).

### 16 Trade and other receivables

Amounts due within one year	2015 £m	2014 £m	2013 £m
Trade receivables	355.3	361.9	340.2
Provision for doubtful receivables	(2.3)	(2.9)	(3.2)
Other receivables	66.3	54.3	52.4
Other prepayments	126.1	117.6	116.6
Accrued income	171.2	132.7	135.0
	<b>716.6</b>	<b>663.6</b>	<b>641.0</b>

### 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 £716.6m (2014: £663.6m; 2013: £641.0m), cash and cash equivalents of £420.5m (2014: £553.9m; 2013: £682.1m) and derivative financial instruments of £60.8m (2014: £51.9m; 2013: £86.6m).

The Group's maximum exposure to credit risk for all financial assets at the balance sheet date was £1,197.9m (2014: £1,269.4m; 2013: £1,409.7m). The exposure is spread over a large number of unconnected counterparties and the maximum single concentration with any one counterparty was £60.0m (2014: £70.0m; 2013: £51.3m) 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 £2.3m (2014: £2.9m; 2013: £3.2m).

## 16 Trade and other receivables continued

Most trade receivables are with public or quasi public bodies, principally the DfT, Network Rail, Transport for London, Transport Scotland 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 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:

	2015 £m	2014 £m	2013 £m
<b>Ageing past due but not impaired trade receivables</b>			
Less than 30 days	25.2	31.7	32.9
30 – 90 days	6.7	10.6	9.6
90 – 180 days	7.9	9.7	3.8
180+ days	2.2	2.3	1.7
<b>Total</b>	<b>42.0</b>	<b>54.3</b>	<b>48.0</b>
<b>Movement in the provision for doubtful receivables</b>			
At 1 April	2.9	3.2	4.5
Amounts written off during the year	(2.1)	(2.8)	(3.9)
Amounts recovered during the year	(0.2)	(0.2)	(0.3)
Increase in allowance recognised in the income statement	1.5	2.9	2.8
Foreign exchange movements	0.2	(0.2)	0.1
<b>At 31 March</b>	<b>2.3</b>	<b>2.9</b>	<b>3.2</b>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 17 Assets held for sale

	2015 £m	2014 £m	2013 £m
Assets held for sale	1.4	6.2	44.7

The 2014 balance includes £3.3m of Dagenham land and buildings that were sold in the year to 31 March 2015.

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. There are no liabilities associated with these held for sale assets.

The 2013 balance comprises mainly the fixed assets of the eight London depots which were disposed of on 22 June 2013.

<b>Movement in assets held for sale</b>	<b>£m</b>
At 1 April 2014	6.2
Net book value of additions	1.4
Net book value of disposals	(6.4)
Foreign exchange movements	0.2
<b>At 31 March 2015</b>	<b>1.4</b>



## Notes to the consolidated financial statements

### continued

#### 18 Trade and other payables

Amounts falling due within one year	2015 £m	2014 £m	2013 £m
Trade payables	248.3	372.3	402.0
Other payables	225.9	212.4	184.3
Accruals	572.1	497.6	515.1
Deferred income	59.3	59.4	82.1
Season ticket deferred income	33.4	78.1	73.2
	1,139.0	1,219.8	1,256.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (2014: 35 days; 2013: 36 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.

#### 19 Cash and cash equivalents

	2015 £m	2014 £m	2013 £m
Cash and cash equivalents	420.5	553.9	682.1

The fair value of cash and cash equivalents approximates to the carrying value. Cash and cash equivalents includes ring-fenced cash of £196.7m (2014: £361.6m; 2013: £288.2m). The most significant ring-fenced cash balances are held by the Group's UK Rail subsidiaries. Under the terms of the Rail franchise agreements, cash can only be distributed by these subsidiaries up to the lower of the amount of their retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents cash which is not available for distribution and any additional amounts required to satisfy the liquidity ratios at the balance sheet date. Ring-fenced cash balances of £0.7m (2014: £0.7m; 2013: £14.4m) are held outside the UK Rail subsidiaries.

## 20 Financial liabilities – borrowings

	2015 £m	2014 £m	2013 £m
<b>On demand or within 1 year</b>			
Finance leases (note 21)	77.0	68.9	62.7
Bond 6.875% (repayable 2013)	–	–	319.8
Bond 8.125% (repayable 2018)	12.9	12.9	12.8
Bond 6.125% (repayable 2019)	3.0	3.0	3.0
Bond 8.75% (repayable 2021)	30.1	30.1	30.1
Bond 5.25% (repayable 2022)	5.8	5.7	5.7
Bond 6.875% (repayable 2024)	7.2	7.2	7.2
<b>Total current liabilities</b>	<b>136.0</b>	127.8	441.3
<b>Within 1 – 2 years</b>			
Syndicated loans	–	–	49.3
Finance leases (note 21)	69.4	70.4	63.3
Loan notes (note 22)	9.7	9.7	9.7
Senior unsecured loan notes	33.5	–	–
	<b>112.6</b>	80.1	122.3
<b>Within 2 – 5 years</b>			
Syndicated loans	–	–	336.1
Finance leases (note 21)	140.3	159.7	203.3
Bond 8.125% (repayable 2018)	297.8	297.4	–
Bond 6.125% (repayable 2019)	286.3	284.5	–
Senior unsecured loan notes	67.1	89.9	98.3
	<b>791.5</b>	831.5	637.7
<b>Over 5 years</b>			
Finance leases (note 21)	15.5	45.6	88.9
Bond 8.125% (repayable 2018)	–	–	297.1
Bond 6.125% (repayable 2019)	–	–	305.4
Bond 8.75% (repayable 2021)	366.6	347.6	347.4
Bond 5.25% (repayable 2022)	320.0	319.6	319.1
Bond 6.875% (repayable 2024)	199.5	199.5	199.5
	<b>901.6</b>	912.3	1,557.4

<b>Total non-current liabilities at amortised cost</b>	<b>1,805.7</b>	1,823.9	2,317.4
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### Fair value of bonds and senior unsecured loan notes issued

	Par value £m	Interest payable	Month	2015 Fair value £m	2014 Fair value £m	2013 Fair value £m
Bond 6.875% (repayable 2013)	300.0	Annually	April	–	–	320.3
Bond 8.125% (repayable 2018)	300.0	Annually	September	368.3	369.9	374.5
Bond 6.125% (repayable 2019)	250.0	Annually	January	284.0	277.6	277.6
Bond 8.75% (repayable 2021)	350.0	Annually	April	484.8	469.4	473.9
Bond 5.25% (repayable 2022)	325.0	Annually	November	372.8	349.4	346.6
Bond 6.875% (repayable 2024)	200.0	Annually	September	257.7	241.3	238.0
	\$m					
Senior unsecured loan notes	150.0	Semi-annually	April & October	108.8	100.6	110.2

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.

# Notes to the consolidated financial statements

## continued

### 20 Financial liabilities – borrowings continued

#### Effective interest rates

The effective interest rates at the balance sheet dates were as follows:

	2015	2014	2013
Bank overdraft	<b>LIBOR + 1%</b>	LIBOR + 1%	LIBOR + 1%
Bank borrowings	<b>LIBOR + 0.7%</b>	LIBOR + 1%	LIBOR + 1.5% to 1.75%
Bond 2013	–	–	7.10%
Bond 2018	<b>8.32%</b>	8.32%	8.32%
Bond 2019	<b>6.18%</b>	6.18%	6.18%
Bond 2021	<b>8.87%</b>	8.87%	8.87%
Bond 2022	<b>5.49%</b>	5.49%	5.49%
Bond 2024	<b>6.95%</b>	6.95%	6.95%
Senior unsecured loan notes	<b>4.39%</b>	4.39%	4.39%
HP contracts and finance leases	<b>LIBOR + 0.6% up to average fixed rate of 4.0%</b>	LIBOR + 0.6% up to average fixed rate of 4.0%	LIBOR + 0.6% up to average fixed rate of 4.0%
Loan notes	<b>LIBOR – 0.5% up to total fixed rate of 11.0%</b>	LIBOR – 0.5% up to total fixed rate of 11.0%	LIBOR – 0.5% up to total fixed rate of 11.0%
<b>Carrying amount of gross borrowings by currency</b>			
	<b>2015 £m</b>	<b>2014 £m</b>	<b>2013 £m</b>
Sterling	<b>1,577.6</b>	1,568.4	1,965.6
Euro	–	–	11.8
US Dollar	<b>351.1</b>	361.6	745.1
Canadian Dollar	<b>13.0</b>	21.7	36.2
	<b>1,941.7</b>	1,951.7	2,758.7
<b>Currency swaps</b>			
US Dollar	–	–	450.0
Sterling	–	–	(450.0)
	<b>1,941.7</b>	1,951.7	2,758.7

#### Borrowing facilities

The Group had £800.0m (2014: £796.2m; 2013: £821.6m) of undrawn committed borrowing facilities as at 31 March 2015. Total bank borrowing facilities at 31 March 2015 stood at £815.4m (2014: £856.1m; 2013: £1,302.9m) of which £800.0m (2014: £826.3m; 2013: £1,259.4m) was committed and £15.4m (2014: £29.8m; 2013: £43.5m) was uncommitted.

#### Capital management

Overall the Group's objective is to achieve a post-tax return on capital employed (ROCE) in the range of 10% to 12% in the medium term. We also aim to maintain an investment grade credit rating and appropriate balance sheet liquidity headroom. The Group has net debt:EBITDA of 2.25 times as at March 2015 (2014: 2.25 times) and is targeting net debt:EBITDA of 2.0 times in the medium term.

ROCE is calculated by dividing adjusted operating profit after tax by net assets, excluding debt items.

Liquidity within the Group has remained strong. At 31 March 2015 there was £1,023.8m (2014: £988.5m) 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 £250m of committed headroom at all times.

The Group's net debt, excluding accrued bond interest at 31 March 2015, was £1,407.3m (2014: £1,303.8m) as set out on page 54 of the Operating and financial review.

## 21 HP contracts and finance leases

The Group had the following obligations under HP contracts and finance leases as at the balance sheet dates:

	2015 Minimum payments £m	2015 Present value of payments £m	2014 Minimum payments £m	2014 Present value of payments £m	2013 Minimum payments £m	2013 Present value of payments £m
Due in less than one year	79.2	77.0	70.9	68.9	64.5	62.7
Due in more than one year but not more than two years	73.3	69.4	74.6	70.4	66.9	63.3
Due in more than two years but not more than five years	157.1	140.3	178.9	159.7	226.9	203.3
Due in more than five years	18.7	15.5	55.0	45.6	107.3	88.9
	<b>328.3</b>	<b>302.2</b>	379.4	344.6	465.6	418.2
Less future financing charges	(26.1)	–	(34.8)	–	(47.4)	–
	<b>302.2</b>	<b>302.2</b>	344.6	344.6	418.2	418.2

### HP lease obligations

#### Sterling denominated fixed rate leases

	2015	2014	2013
Sterling fixed rate leases	£13.0m	£17.8m	£21.0m
Average remaining lives	3 years	3 years	3 years
Effective borrowing rate	3.49%	3.06%	3.06%

#### US Dollar denominated fixed rate leases

	2015	2014	2013
US Dollar fixed rate leases	£250.5m	£271.7m	£288.7m
Average remaining lives	3 years	3 years	4 years
Effective borrowing rate	2.88%	2.89%	2.93%

#### Canadian Dollar denominated fixed rate leases

	2015	2014	2013
Canadian Dollar fixed rate leases	£13.0m	£21.7m	£20.7m
Average remaining lives	3 years	3 years	4 years
Effective borrowing rate	4.00%	3.92%	3.98%

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 £255.6m (2014: £277.7m; 2013: £304.1m). The fair value is calculated by discounting future cash flows that will arise under the lease agreements.

## 22 Loan notes

The Group had the following loan notes issued as at the balance sheet dates:

	2015 £m	2014 £m	2013 £m
Due in more than one year but not more than two years	9.7	9.7	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 (2014: £8.7m; 2013: £8.7m) are supported by unsecured bank guarantees.

The loan notes have an average effective borrowing rate of 10.1% (2014: 10.1%; 2013: 10.1%) and an average remaining term of 5 years (2014: 6 years; 2013: 7 years) assuming that the holders do not request redemption. The fair value of the loan notes has been determined to be £13.4m (2014: £13.6m; 2013: £15.0m). This has been calculated by discounting future cash flows that will arise under the loan notes.

# Notes to the consolidated financial statements

## continued

### 23 Derivative financial instruments

	2015 £m	2014 £m	2013 £m
<b>Total derivatives</b>			
Total non-current assets	45.3	25.9	63.3
Total current assets	15.5	26.0	23.3
<b>Total assets</b>	<b>60.8</b>	51.9	86.6
Total current liabilities	74.5	17.7	64.7
Total non-current liabilities	22.6	9.2	21.7
<b>Total liabilities</b>	<b>97.1</b>	26.9	86.4

#### Derivatives designated and effective as hedging instruments carried at fair value

##### Non-current assets

Cross currency swaps (net investment hedge)	–	–	15.2
Coupon swaps (fair value hedge)	45.3	24.1	45.7
Fuel derivatives (cash flow hedge)	–	1.8	2.4
	<b>45.3</b>	25.9	63.3

##### Current assets

Cross currency swaps (net investment hedge)	–	–	3.6
Coupon swaps (fair value hedge)	15.5	11.1	13.2
Fuel derivatives (cash flow hedge)	–	6.4	6.5
	<b>15.5</b>	17.5	23.3

##### Current liabilities

Interest rate derivatives (cash flow hedge)	–	–	8.1
Cross currency swaps (net investment hedge)	–	–	47.6
Fuel derivatives (cash flow hedge)	66.9	5.1	4.8
	<b>66.9</b>	5.1	60.5

##### Non-current liabilities

Interest rate derivatives (cash flow hedge)	–	–	11.8
Fuel derivatives (cash flow hedge)	21.4	1.3	0.8
	<b>21.4</b>	1.3	12.6

#### Derivatives classified as held for trading

##### Current assets

Interest rate swaps	–	8.5	–
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##### Current liabilities

Interest rate swaps	7.6	12.6	4.2
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##### Non-current liabilities

Interest rate swaps	1.2	7.9	9.1
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Total cash flow hedges are a liability of £88.3m (2014: £1.8m asset; 2013: £16.6m liability). Total fair value hedges are an asset of £60.8m (2014: £35.2m; 2013: £58.9m).

During the year £88.6m was charged to the hedging reserve in respect of cash flow hedges (2014: £0.2m credit; 2013: £7.7m charge).

Gains/(losses) transferred from equity into profit or loss during the year are included in the following line items in the consolidated income statement:

	2015 £m	2014 £m
Finance cost	–	(19.8)
Operating costs	1.3	1.7
	<b>1.3</b>	(18.1)



## 23 Derivative financial instruments continued

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

	2015				2014
				Fair value	
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value Total £m
<b>Financial assets</b>					
Cash and cash equivalents	420.5	–	–	420.5	420.5
Derivative financial instruments	–	60.8	–	60.8	60.8
<b>Financial liabilities and derivatives</b>					
Financial liabilities	–	2,197.1	–	2,197.1	1,941.7
Derivative financial instruments	–	97.1	–	97.1	97.1
	2014				2013
				Fair value	
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value Total £m
<b>Financial assets</b>					
Cash and cash equivalents	553.9	–	–	553.9	553.9
Derivative financial instruments	–	51.9	–	51.9	51.9
<b>Financial liabilities and derivatives</b>					
Financial liabilities	–	2,172.4	–	2,172.4	1,951.7
Derivative financial instruments	–	26.9	–	26.9	26.9

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 2015 £m	Fair values at 31 March 2014 £m	Fair value hierarchy	Valuation technique(s) and key inputs
<b>Derivative contracts</b>				
1) Interest rate swaps	52.0	23.2	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	(88.3)	1.8	Level 2	Discounted cash flow; future cash flows are estimated based on forward fuel prices and contract rates and then discounted at a rate that reflects the credit risk of the various counterparties.

## Notes to the consolidated financial statements

### continued

#### 23 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:

	2015 £m	2014 £m
Gains/(losses) on hedging instruments in fair value hedges	19.1	(21.5)
(Losses)/gains on hedged item attributable to hedged risk fair value hedges	(19.2)	20.9
Change in the fair value of derivatives classified as held for trading	(0.2)	(16.4)
Hedge ineffectiveness on net investment hedges	–	(0.6)
	(0.3)	(17.6)

#### 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 Group Finance Director.

#### 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 £250m 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 31 March 2015, the total amount of these facilities stood at £800.0m (2014: £826.3m; 2013: £1,259.4m), and committed headroom was £800.0m (2014: £796.2m; 2013: £821.6m), in addition to free cash balances of £223.8m (2014: £192.3m; 2013: £393.9m). The next material contractual expiry of revolver bank facilities is in June 2019. 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 2015 was 5.2 years (2014: 6.1 years; 2013: 5.4 years).

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments. The amounts in these tables are different to the balance sheet as the table is prepared on an undiscounted cash flow basis.

	2015				
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	7.6	1.2	–	–	8.8
Coupon swaps	(21.9)	(23.1)	(53.8)	(15.5)	(114.3)
Coupon swaps	6.4	7.6	29.3	7.8	51.1
Fuel derivatives	66.9	20.4	1.0	–	88.3
	59.0	6.1	(23.5)	(7.7)	33.9

	2014				
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	4.2	7.3	1.1	–	12.6
Coupon swaps	(15.3)	(15.3)	(45.9)	–	(76.5)
Coupon swaps	4.1	5.1	29.3	–	38.5
Fuel derivatives	(1.3)	(0.5)	–	–	(1.8)
	(8.3)	(3.4)	(15.5)	–	(27.2)

## 23 Derivative financial instruments continued

					2013
	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Interest rate derivatives	12.3	11.6	9.5	–	33.4
Coupon swaps	(15.3)	(15.3)	(45.9)	(15.3)	(91.8)
Coupon swaps	2.1	4.1	18.9	6.3	31.4
Cross currency swaps	(337.5)	(163.1)	–	–	(500.6)
Cross currency swaps	381.5	147.8	–	–	529.3
Fuel derivatives	(1.7)	(1.6)	–	–	(3.3)
	41.4	(16.5)	(17.5)	(9.0)	(1.6)

Total amounts payable per the tables are £148.2m (2014: £51.1m; 2013: £594.1m). Total amounts receivable per the tables are £114.3m (2014: £78.3m; 2013: £595.7m). For all years above the tables include the settlement of principal amounts at the end of the term of the cross currency swaps.

No derivative financial instruments had collateral requirements or were due on demand in any of the years.

### 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.

Group treasury policy aims to protect EPS from currency movements. US Dollar earnings arising in the US are mitigated by US Dollar denominated costs incurred in the UK, principally UK fuel costs, US Dollar interest costs and US Dollar tax costs. Cash flow exposures are not material.

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.

	2015 £m	2014 £m	2013 £m
Impact on profit after tax	12.0	10.9	11.8
Impact on hedging reserve	5.7	(0.1)	2.7

### 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 average of 75% 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 2015, 85% (2014: 100%; 2013: 100%) of net debt was fixed. This fixed rate protection had an average duration of 5.3 years (2014: 6.3 years; 2013: 5.5 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.

	2015 £m	2014 £m	2013 £m
Impact on profit after tax	0.3	2.6	1.5
Impact on hedging reserve	–	–	6.9

# Notes to the consolidated financial statements

## continued

### 23 Derivative financial instruments continued

#### 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 monthly, 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/(liability)		
	2015 %	2014 %	2013 %	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
<b>Cash flow hedges</b>									
Less than one year	–	–	2.38	–	–	155	–	–	(15.9)
One to two years	–	–	2.70	–	–	507	–	–	(11.2)
Two to five years	–	–	3.03	–	–	263	–	–	(6.2)
<b>Fair value hedges</b>									
Two to five years	<b>6.13</b>	6.13	–	<b>250</b>	250	–	<b>36.1</b>	35.0	–
More than five years	<b>2.21</b>	–	6.13	<b>350</b>	–	250	<b>18.0</b>	–	55.9

#### Fuel price risk

The Group purchases diesel fuel on a floating price basis in its UK Bus, UK 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 2015, the Group was hedged 88% on fuel price risk.

The Group has also entered into swaps for periods from April 2015 to March 2017 with the majority of these swaps relating to the year to 31 March 2016. 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:

	2015 £m	2014 £m	2013 £m
Impact on profit after tax	<b>(2.0)</b>	(2.6)	(3.2)
Impact on hedging reserve	<b>17.6</b>	19.7	16.8

Volume at risk for the year to 31 March 2016 is 3.5m (year to 31 March 2015: 3.7m) barrels for which 68% is hedged to diesel price risk.

## 24 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 2013	175.5	(78.1)	80.0	(168.4)	9.0
(Credit)/charge to income	(28.1)	2.1	43.3	(28.3)	(11.0)
Charge/(credit) to other comprehensive income	–	(3.0)	3.9	–	0.9
Foreign exchange movements	(11.0)	6.8	(11.4)	17.9	2.3
At 31 March 2014	136.4	(72.2)	115.8	(178.8)	1.2
Charge/(credit) to income	13.9	3.5	(18.9)	4.1	2.6
(Credit)/charge to other comprehensive income	–	6.7	(26.6)	–	(19.9)
Charge direct to equity	–	–	0.1	–	0.1
Acquisition of business/subsidiary	–	–	(0.9)	–	(0.9)
Foreign exchange movements	12.4	(5.4)	11.1	(21.0)	(2.9)
<b>At 31 March 2015</b>	<b>162.7</b>	<b>(67.4)</b>	<b>80.6</b>	<b>(195.7)</b>	<b>(19.8)</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 £m	2014 £m	2013 £m
Deferred tax assets	<b>(60.5)</b>	(35.8)	(53.2)
Deferred tax liabilities	<b>40.7</b>	37.0	62.2
	<b>(19.8)</b>	1.2	9.0

Deferred tax assets of £36.7m (2014: £36.1m) have not been recognised as it is not considered probable that there will be future profits against which these assets can be offset. 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 £nil (2014: £nil; 2013: £4m) of capital losses.

# Notes to the consolidated financial statements

## continued

### 25 Provisions

	2015 £m	2014 £m	2013 £m
Insurance claims	205.5	191.6	216.2
Legal and other	28.1	29.6	40.8
Pensions	3.1	3.4	3.9
Non-current liabilities	236.7	224.6	260.9

	Insurance claims £m	Legal and other £m	FGW contract provision £m	Pensions £m	Total £m
At 1 April 2014	294.8	39.9	–	3.4	338.1
Charged to the income statement	142.5	14.8	–	–	157.3
Utilised in the year	(163.7)	(6.2)	–	(0.3)	(170.2)
Notional interest	15.2	–	–	–	15.2
Foreign exchange movements	27.4	0.9	–	–	28.3
<b>At 31 March 2015</b>	<b>316.2</b>	<b>49.4</b>	<b>–</b>	<b>3.1</b>	<b>368.7</b>

<b>Current liabilities</b>	<b>110.7</b>	<b>21.3</b>	<b>–</b>	<b>–</b>	<b>132.0</b>
<b>Non-current liabilities</b>	<b>205.5</b>	<b>28.1</b>	<b>–</b>	<b>3.1</b>	<b>236.7</b>
<b>At 31 March 2015</b>	<b>316.2</b>	<b>49.4</b>	<b>–</b>	<b>3.1</b>	<b>368.7</b>

Current liabilities	103.2	10.3	–	–	113.5
Non-current liabilities	191.6	29.6	–	3.4	224.6
At 31 March 2014	294.8	39.9	–	3.4	338.1

Current liabilities	116.4	10.0	39.9	–	166.3
Non-current liabilities	216.2	40.8	–	3.9	260.9
At 31 March 2013	332.6	50.8	39.9	3.9	427.2

The current liabilities above are included within accruals in note 18.

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 £19.0m (2014: £17.7m; 2013: £20.0m) can extend for up to 30 years. The utilisation of £163.7m (2014: £176.1m; 2013: £173.1m) represents payments made largely against the current liability of the preceding year.

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.

The pension's provision relates to unfunded obligations that arose on the acquisition of certain UK Bus companies. It is anticipated that this will be utilised over five to 10 years.

### 26 Called up share capital

	2015 £m	2014 £m	2013 £m
<b>Allotted, called up and fully paid</b>			
482.1m ordinary shares of 5p each	24.1	24.1	24.1
722.8m new ordinary shares of 5p each issued	36.1	36.1	–
1,204.9m ordinary shares of 5p each	60.2	60.2	24.1

The Company has one class of ordinary shares which carries no right to fixed income.



## 27 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:

	2015 £m	2014 £m	2013 £m
Balance at 1 April	7.8	(32.6)	12.5
Gains/(losses) recognised:			
Interest rate swaps	–	–	(6.3)
Cross currency swaps	–	26.0	(25.9)
Fuel derivatives	(88.6)	0.2	(1.4)
Charged/(credited) to income statement:			
Interest rate swaps	–	19.8	7.1
Fuel derivatives	(1.3)	(1.7)	(26.2)
Tax on derivative hedging instrument movements	26.6	(3.9)	7.6
Balance at 31 March	(55.5)	7.8	(32.6)

### Own shares

The number of own shares held by the Group at the end of the year was 1,252,757 (2014: 769,374; 2013: 283,374) FirstGroup plc ordinary shares of 5p each. Of these, 1,063,008 (2014: 577,124; 2013: 90,075) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2014: 32,520; 2013: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2014: 159,730; 2013: 160,779) 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 2015 was £1.1m (2014: £1.1m; 2013: £0.6m).

	Capital redemption reserve £m	Capital reserve £m	Total other reserves £m
At 31 March 2015, 31 March 2014 and 31 March 2013	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 2015. 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.

## 28 Translation reserve

	£m
Balance at 1 April 2013	248.9
Movement for the financial year	(231.1)
At 31 March 2014	17.8
Movement for the financial year	223.9
<b>At 31 March 2015</b>	<b>241.7</b>

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.

# Notes to the consolidated financial statements

## continued

### 29 Acquisition and disposal of businesses and subsidiary undertakings

Acquisitions of businesses and subsidiary undertakings	2015 £m	2014 £m	2013 £m
Fair value of net assets acquired:			
Property, plant and equipment	7.8	–	–
Other intangible assets	15.8	–	–
Deferred tax	0.9	–	–
Other liabilities	(2.3)	–	–
Non-controlling interests	(11.7)	–	–
	10.5	–	–
Goodwill (note 11)	1.7	–	–
Satisfied by cash paid and payable	12.2	–	–

On 25 August 2014, the Group completed the acquisition of a 51% share in Miles Square Transportation, Inc, a school bus transportation company based in New York. The £12.2m consideration represents £11.0m cash paid in the year and £1.2m of deferred consideration.

Included within the purchase agreement is a put option for the Group to purchase the remaining 49% from the non-controlling interest party for a fixed price of US\$19.1m. As the put option is a contract to purchase the Group's own equity instruments it gives rise to a financial liability for the fixed price amount in accordance with paragraph 23 in IAS 32. We have recognised the financial liability in the balance sheet and the initial recognition is treated as reclassified from equity.

The business acquired during the year contributed £6.4m (2014: £nil; 2013: £nil) to the Group's net operating cash flows and utilised £11.0m (2014: £nil; 2013: £nil) for capital expenditure.

The business acquired during the year contributed £12.1m (2014: £nil; 2013: £nil) to Group revenue and £3.5m (2014: £nil; 2013: £nil) to Group operating profit from date of acquisition to 31 March 2015.

If the acquisition of the business acquired during the year had been completed on the first day of the financial year, Group revenue from this acquisition for the period would have been £16.6m (2014: £nil; 2013: £nil) and the Group operating profit from this acquisition attributable to equity holders of the parent would have been £3.8m (2014: £nil; 2013: £nil).

Disposal of businesses and subsidiary undertakings	2015 £m	2014 £m	2013 £m
Carrying value of net assets disposed of:			
Goodwill <sup>1</sup>	–	7.7	6.5
Property, plant and equipment	–	41.2	17.4
Current assets	–	1.9	7.9
Cash and cash equivalents	–	–	1.8
Other liabilities	–	(0.1)	(1.6)
	–	50.7	32.0
Redundancy and other	–	9.6	–
Professional fees	–	2.3	1.5
Gain/(loss) on disposal	–	16.5	(8.8)
Satisfied by cash received and receivable	–	79.1	24.7

<sup>1</sup> Goodwill disposed of during 2013 per note 11 includes £5.0m in relation to the exit of the Diego Garcia contract. This goodwill was impaired in full in the year to 31 March 2011.

On 22 June 2013, the Group completed the disposal of eight London bus depots. The £79.1m consideration represents £76.3m cash received in the year to 31 March 2014 and £2.8m of deferred consideration.

On 8 March 2013, the Group disposed of the First Shared Services business, which provides military base operations support and facility management services for sale proceeds of US\$10.2m. In addition, during the year to 31 March 2013 the Group disposed of Bus depots in Wigan, Chester/Birkenhead and Redditch/Kidderminster for total sale proceeds of £18m.

### 30 Net cash from operating activities

	2015 £m	2014 £m
Operating profit	245.8	232.2
Adjustments for:		
Depreciation charges	353.3	344.2
Capital grant amortisation	(32.5)	(32.4)
Amortisation charges	54.3	53.4
Gain on disposal of businesses and subsidiary undertakings	–	(16.5)
Impairment charges	8.7	–
Share-based payments	5.2	4.6
(Profit)/loss on disposal of property, plant and equipment	(27.9)	3.2
Operating cash flows before working capital	606.9	588.7
Decrease in inventories	4.5	4.8
Increase in receivables	(7.5)	(60.0)
Decrease in payables	(113.0)	(18.2)
Decrease in provisions	(27.2)	(36.1)
Defined benefit pension payments in excess of income statement charge	(12.3)	(27.7)
Cash generated by operations	451.4	451.5
Tax paid	(4.5)	(8.2)
Interest paid	(112.2)	(138.1)
Interest element of HP contracts and finance leases	(9.5)	(12.9)
<b>Net cash from operating activities</b>	<b>325.2</b>	<b>292.3</b>

### 31 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £489.2m (2014: £504.8m; 2013: £566.2m) and letters of credit for £304.4m (2014: £303.3m; 2013: £321.7m). The performance bonds relate to the North American businesses of £421.1m (2014: £337.8m; 2013: £354.7m) and the UK Rail franchise operations of £68.1m (2014: £167.0m; 2013: £211.5m). 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. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders, certain bilateral bank facilities for £nil (2014: £75.0m; 2013: £436.9m) and to senior unsecured loan notes for £100.6m (2014: £89.9m; 2013: £98.3m). In previous years unsecured guarantees were also provided to lenders participating in the Group's syndicated unsecured bank facilities.

The Group has issued guarantees of £4.0m (2014: £4.0m; 2013: £7.0m) to the Danish and Swedish authorities in respect of DSBFirst. These guarantees relate to the operational performance of the Danish rail activities and certain train maintenance activities in Sweden.

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 UK Rail has ongoing contractual negotiations with government and other organisations.

## Notes to the consolidated financial statements

### continued

#### 32 Operating lease arrangements

	2015 £m	2014 £m	2013 £m
Minimum lease payments made under operating leases recognised in the income statement for the year:			
Plant and machinery	16.7	10.0	21.9
Track and station access	267.1	624.4	525.5
Hire of rolling stock	170.2	200.4	200.0
Other assets	35.5	53.5	68.6
	489.5	888.3	816.0

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:

	2015 £m	2014 £m	2013 £m
Within one year	253.2	497.1	866.2
In the second to fifth years inclusive	816.2	194.2	557.8
After five years	107.5	109.1	131.0
	1,176.9	800.4	1,555.0

Included in the above commitments are contracts held by the UK Rail businesses with Network Rail for access to the railway infrastructure track, stations and depots of £146.1m (2014: £293.4m; 2013: £957.9m). They also have contracts under which they lease rolling stock of £730.4m (2014: £202.3m; 2013: £245.1m).

#### 33 Share-based payments

##### Equity-settled share option plans

The Group recognised total expenses of £5.2m (2014: £4.6m) 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 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number	SAYE Dec 2014 Options Number
Outstanding at the beginning of the year	2,176,392	2,508,759	3,099,150	7,360,136	–
Awarded during the year	–	–	–	–	7,493,154
Exercised during the year	–	–	(4,598)	(43,981)	–
Lapsed during the year	(2,176,392)	(521,026)	(625,076)	(1,306,802)	(63,309)
Outstanding at the end of the year	–	1,987,733	2,469,476	6,009,353	7,429,845
Exercisable at the end of the year	–	1,987,733	–	–	–
Weighted average exercise price (pence)	260.1	221.4	117.3	94.1	97.0
Weighted average share price at date of exercise (pence)	N/A	N/A	122.5	105.9	N/A

##### (b) Executive share option scheme (ESOS)

Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met.

	ESOS 2004 Options Number
Outstanding at the beginning of the year	312,044
Lapsed during the year	(312,044)
Outstanding at the end of the year	–
Exercisable at the end of the year	–

### 33 Share-based payments continued

#### (c) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number
Outstanding at the beginning of the year	7,345	34,922	103,230	188,000	86,481
Exercised during the year	–	(5,450)	(28,514)	(20,667)	(8,830)
Lapsed during the year	(7,345)	–	–	–	–
Outstanding at the end of the year	–	29,472	74,716	167,333	77,651
Exercisable at the end of the year	–	29,472	74,716	167,333	77,651
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	N/A	101.4	134.4	129.3	134.8

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number	DBS 2014 Options Number
Outstanding at the beginning of the year	85,129	218,448	562,104	1,025,209	2,030,756	–
Granted during the year	–	–	–	–	–	2,239,418
Forfeited during the year	(1,571)	–	–	(7,321)	(18,060)	(11,879)
Exercised during the year	(15,411)	(44,459)	(338,674)	(53,133)	(36,675)	(23,023)
Outstanding at the end of the year	68,147	173,989	223,430	964,755	1,976,021	2,204,516
Exercisable at the end of the year	68,147	173,989	223,430	–	–	–
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	132.3	121.5	131.5	119.2	120.5	114.7

#### (d) 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 2015 there were 7,338 (2014: 7,903; 2013: 8,306) participants in the BAYE scheme who have cumulatively purchased 11,916,378 (2014: 9,201,084; 2013: 6,159,479) shares with the Company contributing 3,931,908 (2014: 2,998,927; 2013: 1,936,789) matching shares on a cumulative basis.

#### (e) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March from year of award with 50% of the award being dependent upon adjusted EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to a comparator group.

	LTIP 2011 Options Number	LTIP 2012 Options Number	LTIP 2013 Options Number	LTIP 2014 Options Number
Outstanding at the beginning of the year	4,833,223	6,508,137	12,562,325	–
Granted during the year	–	–	–	11,743,628
Forfeited during the year	–	(186,832)	(913,001)	(691,754)
Lapsed during the year	(4,833,223)	–	–	–
Outstanding at the end of the year	–	6,321,305	11,649,324	11,051,874
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

## Notes to the consolidated financial statements

### continued

#### 33 Share-based payments continued

##### (f) Tim O'Toole retention award

	2013 Number	2014 Number	2015 Number	Award price (pence)
Outstanding at the beginning of the year	214,826	214,826	–	Nil
Bonus element of rights issue	–	48,664	–	–
Exercised during the year	–	(263,490)	–	–
Outstanding at the end of the year	214,826	–	–	

These options vested on 1 November 2013. There were no performance conditions attaching to these options.

The fair values of the options granted during the last two years were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2015	2014
<b>Weighted average share price at grant date (pence)</b>		
– DBS	<b>139.6</b>	127.4
– SAYE December 2013	<b>–</b>	116.0
– SAYE December 2014	<b>108.9</b>	–
– LTIP	<b>129.1</b>	119.0
<b>Weighted average exercise price at grant date (pence)</b>		
– DBS	<b>–</b>	–
– SAYE December 2013	<b>–</b>	94.1
– SAYE December 2014	<b>97.0</b>	–
– LTIP	<b>–</b>	–
<b>Expected volatility (%)</b>		
– DBS	<b>N/A</b>	N/A
– SAYE December 2013	<b>–</b>	35
– SAYE December 2014	<b>35</b>	–
– LTIP	<b>45</b>	48
<b>Expected life (years)</b>		
– DBS	<b>3</b>	3
– SAYE schemes	<b>3</b>	3
– LTIP	<b>3</b>	3
<b>Rate of interest (%)</b>		
– DBS	<b>N/A</b>	N/A
– SAYE December 2013	<b>–</b>	1.0
– SAYE December 2014	<b>0.9</b>	–
– LTIP	<b>1.2</b>	0.6
<b>Expected dividend yield (%)</b>		
– DBS	<b>0</b>	0
– SAYE December 2013	<b>–</b>	0
– SAYE December 2014	<b>0</b>	–
– LTIP	<b>0</b>	0

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.



### 33 Share-based payments continued

The Group used the inputs noted on page 148 to measure the fair value of the new share options.

	2015 pence	2014 pence
<b>Weighted average fair value of options at grant date</b>		
– DBS	<b>139.6</b>	127.4
– SAYE December 2013	–	39.5
– SAYE December 2014	<b>39.0</b>	–
– LTIP	<b>104.7</b>	81.9

### 34 Retirement benefit schemes

#### Defined contribution plans

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.

#### UK

The Group operates defined contribution retirement benefit plans for all Group and UK Bus division employees who have joined a pension arrangement from January 2011 and April 2013, respectively. They will receive a Company match to their contributions, which varies by salary level.

#### North America

Employees in the US have been able to join a defined contribution arrangement for many years. They will receive a Company match to their contributions, which varies by employment status. The Company match is 50% of member contributions, to a Company maximum of 3% for full-time employees and \$250 per annum for part-time employees.

All new employees in Canada join a defined contribution arrangement. Union employees join the Eastern or Western plan, dependent upon their geographical location, whilst managers and supervisors join the Supervisory plan, for non-union employees. Members of the Western and Supervisory plans can contribute 2%, 3%, 4% or 5%, and receive a 50% Company match. Members of the Eastern plan may contribute 2%, 3% or 4%, and receive a 100% Company match.

The total expense recognised in the consolidated income statement of £23.0m (2014: £19.6m) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

#### Defined benefit plans

The Group sponsors 16 funded defined benefit plans across its operations, covering approximately 70,000 former and current employees.

#### UK

The majority of defined benefit provision is through Trust-based schemes. With the exception of the Railways Pension Schemes (RPS), these arrangements are now closed to new entrants. In these arrangements the assets of the schemes are invested separately from those of the Group, and the schemes are run by independent Trustee boards. The Trustee board of the pension schemes is required by law, or by their Articles of Association, to act in the best interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, beneficiaries and employers. There is a requirement for the Trustee board to have some member representation with the other Trustees being company appointed.

The Trustee board 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.

Schemes are valued at least triennially, when the cost of future service is calculated and the funding position established. The Company and Trustee board are required to agree on assumptions for the valuation and to agree the contributions that result from this. The contributions may need to incorporate deficit recovery contributions in addition to future service contributions, if a deficit position is determined through the valuation. If a surplus is shown at the valuation, this may be used to reduce 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.

# Notes to the consolidated financial statements

## continued

### 34 Retirement benefit schemes continued

#### *The First UK Bus Pension Scheme*

This predominantly provides pension benefits to employees in the UK Bus division. Historically the scheme provided final salary benefits and career average benefits. However, with effect from April 2012, the scheme only provides career average benefits with a retirement age linked to State Pension age and a cap on the pensionable pay on which defined benefits can be built.

Following negotiations with recognised Trades Unions, changes were made to the benefit provisions from April 2015, which included:

- Reducing the cap on defined benefit pensionable pay to £21,580 (2014-2015: £30,660) and removing indexation on the cap.
- Revising the split of the cost of future service so that the employer meets 50% of the cost and the employees 50%. Caps and collars on the level of employee contributions that previously existed have been removed to achieve this.
- Introducing an annual test, commencing April 2017, such that if agreed funding levels are not achieved, the scheme will close to defined benefit accrual 12 months later.

In addition there is a smaller Group scheme which provided defined benefit pensions to Group employees and executives. This closed to new entrants in 2011.

#### *The Railways Pension Scheme*

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.

Under this scheme members build a 1/60th pension and 1/40th lump sum based upon their pensionable pay. Some members of the RPS are subject to Protected Persons legislation, which requires individual consent to changes to benefits, and certain rights upon transfer between sections of the scheme.

The RPS is a shared cost arrangement. All costs, and any deficit or surplus is shared 60% by the employer and 40% by the members. Furthermore, under the franchising obligations, the responsibility of the employer is to pay the contributions requested of 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.

In calculating the Group's pension obligations in respect of the RPS the Group has calculated the total pension deficits in each of the RPS sections in accordance with IAS 19. These deficits are reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Group will not be required to fund. The franchise adjustment, which has been calculated by the Group's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flows of the Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the Group and recognised in the accounts. Hull Trains is not subject to franchising obligations, and as such it is accounted for under IAS 19 as a defined benefit scheme, although subject to the same cost sharing obligations as for the franchised sections.

During the year, the Group's participation in the Capital Connect section of the RPS ceased. The assets and liabilities of £277.4m and £390.8m respectively were transferred to the new franchise operator on 13 September 2014. The assets and liabilities in respect of the Scotrail franchise are included within the pension disclosures at the Balance Sheet date and amount to £525.1m and £724.2m respectively. These passed across to the new franchise operator on 1 April 2015.

#### *Local Government Pension Schemes*

The Group participates in five Local Government Pension Schemes (LGPS), three in England and two in Scotland. These differ from Trust-based schemes in that their benefits are prescribed by legislation, and they are administered by local authorities, and pension committees consisting of local councillors. Typically the Group has less control over the investment strategy adopted by the LGPS compared to the UK Trust-based schemes.

Historically benefit accrual in these schemes has been based on final salary. The benefit structure changed to a 1/47th career average benefit in England in April 2014 and in Scotland in April 2015. Normal pension age will be aligned with State Pension Age from that time. Some members have a right to receive some of their benefits on an unreduced basis, conditional on age and service.

As with the Trust-based schemes, valuations take place at least triennially. Generally contribution rates are agreed for the three year period until the next valuation. Whilst these are balance of cost schemes, at termination there is no right for the Company to receive any surplus in the schemes, although there is an obligation on the Company to fully fund the benefits. To reflect this, the Group only recognise 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. These are legacy arrangements with benefit accrual having ceased some years ago. The schemes are valued annually, when the funding position and minimum and maximum contributions are established.

Changes in funding position create new surplus or deficit each year, which is normally spread over seven years, as required by legislation. However, funding relief passed by Congress in 2010, 2012 and again in 2014, has allowed greater flexibility following the global financial crisis. The most recent funding relief, passed in 2012 and extended in 2014, has the effect of increasing the funding discount rate, which acts to lower liabilities, deficits and contributions. This effect will reduce over time.

##### Greyhound Canada

There are three plans, relating to Eastern, Western and Supervisory employees. All these plans are now closed to new members, although benefit accrual continues for existing members. Very small executive arrangements also exist.

The plans are valued annually, where the cost of future service and the funding position are identified. Future service costs are shared in proportion between the members and the Company, although there are caps on the member rates. Deficit contributions are met entirely by the Company. Cash contributions are required to fund the plans on a 'going concern' basis, whilst the (usually higher) 'solvency' deficit can be made good through a Letter of Credit. There is a cap on the value of the Letter of Credit, which cannot exceed 15% of the value of the assets held in the plan.

At their last triennial valuations, the defined benefit schemes had funding levels between 74.1% and 105.1% (2014: 70.5% and 101.9%; 2013: 61.0% and 101.9%). The market value of the assets at 31 March 2015 for all defined benefit schemes totalled £4,146m (2014: £3,902m; 2013: £3,777m).

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued.

	UK Bus 2015 %	UK Rail 2015 %	North America 2015 %	UK Bus 2014 %	UK Rail 2014 %	North America 2014 %	UK Bus 2013 %	UK Rail 2013 %	North America 2013 %
Key assumptions used:									
Discount rate	<b>3.50</b>	<b>3.50</b>	<b>3.45</b>	4.40	4.40	4.00	4.50	4.50	4.00
Expected rate of salary increases	<b>1.85/2.95</b>	<b>3.45</b>	<b>2.50</b>	2.10/3.15	3.65	2.50	2.15/3.20	3.70	2.50
Inflation – RPI	<b>2.95</b>	<b>2.95</b>	–	3.15	3.15	–	3.20	3.20	–
Inflation – CPI	<b>1.85</b>	<b>1.85</b>	<b>2.00</b>	2.10	2.10	2.00	2.15	2.15	2.00
Future pension increases	<b>1.85/2.85</b>	<b>1.85</b>	–	2.10/3.05	2.10	–	2.05/2.15/3.10	2.15	–

Disclosures on sensitivity of the defined benefit obligation to changes in the relevant actuarial assumptions can be found in the table/notes in the Operating and Financial review on page 54 which forms part of these audited financial statements.

## Notes to the consolidated financial statements

### continued

#### 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 2015	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(25.5)	(61.5)	(7.2)	(94.2)
Interest cost	(3.2)	(11.5)	(6.1)	(20.8)
Interest on franchise adjustment	–	10.7	–	10.7
	<b>(28.7)</b>	<b>(62.3)</b>	<b>(13.3)</b>	<b>(104.3)</b>

Year to 31 March 2014	UK Bus £m	UK Rail £m	North America £m	Total £m
Current service cost	(24.1)	(56.9)	(6.9)	(87.9)
Interest cost	(0.5)	(11.7)	(7.7)	(19.9)
Interest on franchise adjustment	–	11.0	–	11.0
	<b>(24.6)</b>	<b>(57.6)</b>	<b>(14.6)</b>	<b>(96.8)</b>

Net interest comprises:

	2015 £m	2014 £m
Interest cost (table (c))	<b>(160.3)</b>	(161.1)
Interest income on assets (table (d))	<b>142.4</b>	142.9
Interest on irrecoverable surplus (table (i))	<b>(2.9)</b>	(1.7)
	<b>(20.8)</b>	(19.9)

During the year £9.8m (2014: £9.9m) 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:

	2015 £m	2014 £m
UK Bus	<b>333.2</b>	82.8
UK Rail	<b>143.6</b>	70.8
North America	<b>88.0</b>	(6.9)
	<b>564.8</b>	146.7

Reconciliation of the actual return on scheme assets:

	2015 £m	2014 £m
Interest income on assets	<b>142.4</b>	142.9
Employee share of return on assets (UK Rail)	<b>56.5</b>	26.2
Employee share of administration expenses	<b>1.0</b>	2.1
Actuarial gain on assets	<b>335.7</b>	34.1
Currency gain/(loss)	<b>29.2</b>	(58.6)
Actual return on scheme assets	<b>564.8</b>	146.7

### 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:

	UK Bus £m	UK Rail £m	North America £m	Total £m
<b>At 31 March 2015</b>				
Fair value of schemes' assets	<b>2,329.2</b>	<b>1,302.8</b>	<b>513.9</b>	<b>4,145.9</b>
Present value of defined benefit obligations	<b>(2,302.3)</b>	<b>(1,904.3)</b>	<b>(698.7)</b>	<b>(4,905.3)</b>
(Deficit)/surplus before adjustments	<b>26.9</b>	<b>(601.5)</b>	<b>(184.8)</b>	<b>(759.4)</b>
Adjustment for irrecoverable surplus <sup>1</sup> (table (i))	<b>(80.4)</b>	<b>–</b>	<b>–</b>	<b>(80.4)</b>
UK Rail franchise adjustment (table (e)) (60%)	<b>–</b>	<b>359.8</b>	<b>–</b>	<b>359.8</b>
Adjustment for employee share of RPS deficits (40%)	<b>–</b>	<b>240.6</b>	<b>–</b>	<b>240.6</b>
Deficit in schemes	<b>(53.5)</b>	<b>(1.1)</b>	<b>(184.8)</b>	<b>(239.4)</b>
Liability recognised in the balance sheet	<b>(53.5)</b>	<b>(1.1)</b>	<b>(184.8)</b>	<b>(239.4)</b>
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	<b>32.9</b>	<b>–</b>	<b>–</b>	<b>32.9</b>
Non-current liabilities	<b>(86.4)</b>	<b>(1.1)</b>	<b>(184.8)</b>	<b>(272.3)</b>
	<b>(53.5)</b>	<b>(1.1)</b>	<b>(184.8)</b>	<b>(239.4)</b>
<b>At 31 March 2014</b>				
Fair value of schemes' assets	2,033.3	1,405.4	463.1	3,901.8
Present value of defined benefit obligations	(2,062.5)	(1,881.2)	(615.5)	(4,559.2)
Deficit before adjustments	(29.2)	(475.8)	(152.4)	(657.4)
Adjustment for irrecoverable surplus <sup>1</sup> (table (i))	(65.0)	–	–	(65.0)
UK Rail franchise adjustment (table (e)) (60%)	–	271.5	–	271.5
Adjustment for employee share of RPS deficits (40%)	–	190.2	–	190.2
Deficit in schemes	(94.2)	(14.1)	(152.4)	(260.7)
Liability recognised in the balance sheet	(94.2)	(14.1)	(152.4)	(260.7)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	29.9	–	–	29.9
Non-current liabilities	(124.1)	(14.1)	(152.4)	(290.6)
	(94.2)	(14.1)	(152.4)	(260.7)
<b>At 31 March 2013</b>				
Fair value of schemes' assets	1,965.4	1,307.2	504.8	3,777.4
Present value of defined benefit obligations	(1,954.6)	(1,730.0)	(715.0)	(4,399.6)
(Deficit)/surplus before adjustments	10.8	(422.8)	(210.2)	(622.2)
Adjustment for irrecoverable surplus <sup>1</sup>	(35.5)	–	–	(35.5)
UK Rail franchise adjustment (table (e)) (60%)	–	240.8	–	240.8
Adjustment for employee share of RPS deficits (40%)	–	169.1	–	169.1
Deficit in schemes	(24.7)	(12.9)	(210.2)	(247.8)
Liability recognised in the balance sheet	(24.7)	(12.9)	(210.2)	(247.8)
The amount is presented in the consolidated balance sheet as follows:				
Non-current assets	15.4	–	–	15.4
Non-current liabilities	(40.1)	(12.9)	(210.2)	(263.2)
	(24.7)	(12.9)	(210.2)	(247.8)

<sup>1</sup> The irrecoverable surplus represents the amount of the surplus that the Group could not recover through reducing future Company contributions to LGPS.

## Notes to the consolidated financial statements

### continued

#### 34 Retirement benefit schemes continued

##### (c) Defined benefit obligations (DBO)

Movements in the present value of DBO were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2014	2,062.5	1,881.2	615.5	4,559.2
Cessation of franchises (First Capital Connect)	–	(390.8)	–	(390.8)
Current service cost	20.7	60.0	3.7	84.4
Interest cost	89.8	45.3	25.2	160.3
Employee share of change in DBO (not attributable to franchise adjustment)	12.6	182.2	1.1	195.9
Experience (gain)/loss on DBO	(28.8)	13.0	6.4	(9.4)
Loss on change of assumptions (demographic)	20.2	11.6	9.1	40.9
Loss on change of assumptions (financial)	211.9	146.5	45.0	403.4
Benefit payments	(86.6)	(44.7)	(51.3)	(182.6)
Currency loss	–	–	44.0	44.0
<b>At 31 March 2015</b>	<b>2,302.3</b>	<b>1,904.3</b>	<b>698.7</b>	<b>4,905.3</b>
	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2013	1,954.6	1,730.0	715.0	4,399.6
Current service cost	20.0	59.8	4.2	84.0
Interest cost	86.9	47.5	26.7	161.1
Employee share of change in DBO (not attributable to franchise adjustment)	13.6	77.0	1.6	92.2
Experience loss on DBO	36.9	1.6	5.7	44.2
Loss/(gain) on change of assumptions (financial)	22.4	10.6	(3.9)	29.1
Benefit payments	(71.9)	(45.3)	(53.6)	(170.8)
Currency gain	–	–	(80.2)	(80.2)
<b>At 31 March 2014</b>	<b>2,062.5</b>	<b>1,881.2</b>	<b>615.5</b>	<b>4,559.2</b>
	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2012	1,759.1	1,475.6	675.2	3,909.9
Current service cost	19.8	52.8	4.5	77.1
Interest cost	79.9	40.7	28.8	149.4
Employee share of change in DBO (not attributable to franchise adjustment)	17.3	114.4	1.9	133.6
Experience loss/(gain) on DBO	(31.5)	7.2	2.9	(21.4)
Loss on change of assumptions (demographic)	56.9	–	7.0	63.9
Loss on change of assumptions (financial)	135.4	73.8	17.5	226.7
Benefit payments	(78.9)	(34.5)	(54.4)	(167.8)
Settlement gain	(3.4)	–	–	(3.4)
Currency loss	–	–	31.6	31.6
<b>At 31 March 2013</b>	<b>1,954.6</b>	<b>1,730.0</b>	<b>715.0</b>	<b>4,399.6</b>



### 34 Retirement benefit schemes continued

#### (d) Fair value of schemes' assets

Movements in the fair value of schemes' assets were as follows:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2014	2,033.3	1,405.4	463.1	3,901.8
Cessation of franchises (First Capital Connect)	–	(277.4)	–	(277.4)
Interest income on assets	89.5	33.8	19.1	142.4
Company contributions	41.5	48.5	16.5	106.5
Employee contributions	12.6	29.9	1.1	43.6
Employee share of return on assets	–	56.5	–	56.5
Actuarial gain on assets	243.7	52.3	39.7	335.7
Benefit paid from schemes	(86.6)	(44.7)	(51.3)	(182.6)
Employer administration expenses	(4.8)	(1.5)	(3.5)	(9.8)
Currency gain	–	–	29.2	29.2
<b>At 31 March 2015</b>	<b>2,329.2</b>	<b>1,302.8</b>	<b>513.9</b>	<b>4,145.9</b>
	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2013	1,965.4	1,307.2	504.8	3,777.4
Interest income on assets	88.0	35.9	19.0	142.9
Company contributions	47.3	48.3	20.0	115.6
Employee contributions	13.7	29.5	1.7	44.9
Employee share of return on assets	–	26.2	–	26.2
Actuarial gain/(loss) on assets	(5.2)	6.7	32.6	34.1
Benefit paid from schemes	(71.9)	(45.3)	(53.6)	(170.8)
Employer administration expenses	(4.0)	(3.1)	(2.8)	(9.9)
Currency loss	–	–	(58.6)	(58.6)
At 31 March 2014	2,033.3	1,405.4	463.1	3,901.8
	UK Bus £m	UK Rail £m	North America £m	Total £m
At 1 April 2012	1,761.4	1,175.9	460.0	3,397.3
Interest income on assets	81.7	33.2	18.0	132.9
Company contributions	49.0	42.4	28.5	119.9
Employee contributions	17.3	25.7	1.9	44.9
Employee share of return on assets	–	39.1	–	39.1
Actuarial gain on assets	144.3	28.3	29.5	202.1
Benefit paid from schemes	(78.9)	(34.5)	(54.3)	(167.7)
Settlement payment	(4.2)	–	–	(4.2)
Employer administration expenses	(5.2)	(2.9)	(0.4)	(8.5)
Currency gain	–	–	21.6	21.6
At 31 March 2013	1,965.4	1,307.2	504.8	3,777.4

# Notes to the consolidated financial statements

## continued

### 34 Retirement benefit schemes continued

#### (e) UK Rail franchise adjustment

Movements in the total UK Rail franchise adjustment were as follows:

	2015 £m	2014 £m	2013 £m
At 1 April	452.5	401.3	257.5
First Capital Connect/First Great Western	(113.4)	(22.9)	–
Interest on franchise adjustment	10.7	11.0	7.2
Employee share of change in franchise adjustment	104.3	29.6	57.5
Actuarial gain on franchise adjustment	145.6	33.5	79.1
At 31 March	599.7	452.5	401.3

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:

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 31 March 2015				
Equities	892.9	–	259.7	1,152.6
Bonds	876.2	60.4	218.2	1,154.8
Property	68.4	–	20.5	88.9
Cash	45.2	4.4	5.4	55.0
Infrastructure	6.9	60.8	3.0	70.7
Cash plus	335.4	1,016.5	7.1	1,359.0
Commodities	22.9	–	–	22.9
Private equity	81.3	160.7	–	242.0
	2,329.2	1,302.8	513.9	4,145.9

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 31 March 2014				
Equities	797.5	–	243.6	1,041.1
Bonds	737.5	66.9	185.9	990.3
Property	67.6	–	17.0	84.6
Cash	93.4	5.1	8.6	107.1
Infrastructure	–	68.6	2.4	71.0
Cash plus	235.6	1,099.6	5.6	1,340.8
Commodities	20.3	–	–	20.3
Private equity	81.4	165.2	–	246.6
	2,033.3	1,405.4	463.1	3,901.8

	UK Bus £m	UK Rail £m	North America £m	Total £m
At 31 March 2013				
Equities	749.8	–	253.0	1,002.8
Bonds	764.6	61.7	215.8	1,042.1
Property	94.4	–	15.6	110.0
Cash	38.6	11.1	5.9	55.6
Infrastructure	–	64.4	1.0	65.4
Cash plus	217.9	1,010.6	13.5	1,242.0
Commodities	17.3	–	–	17.3
Private equity	82.8	159.4	–	242.2
	1,965.4	1,307.2	504.8	3,777.4

### 34 Retirement benefit schemes continued

#### (g) Accounting for UK Rail pension arrangements

Had the Group accounted for UK Rail pensions as if the respective franchises had an indefinite duration, the impact on the financial statements would have been as follows:

	2015 £m	2014 £m	2013 £m
<b>Balance sheet</b>			
Pension deficit	(359.8)	(271.5)	(240.8)
Intangible assets	(3.6)	(11.4)	(2.6)
Deferred tax	72.7	56.6	56.0
Impact on net assets	(290.7)	(226.3)	(187.4)
<b>Income statement</b>			
Unwinding of discount on franchise adjustment	(10.7)	(11.0)	(7.2)
Intangible asset amortisation	7.8	5.0	1.9
Deferred tax	0.5	1.2	1.2
Impact on profit for the year from continuing operations	(2.4)	(4.8)	(4.1)
<b>Consolidated statement of comprehensive income</b>			
Actuarial gains on franchise adjustment	(145.6)	(33.5)	(79.1)
Deferred tax on actuarial gains	29.1	6.7	18.2
	(116.5)	(26.8)	(60.9)

#### (h) Consolidated statement of comprehensive income

Amounts presented in the consolidated statement of comprehensive income comprise:

	2015 £m	2014 £m
Actuarial loss on DBO	(434.9)	(73.3)
Actuarial gain on assets	335.7	34.1
Actuarial gain on franchise adjustment	145.6	33.5
Adjustment for irrecoverable surplus	(12.5)	(27.8)
Actuarial gains/(losses) on defined benefit schemes	33.9	(33.5)

#### (i) UK Bus irrecoverable surplus

Movements in the total UK Bus irrecoverable surplus were as follows:

	2015 £m	2014 £m
At 1 April	(65.0)	(35.5)
Interest on irrecoverable surplus	(2.9)	(1.7)
Actuarial loss on irrecoverable surplus	(12.5)	(27.8)
At 31 March	(80.4)	(65.0)

# Notes to the consolidated financial statements

## continued

### 34 Retirement benefit schemes continued

#### Cash contributions

As at 31 March 2015 the Group is committed to make deficit recovery payments with a net present value of £130m (2014: £124m), 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 9.0% per annum. The IAS 19 deficit of the scheme at 31 March 2015 is £55.4m (2014: £92.7m). 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 2016 is £88.3m.

#### 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.

Furthermore, changes have been implemented to the First UK Bus Pension Scheme with effect from April 2015 which allow for the closure of the scheme if the funding level is not in line with the target level. 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 UK 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 recently in all significant plans 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, which 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 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	<p>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.</p> <p>We are aware that the UK Government has already legislated to end contracting out in 2016 and that there is an intention to implement legislation which could result in an increase in the value of Guaranteed Minimum Pension. If this legislation is implemented, this would increase the defined benefit obligation of the UK arrangements.</p>	<p>The UK Bus Pension Scheme and the FirstGroup Pension Scheme are contracted into the State Second Pension, reducing the impact of the cessation of contracting out on the Group.</p> <p>The Group receives professional advice on the impact of legislative changes.</p>

### 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 76 to 100.

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Basic salaries <sup>1</sup>	1.6	1.6
Performance-related bonuses	0.8	0.9
Retention bonuses	–	0.3
Benefits in kind (including pension contributions)	0.1	0.0
Fees	0.6	0.5
Payment in lieu of notice <sup>2</sup>	0.0	–
Share-based payment	0.3	0.3
	<b>3.4</b>	<b>3.6</b>

<sup>1</sup> Basic salaries include cash emoluments in lieu of retirement benefits and car and tax allowances.

<sup>2</sup> David Begg and Colin Hood received payments of £15,000 and £12,500, respectively, in lieu of three months' notice under the terms of their letters of appointment following their stepping down as Directors.

# Independent auditor's report to the members of FirstGroup plc

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## 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 2015 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; 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 comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement, and the related notes 1 to 35, the parent company balance sheet, and the related notes to the parent company balance sheet 1 to 11. 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).

## Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within Other statutory information on page 103 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.



## 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	How the scope of our audit responded to the risk
<p><b>The assessment of the carrying value of First Student goodwill (£1,073.5m) in the consolidated balance sheet</b></p> <p>The assessment of the carrying value of goodwill and intangibles, as described in Note 2, involves judgement 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 disclosed in Note 11 to the financial statements, as it continues to implement its returns based strategy.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>■ considering the identification of appropriate cash generating units;</li> <li>■ assessing cash flow forecast projections with reference to historical trading performance and cash flow forecasting accuracy;</li> <li>■ comparing the discount rate applied against a broad comparator group as well as involving our internal valuation specialists to review underlying calculations and assess the key components of the discount rate calculation;</li> <li>■ considering the reasonableness of, and recalculating, the sensitivity assessment applied by management; and</li> <li>■ performing further independent sensitivity analysis on the impairment model.</li> </ul>
<p><b>The assessment of the valuation and completeness of third party claims and associated provisions (£365.6m) in the consolidated balance sheet</b></p> <p>The valuation and completeness of both legal and self-insurance provisions are a source of estimation uncertainty, as described in Note 2 and Note 25, which require management's best estimate in assessing the likelihood and valuation of settlement and, where applicable, the discount rate applied to the external settlement values.</p>	<p>The audit procedures we performed in respect of this risk included:</p> <ul style="list-style-type: none"> <li>■ working with our own actuarial specialists to test a range of estimates determined by management and their external actuary considering the methodologies employed and comparing assumptions used to the Group's historical experience;</li> <li>■ independently developing an actuarial calculation and comparing the provision recorded to the actuarial range calculated by the external actuary;</li> <li>■ testing a sample of 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 those used by similar entities; and</li> <li>■ obtaining confirmations from internal and independent external legal counsel.</li> </ul>
<p><b>Valuation of pension scheme liabilities (£4.9bn) in the consolidated balance sheet</b></p> <p>The Group operates in a labour intensive industry with large membership to a number of defined benefit pension schemes. The gross pension liabilities, as disclosed in Note 34, are materially sensitive to changes in the underlying assumptions adopted. Management exercise significant judgement when determining those assumptions, particularly in respect of the discount rate, inflation and mortality rates, as described in Note 2.</p>	<p>The audit procedures we performed in respect of this risk included:</p> <ul style="list-style-type: none"> <li>■ working with our own actuarial specialists to test the assumptions used by management in valuing the Group's defined benefit pension scheme liabilities such as the discount rate, inflation and mortality rate; and</li> <li>■ performing sensitivity analysis on the key assumptions and comparing them to industry benchmarks and the prior years' rates adopted.</li> </ul>
<p><b>Revenue recognition including contract accounting (Note 2)</b></p> <p>The Group operates a number of long term contracts including UK rail franchises and certain North American passenger and service contracts. Management exercise judgement in determining the appropriate timing and valuation of revenue recognised, valuation of deferred and accrued income and the evaluation of the overall profitability of these contracts.</p>	<p>To test the risk of material misstatement in respect of revenue recognition, our procedures included:</p> <ul style="list-style-type: none"> <li>■ assessing and challenging the judgements taken by management by reference to the underlying contract terms and applicable accounting standards; and</li> <li>■ challenging profit forecasts prepared by management by reference to historical trading performance and forecasting accuracy.</li> </ul>

The description of the above risks should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 73 of the Directors' and corporate governance report.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any risks described above, and we do not express an opinion on these individual matters.

# Independent auditor's report to the members of FirstGroup plc

## continued

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £7.9m (2014: £5.6m), which is 4.8% of adjusted pre-tax profit (as defined on page 119), and below 1% of equity. The adjusted pre-tax profit 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 requirements. 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 £158,000 (2014: £100,000) 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 four UK Bus operating regions, three significant UK Train Operating Companies, the operations in North America and the Group, Rail division and Bus division corporate head office functions as well as the UK Shared Service Centre. These locations were subject to full audit procedures and represent the principal business units and account for 89% of the Group's net assets, 99% of the Group's revenue and 100% of the Group's 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 applicable to each individual location which was lower than Group materiality.

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.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

### 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 ten 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.

### Graham Richardson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London  
10 June 2015

## Group financial summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>Consolidated income statement</b>					
Group revenue	<b>6,050.7</b>	6,717.4	6,900.9	6,678.7	6,416.7
Operating profit before amortisation charges and other adjustments	<b>303.6</b>	268.0	254.1	361.0	403.1
Amortisation charges	<b>(54.3)</b>	(53.4)	(52.0)	(30.9)	(42.9)
Other adjustments	<b>(3.5)</b>	17.6	(62.3)	59.6	(98.1)
Operating profit	<b>245.8</b>	232.2	139.8	389.7	262.1
Net finance cost	<b>(139.7)</b>	(156.1)	(163.2)	(155.6)	(184.7)
Ineffectiveness on financial derivatives	<b>(0.3)</b>	(17.6)	(5.5)	(11.0)	0.3
Profit/(loss) before tax	<b>105.8</b>	58.5	(28.9)	223.1	77.7
Tax	<b>(20.3)</b>	5.7	23.9	(34.9)	(3.6)
Profit/(loss) for the year from continuing operations	<b>85.5</b>	64.2	(5.0)	188.2	74.1
(Loss)/profit for the year from discontinued operations	<b>–</b>	–	–	(9.5)	7.3
Profit/(loss) for the year	<b>85.5</b>	64.2	(5.0)	178.7	81.4
EBITDA	<b>624.4</b>	579.8	585.7	675.4	715.3
<b>Earnings per share</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
Adjusted	<b>9.8</b>	7.5	11.0	24.4	26.6
Basic	<b>6.2</b>	5.1	(3.0)	27.8	10.2
<b>Consolidated balance sheet</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-current assets	<b>4,025.1</b>	3,686.7	4,060.3	4,072.7	4,161.5
Net current liabilities	<b>(160.9)</b>	(78.4)	(320.4)	(265.9)	(322.4)
Non-current liabilities	<b>(2,141.3)</b>	(2,123.7)	(2,602.3)	(2,596.1)	(2,494.4)
Provisions	<b>(236.7)</b>	(261.6)	(323.1)	(338.1)	(393.8)
Net assets	<b>1,486.2</b>	1,223.0	814.5	872.6	950.9
<b>Share data</b>					
Number of shares in issue (excluding treasury shares and shares in trusts)	<b>millions</b>	<b>millions</b>	<b>millions</b>	<b>millions</b>	<b>millions</b>
At year end	<b>1,203.7</b>	1,204.2	591.2	590.7	589.9
Average	<b>1,204.0</b>	1,059.3	590.8	590.7	589.5
<b>Share price</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
At year end	<b>91</b>	146	201	238	326
High	<b>140</b>	224	261	370	413
Low	<b>91</b>	92	176	238	323
<b>Market capitalisation</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At year end	<b>1,095</b>	1,757	969	1,147	1,572

## Company balance sheet

Year ended 31 March

	Note	2015 £m	2014 £m
<b>Fixed assets</b>			
Investments	3	<b>2,078.4</b>	2,073.2
<b>Current assets</b>			
Cash and cash equivalents		<b>102.9</b>	37.5
Derivative financial instruments – due within one year	4	<b>15.5</b>	26.0
– due after more than one year	4	<b>45.3</b>	25.9
Debtors – due within one year	5	<b>1,898.7</b>	1,712.7
– due after more than one year	5	<b>2.5</b>	1.0
		<b>2,064.9</b>	1,803.1
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	7	<b>(367.2)</b>	(368.3)
Derivative financial instruments	4	<b>(74.5)</b>	(17.7)
		<b>(441.7)</b>	(386.0)
<b>Net current assets</b>		<b>1,623.2</b>	1,417.1
Total assets less current liabilities		<b>3,701.6</b>	3,490.3
Creditors – amounts falling due after more than one year	7	<b>(1,570.8)</b>	(1,538.5)
Derivative financial instruments	4	<b>(22.6)</b>	(9.2)
<b>Net assets</b>		<b>2,108.2</b>	1,942.6
<b>Capital and reserves</b>			
Called up share capital	8	<b>60.2</b>	60.2
Share premium	9	<b>676.4</b>	676.4
Other reserves	9	<b>268.8</b>	268.8
Own shares	9	<b>(1.9)</b>	(1.8)
Profit and loss account	9	<b>1,104.7</b>	939.0
<b>Shareholders' funds</b>		<b>2,108.2</b>	1,942.6

# Notes to the Company financial statements

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## 1 Significant accounting policies

### Basis of accounting

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 in the Directors' report on pages 103 to 104.

The following accounting policies have been used consistently throughout the year and the preceding year in accordance with UK GAAP.

### Cash flow statement

The Company has taken the advantage of the exemption under FRS 1 (revised) not to disclose a cash flow statement.

### 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.

### Foreign currencies

Transactions in currencies other than pounds Sterling are recorded at the rate of exchange on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the relevant balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of non-monetary items at each balance sheet date are included in the profit or loss for the accounting period.

### Tax

The charge for tax is based on the profit or loss for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Provision is made for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell on property gains if it is anticipated that rollover relief will be available and on the undistributed profits of overseas subsidiaries, associates and joint ventures. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. The deferred tax provision is not discounted to net present value.

### Financial instruments

Derivative financial instruments are initially recorded at fair value and then for reporting purposes are re-measured to fair value at each subsequent balance sheet date.

### Derivative financial instruments and hedge accounting

The Company 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 Company does not use derivative financial instruments for speculative purposes. In relation to fuel price risks, the Company's profit and loss account is affected by transactions with affiliated companies that give rise to cash flow volatility associated with fuel price risk.

The main derivative financial instruments used by the Company are interest rate swaps and collars, fuel swaps and collars, 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 profit and loss account 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 profit and loss account 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.

### Related party transactions

As permitted under FRS 8, *Related Party Transactions*, the Company has taken advantage of the exemption not to disclose transactions between Group companies.

### 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.



## 1 Significant accounting policies continued

### 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.

## 2 Profit/(loss) 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. FirstGroup plc reported a profit for the financial year ended 31 March 2015 of £162.0m (2014: loss £140.2m).

Proposed final dividend per share for the year ended 31 March 2015 of nil p (2014: nil p).

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are disclosed in note 6 on page 123.

The Company had no employees in the current or preceding financial year.

## 3 Fixed asset investments

Unlisted  
subsidiary  
undertakings  
£m

### Cost

At 1 April 2014	2,089.1
Additions	5.2

<b>At 31 March 2015</b>	<b>2,094.3</b>
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### Provisions for impairment

At 1 April 2014 and 31 March 2015	(15.9)
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### Net book value

<b>At 31 March 2015</b>	<b>2,078.4</b>
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At 31 March 2014	2,073.2
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# Notes to the Company financial statements

## continued

### 3 Fixed asset investments continued

The principal subsidiary undertakings of FirstGroup plc at the end of the year were:

#### UK local bus and coach operators

First Aberdeen Limited<sup>1</sup>  
 First Beeline Buses Limited  
 First Bristol Limited  
 First Cymru Buses Limited  
 First Devon & Cornwall Limited  
 First Eastern Counties Buses Limited  
 First Essex Buses Limited  
 First Glasgow (No. 1) Limited<sup>1</sup>  
 First Glasgow (No. 2) Limited<sup>1</sup>  
 First Hampshire and Dorset Limited  
 First Manchester Limited  
 First Midland Red Buses Limited  
 First Potteries Limited  
 First Scotland East Limited<sup>1</sup>  
 First Somerset & Avon Limited  
 First South Yorkshire Limited  
 First West Yorkshire Limited  
 First York Limited  
 Leicester CityBus Limited (94%)  
 Midland Bluebird Limited<sup>1</sup>

#### Rail companies

First Greater Western Limited  
 First/Keolis TransPennine Limited (55%)  
 First ScotRail Limited<sup>1</sup>  
 Hull Trains Company Limited

#### North American school bus operators

Cardinal Coach Lines Limited<sup>2</sup>  
 First Canada ULC<sup>2</sup>  
 First Student, Inc<sup>3</sup>

#### Transit contracting and fleet maintenance

First Transit, Inc<sup>3</sup>  
 First Vehicle Services, Inc<sup>3</sup>

#### North American coach operators

Americanos USA, Inc<sup>3</sup>  
 Greyhound Lines, Inc<sup>3</sup>  
 Greyhound Canada Transportation ULC<sup>2</sup>

All subsidiary undertakings are wholly owned at the end of the year except where percentage of ownership is shown above. All these companies above are incorporated in Great Britain and registered in England and Wales except those:

<sup>1</sup> Registered in Scotland.

<sup>2</sup> Registered in Canada.

<sup>3</sup> 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.

Advantage has been taken of section 410 of the Companies Act 2006 to list only those undertakings as are required to be mentioned in that provision, as an exhaustive list would involve a statement of excessive length. A complete list of subsidiary and associated undertakings is filed with the Company's annual return.

#### 4 Derivative financial instruments

	2015 £m	2014 £m
<b>Total derivatives</b>		
Total assets – due after more than one year	45.3	25.9
Total assets – due within one year	15.5	26.0
<b>Total assets</b>	<b>60.8</b>	51.9
Total creditors – amounts falling due within one year	74.5	17.7
Total creditors – amounts falling due after more than one year	22.6	9.2
<b>Total creditors</b>	<b>97.1</b>	26.9
<b>Derivatives designated and effective as hedging instruments carried at fair value</b>		
<b>Current assets</b>		
Coupon swaps (fair value hedge)	15.5	11.1
<b>Non-current assets</b>		
Coupon swaps (fair value hedge)	45.3	24.1
<b>Derivatives classified as held for trading</b>		
<b>Current assets</b>		
Interest rate swaps	–	8.5
Fuel derivatives	–	6.4
	–	14.9
<b>Non-current assets</b>		
Fuel derivatives	–	1.8
<b>Total assets</b>	<b>60.8</b>	51.9
<b>Derivatives classified as held for trading</b>		
<b>Current liabilities</b>		
Interest rate swaps	7.6	12.6
Fuel derivatives	66.9	5.1
	74.5	17.7
<b>Non-current liabilities</b>		
Interest rate swaps	1.2	7.9
Fuel derivatives	21.4	1.3
	22.6	9.2
<b>Total liabilities</b>	<b>97.1</b>	26.9

Full details of the Group's financial risk management objectives and procedures can be found in note 23 of the Group accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the Group accounts.

## Notes to the Company financial statements

### continued

#### 5 Debtors

	2015 £m	2014 £m
<b>Amounts due within one year</b>		
Amounts due from subsidiary undertakings	1,889.4	1,708.1
Deferred tax asset (note 6)	7.9	1.0
Corporation tax recoverable	1.3	3.2
Other debtors	0.1	0.4
	<b>1,898.7</b>	<b>1,712.7</b>
<b>Amounts due after more than one year</b>		
Deferred tax asset (note 6)	2.5	1.0

#### 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
At 1 April 2014	(1.8)
Charge to income	(8.6)
<b>At 31 March 2015</b>	<b>(10.4)</b>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 £m	2014 £m
Deferred tax asset due within one year	(7.9)	(1.0)
Deferred tax assets due after more than one year	(2.5)	(1.0)
Deferred tax liabilities due within one year	–	0.2
	<b>(10.4)</b>	<b>(1.8)</b>

## 7 Creditors

	2015 £m	2014 £m
<b>Amounts falling due within one year</b>		
Bank loans and overdrafts	77.5	34.1
Bond interest accrual	59.0	58.9
Amounts due to subsidiary undertakings	222.9	256.6
Accruals and deferred income	7.8	18.5
Deferred tax liabilities (note 6)	–	0.2
	<b>367.2</b>	368.3
<b>Amounts falling due after more than one year</b>		
£300.0m Sterling bond – 8.125% 2018	297.8	297.4
£250.0m Sterling bond – 6.125% 2019	286.3	284.5
£350.0m Sterling bond – 8.750% 2021	366.6	347.6
£325.0m Sterling bond – 5.250% 2022	320.0	319.6
£200.0m Sterling bond – 6.875% 2024	199.5	199.5
Senior unsecured loan notes	100.6	89.9
	<b>1,570.8</b>	1,538.5

### Borrowing facilities

The maturity profile of the Company's undrawn committed borrowing facilities is as follows:

	2015 £m	2014 £m
Facilities maturing:		
Due in more than two years	800.0	796.2

## 8 Called up share capital

	2015 £m	2014 £m
<b>Allotted, called up and fully paid</b>		
482.1m ordinary shares of 5p each	24.1	24.1
722.8m new ordinary shares of 5p each issued	36.1	36.1
1,204.9m ordinary shares of 5p each	<b>60.2</b>	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 1,203.7m (2014: 1,203.8m). At the end of the period 1.2m shares (2014: 1.1m shares) were being held as treasury shares and own share held in trust for employees.

# Notes to the Company financial statements

## continued

### 9 Reserves

	Share premium £m	Own shares £m	Profit and loss account £m
At 1 April 2014	676.4	(1.8)	939.0
Retained profit for the year	–	–	162.0
Share-based payment provision	–	–	5.2
Movement in EBT, QUEST and treasury shares during the year	–	(0.1)	(1.5)
<b>At 31 March 2015</b>	<b>676.4</b>	<b>(1.9)</b>	<b>1,104.7</b>

The Company has taken advantage of FRS29 for parent company accounts. The disclosures in respect of share-based payments are included within the Group accounts.

### Own shares

The number of own shares held by the Group at the end of the year was 1,252,757 (2014: 769,374) FirstGroup plc ordinary shares of 5p each. Of these, 1,063,008 (2014: 577,124) were held by the FirstGroup plc Employee Benefit Trust, 32,520 (2014: 32,520) by the FirstGroup plc Qualifying Employee Share Ownership Trust and 157,229 (2014: 159,730) 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 2015 was £1.1m (2014: £1.1m).

Other reserves	Hedging reserve £m	Capital redemption reserve £m	Capital reserve £m	Merger reserve £m	Total other reserves £m
<b>At 1 April 2014 and 31 March 2015</b>	<b>6.7</b>	<b>1.9</b>	<b>93.8</b>	<b>166.4</b>	<b>268.8</b>

### 10 Reconciliation of movement in shareholders' funds

	2015 £m	2014 £m
Profit/(loss) for the financial year	<b>162.0</b>	(140.2)
Share-based payments provision	<b>5.2</b>	4.6
Rights issue	<b>–</b>	584.4
Movement in EBT, QUEST and treasury shares during the year	<b>(1.6)</b>	(1.8)
	<b>165.6</b>	447.0
Derivative hedging instrument movement	<b>–</b>	41.3
Net increase to shareholders' funds	<b>165.6</b>	488.3
Shareholders' funds at beginning of year	<b>1,942.6</b>	1,454.3
Shareholders' funds at end of year	<b>2,108.2</b>	1,942.6



## 11 Contingent liabilities

To support subsidiary undertakings in their normal course of business, the Company and certain subsidiaries have indemnified certain banks and insurance companies who have issued performance bonds for £489.2m (2014: £504.8m) and letters of credit for £304.4m (2014: £303.3m). The performance bonds relate to the North American businesses of £421.1m (2014: £337.8m) and the UK Rail franchise operations of £68.1m (2014: £167.0m). 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. UK Bus subsidiaries have provided unsecured guarantees on a joint and several basis to the Trustees of the UK Bus Pension Scheme.

Certain of the Company's subsidiaries have issued unsecured guarantees to the Company's Sterling bondholders, certain bilateral bank facilities for £nil (2014: £75.0m) and to senior unsecured loan notes for £100.6m (2014: £89.9m). In previous years unsecured guarantees were also provided to lenders participating in the Group's syndicated unsecured bank facilities.

In its normal course of business UK Rail has ongoing contractual negotiations with governmental and other organisations.

## Shareholder information

### Annual General Meeting

The Annual General Meeting of the Company will be held at 1.30pm on Thursday 16 July 2015 at Norwood Hall Hotel, Garthdee Road, Aberdeen AB15 9FX, United Kingdom.

The Notice of Annual General Meeting and Form of Proxy are enclosed with this Annual Report and Accounts. The Notice of Annual General Meeting can also be found on the FirstGroup website ([www.firstgroupplc.com](http://www.firstgroupplc.com)).

### Electronic shareholder communications

FirstGroup uses its website ([www.firstgroupplc.com](http://www.firstgroupplc.com)) 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 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 the Company's Registrar, 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](http://www.shareview.co.uk).

### Electronic voting

Shareholders can submit proxies for the 2015 Annual General Meeting electronically by logging on to [www.sharevote.co.uk](http://www.sharevote.co.uk). Electronic proxy appointments must be received by the Company's Registrar, Equiniti, no later than 1.30pm on Tuesday 14 July 2015 (or not less than 48 hours before the time fixed for any adjourned meeting).

### Corporate website

A wide range of information on FirstGroup is available at the FirstGroup website ([www.firstgroupplc.com](http://www.firstgroupplc.com)) including:

- financial information – annual and half-yearly reports as well as trading updates;
- share price information – current trading details and historical charts;
- shareholder information – Annual General Meeting results, details of the Company's advisers and frequently asked questions; and
- news releases – current and historical.

### Shareholder enquiries

The Company's share register is maintained by the Company's Registrar, 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: 0871 384 2046\* (or from overseas on Tel: +44 (0)121 415 7050)  
Online: [help.shareview.co.uk](mailto:help.shareview.co.uk) (from here, you will be able to securely email Equiniti with your enquiry).

\* Calls to this number are charged at 8p per minute plus network extras.  
Telephone lines are open from 8.30 am to 5.30 pm, Monday to Friday.

### Duplicate shareholder accounts

If you receive more than one copy of Company 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 you may contact the Company's Registrar, Equiniti, to request that the accounts are combined. There is no charge for this service.

### 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](http://www.sharegift.org) or by calling +44 (0)20 7930 3737.

### FirstGroup plc's policy on discounts for shareholders

Shareholders are reminded that it is not Group policy to offer travel or other discounts to shareholders, as they may be used only by a small number of individuals. The Group 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](http://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](http://www.fca.org.uk/consumers/scams/report-scam) or call 0800 111 6768.

### Half-yearly results

The half-yearly results, to be announced on the London Stock Exchange, in November 2015, 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. Shareholders that have signed up for electronic shareholder communication will be sent a notification when these are available on the FirstGroup website [www.firstgroupplc.com](http://www.firstgroupplc.com).

## Shareholder interests at 31 March 2015

	Number of accounts	% of total accounts	Number of ordinary shares	% of ordinary share capital
<b>By category of shareholders</b>				
Public limited company	3	0.0%	187,230	0.0%
Nominee	561	1.6%	1,032,079,551	85.6%
Limited company	807	2.3%	107,872,333	9.0%
Other organisation	183	0.5%	9,750,651	0.8%
Individuals	33,845	95.6%	54,312,474	4.5%
Trust	1	0.0%	260	0.0%
Bank	5	0.0%	717,529	0.1%
Pension fund	2	0.0%	6,428	0.0%
Insurance company	1	0.0%	300	0.0%
<b>Total</b>	<b>35,408</b>	<b>100.0%</b>	<b>1,204,926,756</b>	<b>100.0%</b>
<b>By size of holding</b>				
1-1,000	25,009	70.7%	6,414,614	0.5%
1,001-5,000	7,578	21.4%	18,115,732	1.5%
5,001-10,000	1,501	4.2%	10,596,581	0.9%
10,001-100,000	994	2.8%	24,014,074	2.0%
Over 100,000	326	0.9%	1,145,785,755	95.1%
<b>Totals</b>	<b>35,408</b>	<b>100.0%</b>	<b>1,204,926,756</b>	<b>100.0%</b>

## Financial calendar

Q1 Trading update	<b>July 2015</b>
Annual General Meeting	<b>16 July 2015</b>
Half-yearly pre-close trading update	<b>October 2015</b>
Half-yearly results announcement	<b>November 2015</b>
Q3 Trading update	<b>January 2016</b>

## Contact information

### Company Secretary

Robert Welch  
Tel: +44 (0)20 7291 0505  
Email: robert.welch@firstgroup.com

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Aberdeen AB24 5RP  
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Registered in Scotland  
Registered number:  
SC157176

### London corporate office

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50 Eastbourne Terrace  
London W2 6LG  
Tel: +44 (0)20 7291 0505

### Joint corporate brokers

Goldman Sachs  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

J.P Morgan Cazenove  
Limited  
25 Bank Street  
Canary Wharf  
London E14 5JP

### Auditor

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ

## Cautionary comment concerning forward-looking statements

This Annual Report and Accounts includes forward-looking statements with respect to the business, strategy and plans of FirstGroup and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which 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.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. 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.

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## Glossary

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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.

<b>AGM</b> Annual General Meeting	<b>EBT</b> Employee benefit trust	<b>Ordinary shares</b> FirstGroup plc ordinary shares of 5p each
<b>APB</b> Auditing Practices Board, part of the Financial Reporting Council	<b>EPA</b> United States Environmental Protection Agency	<b>PLC</b> Public limited company
<b>BAYE</b> Buy As You Earn	<b>EPS</b> Earnings per share	<b>PPM</b> 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
<b>The Board</b> The Board of Directors of the Company	<b>ESOS</b> Executive share option scheme	<b>QUEST</b> Qualifying Employee Share Ownership Trust
<b>CGU</b> Cash Generating Unit	<b>GHG</b> Greenhouse gas emissions	<b>ROCE</b> Return on capital employed is calculated by dividing adjusted operating profit after tax by all assets and liabilities excluding debt items
<b>Company</b> FirstGroup plc, a company registered in Scotland with number SC157176 whose registered office is at 395 King Street, Aberdeen AB24 5RP	<b>GPS</b> Global positioning system	<b>RPI</b> Retail price index, an inflation measure that includes certain housing related costs
<b>CPI</b> Consumer price index, an inflation measure that excludes certain housing related costs	<b>Group</b> FirstGroup plc and its subsidiaries	<b>SAYE</b> Save As You Earn
<b>DECC</b> Department of Energy and Climate Change (UK Government)	<b>IAS</b> International Accounting Standards	<b>TOC</b> Train operating company
<b>DEFRA</b> Department for Environment, Food and Rural Affairs (UK Government)	<b>IFRS</b> International Financial Reporting Standards	<b>TSR</b> Total shareholder return, the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares
<b>DfT</b> Department for Transport	<b>KPIs</b> Key performance indicators, financial and non-financial metrics used to define and measure progress towards our strategic objectives	<b>UK GAAP</b> UK Generally Accepted Accounting Principles
<b>Dividend</b> Amount payable per ordinary share on an interim and final basis	<b>LGPS</b> Local Government Pension Scheme	<b>WRI/WBCSD</b> The Greenhouse Gas Protocol was developed by World Resources Institute and World Business Council on Sustainable Development
<b>EABP</b> Executive annual bonus plan	<b>Local authority</b> Local government organisations in the UK, including unitary, metropolitan, district and county councils	
<b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation, calculated as adjusted operating profit less capital grant amortisation plus depreciation	<b>LTIP</b> Long Term Incentive Plan	
	<b>Network Rail</b> Owner and operator of Britain's rail infrastructure	
	<b>OECD</b> Organisation for Economic Cooperation and Development	





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